TRADE PROMOTION AGENCIES AND U.S. FOREIGN POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

MAY 19, 2015

Serial No. 114–40

Printed for the use of the Committee on Foreign Affairs

Available via the World Wide Web: http://www.foreignaffairs.house.gov/ or http://www.gpo.gov/fdsys/

U.S. GOVERNMENT PUBLISHING OFFICE

94–686PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON FOREIGN AFFAIRS

EDWARD R. ROYCE, California, *Chairman*

CHRISTOPHER H. SMITH, New Jersey
ILEANA ROS-LEHTINEN, Florida
DANA ROHRABACHER, California
STEVE CHABOT, Ohio
JOE WILSON, South Carolina
MICHAEL T. McCAUL, Texas
TED POE, Texas
MATT SALMON, Arizona
DARRELL E. ISSA, California
TOM MARINO, Pennsylvania
JEFF DUNCAN, South Carolina
MO BROOKS, Alabama
PAUL COOK, California
RANDY K. WEBER SR., Texas
SCOTT PERRY, Pennsylvania
RON DESANTIS, Florida
MARK MEADOWS, North Carolina
TED S. YOHO, Florida
CURT CLAWSON, Florida
SCOTT DESJARLAIS, Tennessee
REID J. RIBBLE, Wisconsin
DAVID A. TROTT, Michigan
LEE M. ZELDIN, New York
TOM EMMER, Minnesota

ELIOT L. ENGEL, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
ALBIO SIRES, New Jersey
GERALD E. CONNOLLY, Virginia
THEODORE E. DEUTCH, Florida
BRIAN HIGGINS, New York
KAREN BASS, California
WILLIAM KEATING, Massachusetts
DAVID CICILLINE, Rhode Island
ALAN GRAYSON, Florida
AMI BERA, California
ALAN S. LOWENTHAL, California
GRACE MENG, New York
LOIS FRANKEL, Florida
TULSI GABBARD, Hawaii
JOAQUIN CASTRO, Texas
ROBIN L. KELLY, Illinois
BRENDAN F. BOYLE, Pennsylvania

AMY PORTER, *Chief of Staff* THOMAS SHEEHY, *Staff Director*
JASON STEINBAUM, *Democratic Staff Director*

SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

TED POE, Texas, *Chairman*

JOE WILSON, South Carolina
DARRELL E. ISSA, California
PAUL COOK, California
SCOTT PERRY, Pennsylvania
REID J. RIBBLE, Wisconsin
LEE M. ZELDIN, New York

WILLIAM KEATING, Massachusetts
BRAD SHERMAN, California
BRIAN HIGGINS, New York
JOAQUIN CASTRO, Texas
ROBIN L. KELLY, Illinois

CONTENTS

Page

WITNESSES

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

APPENDIX

TRADE PROMOTION AGENCIES AND U.S. FOREIGN POLICY

TUESDAY, MAY 19, 2015

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 o'clock a.m., in room 2172 Rayburn House Office Building, Hon. Ted Poe (chairman of the subcommittee) presiding.

Mr. POE. This subcommittee will come to order. Without objection, all members will have 5 days to submit statements, questions, and extraneous materials for the record, subject to the length limitation and the rules.

I will now make my opening statement. Trade is critical to the national economy of the U.S. For example, manufacturing jobs related to trade pay 18 percent more than manufacturing jobs that are not. Trade plays a key role in new jobs. If a company wants to expand, it has to reach new customers because 95 percent of the customers are outside the United States.

Trade is the lifeblood of my hometown of Houston, Texas. Over half of Houston's economy depends on trade. Houston has one of the largest ports in the world and it is the only gas capital of the world. Overall, trade supports more than one out of five jobs in Texas and Texas has been the top exporting state for 12 consecutive years. This is not just for large businesses either. Ninety-three percent of Texas exporters are small- and medium-size businesses. Texas is the number one state and Houston, Texas is the number one city when it comes to receiving support from EXIM.

There is no question about the importance of trade. We need trade to grow. What we are looking at today is the Federal Government's role in trade. Before us today we have three agencies in the Federal Government that promote trade and investment.

The Export-Import Bank is the official U.S. export credit agency. It provides direct loans, loan guaranties and export credit insurance to help finance U.S. exports of goods and services.

The Overseas Private Investment Corporation, or OPIC, is the official U.S. development finance institution. OPIC seeks to promote economic growth and developing economies by providing political risk insurance, project and investment fund financing, and other services to U.S. firms investing in those countries.

The U.S. Trade and Development Agency, or TDA, seeks to link U.S. businesses to export opportunities overseas that lead to economic growth and development in middle income countries by funding a range of pre-export activities.

The question before us today is do we need these agencies? Sixty other countries have export credit agencies of their own. Supporters of reauthorizing EXIM Bank argue that if Congress allows the EXIM Bank to expire, then these 60 other countries will be happy to jump in, put our American companies at a competitive disadvantage, and take business away from the U.S.

Some users of EXIM say they will go out of business without EXIM. Critics of the bank respond that subsidizing companies has no place in a free market system. But some of these same critics support government subsidies for terrorism risk insurance, flood insurance, they support the FDIC, and the National Credit Union Share Insurance Fund.

There is also substantial disagreement about exactly what this costs the taxpayer. Critics say due to some tricky accounting standards, taxpayers are left holding the bag, while the agencies themselves argue they return a surplus to the U.S. Treasury every year. Critics argue that Congress enacted reforms during the EXIM Bank's 2012 reauthorization, but claimed that these reforms were never implemented. EXIM disagrees, saying that it has completed and implemented all reforms.

While trade promotion agencies are supposed to promote trade that helps the U.S., many Americans have questions about helping foreign companies that are in the U.S. economy. Do big State Owned Enterprises, or SOEs, deserve taxpayer dollars on top of the money they get from their own governments? And what about American companies that are trying to compete against these industries?

At the same time, these agencies have a special focus on helping small business. Twenty-five percent of EXIM authorized money went to small businesses last year, exceeding its 20 percent requirement. Over the past 5 years, 75 percent of OPIC's supported projects have involved a U.S. small- or medium-size business.

Just last month, a former Export-Import Bank loan officer pled guilty to taking more than $78,000 in bribes for fast tracking unqualified loan applications. OPIC has similar examples of fraud. This is a good sign that fraud is identified and perpetrators are punished, but there seems to me that more could be done to prevent fraud in the first place.

So my hope is that this hearing can bring some clarity to this debate.

The American companies just need a level playing field to compete. No one innovates as well as the U.S. from the iPhone to hydraulic fracturing the United States is the world's leader in coming up with new ideas that create new jobs and a higher standard of living for everyone. For example, if you add up the 20 countries the United States has a trade agreement with, American manufacturers run a $50 billion trade surplus with them. That is what happens when we combine the strength of American spirit with a level playing field. American companies win.

Before turning to the ranking member for his opening remarks, I would like to submit to the record the testimonies in support of reauthorizing EXIM Bank from the Nuclear Energy Institute, Texas Association of Business, Texas Association of Manufacturers, and over 300 businesses in Texas. Hearing no objection, all of these testimonials from these 300 different groups in support of the EXIM Bank will be made part of the record.

Now I will turn to the ranking member, Mr. Keating, and the gentleman from Massachusetts may give his opening statement.

Mr. KEATING. Thank you, Mr. Chairman, for conducting this timely and bipartisan-spirited hearing. And thank you to our witnesses for taking the time to testify here today.

The agencies that are the subject of this hearing, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency each serve vital U.S. interests. Since its founding over eight decades ago, the EXIM Bank has helped finance U.S. exports of goods and services and contribute to U.S. employment where alternative financing is unavailable or to counter government backed export financing by foreign competitors.

It is estimated that the EXIM Bank helped to finance approximately $27.5 billion worth of American exports and supported more than 164,000 American jobs in Fiscal Year 2014 alone.

Small- and medium-size U.S. business benefit greatly from EXIM Bank's products, particularly its working capital guarantee, which enables small businesses to obtain loans, to purchase raw materials and supplies, and its export credit insurance, which covers the risk of nonpayment by international buyers and extends credit to qualified foreign customers.

The businesses that use these products aren't Fortune 100 companies. They are companies like Decas Cranberry Products, Inc., a family owned, small business in Carver, Massachusetts, in my district, that sells cranberries and cranberry products to Europe, Canada, Mexico, South America, and Asia as a direct result of the support provided by EXIM. Since using EXIM Bank's export credit insurance, Decas cranberry sales have reached $60 million, approximately 15 percent of which is export related.

The companies like Resin Technology of Groton, Mass., whose vice president, Carly Seidewand, is attempting to be here today and to share in how EXIM's working capital guarantee has helped her company, the company founded by her father. It increased sales and it expanded its workforce as a result.

As our economy continues to grow, it is essential that the EXIM Bank continue to provide its valuable services to thousands of American exporters and their families. For this reason, I am the co-sponsor of H.R. 1031, Promoting U.S. Jobs Through Export Act of 2015 which would reauthorize the EXIM Bank charter through 2022.

I am often intrigued by the answers I receive when I ask my peers and colleagues which company they believe is the largest American auto exporter? In today's ever connected global economy the answer should not surprise you. It is BMW Manufacturing Company. In 2014 alone, BMW exported $9.2 billion worth of passenger vehicles through the Port of Charleston, accounting for more than 260,000 vehicles. BMW's facility in Spartanburg, South Carolina remains the largest U.S. automobile exporter another year running. Last year, this facility announced $1 billion investments in production capacity increased to 450,000 vehicles, making it the largest BMW plant in the world.

In this increasingly global economy, it would be irresponsible for this Congress to fail to reauthorize the EXIM Bank which pays for itself and enables U.S. manufacturers to sell more products abroad and create new good jobs here at home.

Thank you, Mr. Chairman, and I yield back.

Mr. POE. The Chair recognizes the gentleman from South Carolina, Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman, for holding this important and timely bipartisan hearing. Within the 2nd Congressional District of South Carolina which I represent, is Zeus Corporation of Orangeburg, Prysmian Cable of Lexington, and HEY of Aiken. These three companies share a common bond. They all produce parts for the Boeing 787 Dreamliner which is currently being built outside of Charleston, South Carolina. And in just in the last 5 years, they now have 8,000 employees at the facility in Charleston. Zeus Corporation manufactures the tubing for the aircraft. Prysmian Cable makes the internal cable. And HEY produces the key interior components of the Dreamliner. Additionally, Thermal Engineering of Columbia provides composite painting of the Dreamliners creating jobs.

As we continue to debate reauthorization, I hope we can focus on the fact of jobs and that there are more than 60 competing international export credit agencies that undercut and destroy American jobs daily. In a perfect work, the Export-Import Bank would not not be needed, but unfortunately, Mr. Chairman, we do not live in a perfect world.

I am really grateful to hear my colleague from Massachusetts. We share a real appreciation of BMW. It is the largest single facility of BMW and South Carolina is the leading export of cars. We are also the leading manufacturer and exporter of tires. And so with Michelon, with Bridgestone, Continental, Giti, our state has made such progress and I am particularly grateful to find out that our friends and neighbors of Massachusetts appreciate this too. I yield back.

Mr. POE. I thank the gentleman and I would request that members keep their statements to 1 minute, but indeed of bipartisan equal time, Mr. Sherman, you have 1 minute and 30 seconds.

Mr. SHERMAN. Mr. Chairman, thank you for holding this hearing. I have been very involved in export administration agencies. When I sat in that chair, this subcommittee wrote a new charter for OPIC which passed the House of Representatives, and of course, the full committee overwhelmingly. Unfortunately, for reasons that escape me, there is the United States Senate. But I want to commend you, Ms. Littlefield, for following through regulation many of the policy provisions that were in the bill that passed this committee and the full committee by an overwhelming vote.

The hot issue now is EXIM. Mr. Chairman, unlike you, I gave 100 speeches in favor of the candidacy of George McGovern. But even I don't believe——

Mr. POE. That is a true statement.

Mr. SHERMAN. That is a true statement. All my statements are true. I do not believe in unilateral disarmament. Germany, Japan, Korea, and China have export promotion authorities which as a percentage of their economy dwarf EXIM Bank. And the idea that American companies should be trying to export and face competition from those agencies without the help of Mr. Hochberg would astound me.

Finally, the EXIM Bank actually makes money. You will hear that there is something called fantasy accounting in which they lose money. Let me assure you, as a CPA, and I will agree with the CBO, if we didn't have EXIM, we would have to cut the budget assuming we didn't want to increase the deficit. And those cuts might very well come from foreign operations. I yield back.

Mr. POE. The Chair recognizes the gentleman from Pennsylvania, Mr. Perry, for his opening statement.

Mr. PERRY. Thank you, Mr. Chairman. Folks, thanks for being here. President Roosevelt created the Export-Import Bank in 1934 to promote U.S. sales overseas by providing loans to foreign entities looking to purchase American goods. Sounds like a good deal. However, when the government subsidizes an export for one company, other companies in the same sector might not get the same benefit and oftentimes hurts their sales and job creation.

The EXIM Bank may help a few American businesses, but at times it is definitely at the expense and hurting of others and we have heard from them. Some people categorize this as corporate welfare programs and pick winners and losers and have no rightful place in U.S. trade policy agenda. Although I think that unilateral disarmament as has already been stated is concerning, I think we should also be focusing on reducing the burden of domestic regulations and taxes which will spur productivity and employment while reducing the role and the necessary role of the Federal Government in the U.S. economy and understanding that 98 percent of sales abroad are done without the EXIM and I yield back.

Mr. POE. The gentleman yields back. The Chair recognizes the gentleman from New York, Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman, for holding this hearing. The U.S. trade promotion agencies play a critical role in boosting U.S. exports. They provide the bulwark against foreign governments that heavily subsidize their own domestic industries. In my western New York community, the Export-Import Bank has supported over $100 million in exports and more than 600 jobs.

Furthermore, the Export-Import Bank is self-sustaining and has generated more than $7 billion in excess revenues to the United States Treasury. Failing to undertake a long-term reauthorization of the Bank would only serve to hurt American businesses and workers. I look forward to the discussion today. Thank you for being here.

Mr. POE. The gentleman yields back. Does anybody else wish to be recognized for an opening statement?

Without objection, all witnesses' prepared statements will be made part of the record. I ask that each witness please keep your presentation to no more than 5 minutes. We have two panels. And I will introduce the first panel and then they can give their opening statements.

Fred Hochberg is chairman and president of the Export-Import Bank of the United States. Mr. Hochberg has previously served in a variety of positions in the private and public sector including Acting Administrator for the Small Business Administration.

Ms. Elizabeth Littlefield is president and chief executive officer of the Overseas Private Investment Corporation. Ms. Littlefield previously held several positions relating to finance and development and was a recipient of the Secretary of State's Distinguished Service Award in 2012.

Ms. Zak is director of the U.S. Trade and Development Agency. Prior to joining the USTDA, Ms. Zak was partner in the Washington and Boston Offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and taught at several law schools around the United States.

Mr. Hochberg, we will start with you and you have 5 minutes.

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

Mr. HOCHBERG. Chairman, Ranking Member, and distinguished members of the subcommittee, thank you for inviting me to testify about the role that EXIM plays in promoting commercial diplomacy, a critical component of American foreign policy.

In May 2012, EXIM was reauthorized with overwhelming bipartisan support, 330 members in the House and 78 in the Senate. The 2012 Reauthorization all put in place a number of reforms. And let me underscore, each and every one of those reforms has been implemented.

Since then, the Bank has continued to support U.S. private sector job growth including 164,000 jobs last year alone. We have also generated as has been stated, billions of dollars for the taxpayers including $675 million sent to the Treasury for deficit reduction in 2014.

EXIM fully believes and works with the private sector to support U.S. job growth. We do this in two ways. One, when the private sector is unwilling or unable to provide financing to exporters; and secondly, when U.S. exporters face foreign competition backed by other governments, EXIM works to level the playing field for U.S. businesses and their workers.

At one time, EXIM financed defense exports. However, since 1968, Congress has prohibited the Bank from financing most military sales. While almost all of EXIM's financing is commercial, U.S. companies with a defense presence can still benefit from EXIM nonetheless.

W.S. Darley is a fire equipment producer, headquartered in Illinois that manufactures in both Wisconsin and Iowa with a supply chain throughout America. Darley is a company that works in both the commercial and defense sectors. One way that Darley keeps its workforce fully deployed is by balancing between the two with roughly half their business being commercial.

Recently, EXIM financing empowered them to sell 32 fire trucks to Nigeria supporting 100 jobs. On top of that, the sale included training services for public service employees in Lagos. This transaction is but one example of how when countries build things together, they often form lasting bonds that go far beyond the commercial to serve our national interests.

In addition, as directed by Congress, the Bank requires some of our larger transactions to be shipped on U.S. flagged vessels, thereby supporting a strong merchant marine. Over the past 2 years alone, more than $90 million in shipping fees have been paid by foreign buyers to the U.S. Merchant Marine.

U.S. businesses operate in the global economy. American businesses and workers aren't simply competing against Chinese, Russian, or French counterparts. Often, they are competing against whole nations.

Last week, I met with my foreign counterparts, discussed the future of export credits. Congress has made it clear they would like the Treasury Secretary to ratchet down export credits. However, what I heard from Europe to Asia to South America was just the opposite. Our foreign counterparts intend to accelerate financial backing for their exporters as well as serving as a much-needed backstop.

When commercial banks withdraw from regions or sectors that are experiencing downturns, export credit agencies step forward and fill the gap so that domestic exporters don't lose sales or workers. In some way, EXIM is like a fire truck. You don't sell of a fire truck just because you haven't had a fire in the past few years.

We appreciate the widespread support, bipartisan support of EXIM and we are eager to continue to support American jobs as the Bank has done effectively and efficiently for over eight decades, providing long-term certainty to U.S. businesses, seeking to compete in overseas markets is imperative. Businesses need to make long-term plans to grow global sales, hire more workers, and invest in innovation. Those sales, in turn, lead to greater economic stability, both in the U.S. and abroad. And for all nations, economic stability is the foundation of security and peace.

In closing, as Congress considers reauthorization of EXIM Bank, I trust this committee will keep American competitiveness at the forefront. We appreciate the subcommittee's interest. We look forward to working with you to empower your constituents to export more, hire more American workers, and strengthen America's economic resilience to the global age ahead.

Thank you and I look forward to answering your questions.

[The prepared statement of Mr. Hochberg follows:]

WRITTEN TESTIMONY OF
FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE FOREIGN AFFAIRS SUBCOMMITTE ON TERRORISM, NONPROLIFERATION, AND TRADE

"Trade Promotion Agencies and U.S. Foreign Policy"

May 19, 2015

Chairman Poe, Ranking Member Keating, and distinguished members of the Subcommittee, thank you for inviting me to testify before you today.

ABOUT EXIM BANK

Six years ago this week, I had the honor of being confirmed by the United States Senate to oversee the Export-Import Bank (EXIM Bank) – an effective and efficient government agency that strives to spur U.S. job growth and promote American leadership on the global stage. EXIM Bank's approximately 450 employees work tirelessly to empower businesses to create more American private sector jobs, while serving as responsible stewards of taxpayer dollars.

In May 2012, the Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122) was passed by Congress with overwhelming bipartisan support in both chambers – 330 Republicans and Democrats in the House and 78 in the Senate. The vote carried on a long tradition of bipartisan support for EXIM that has existed since 1934, when the Bank was established. Since that time, the Bank has continually worked with Congress to become a better institution, one which successfully achieves our shared goals of serving your constituents, the American taxpayers.

EXIM was created to support American job growth by financing the export of U.S. goods and services. EXIM does not compete with the private sector. In fact, on 98% of transactions EXIM is working with a private sector partner.. Since its inception 81 years ago, EXIM has been supported by thirteen consecutive presidential administrations—six Republican and seven Democratic. The Bank is a self-sustaining agency that charges interest and fees to fund its transactions. As a result, over the past two decades EXIM has sent nearly $7 billion to the U.S. Treasury.

EXIM fulfills its mission to foster U.S. job growth in two ways. First, EXIM fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their local bank, and for exports to the developing world, which accounted for 68 percent of the Bank's authorizations in 2014. Second, EXIM seeks to ensure a level playing field for U.S. exports in the hyper-competitive global marketplace by making available financing that encourages buyers to make decisions based on free market factors such as price and quality, rather than on foreign competitors' state-sponsored, often cut-rate financing.

EX-IM BANK'S ROLE IN NATIONAL SECURITY

The top priority at EXIM Bank has and will continue to be to support American jobs by facilitating U.S. exports. In FY 2014, EXIM Bank supported 164,000 U.S. jobs through financing approximately $27.5 billion worth of exports. In accordance with mandates set forth by the U.S. Congress, the Bank must first and foremost consider a Reasonable Assurance of Repayment for the Bank's approval of financing transactions. With those considerations in mind, EXIM Bank has also regularly contributed to diplomatic commercial efforts.

Since its inception, EXIM Bank has played an important supporting role in the U.S. Government's efforts to promote commercial and economic diplomacy, which are critical components of a robust U.S. national security policy. Strong commercial engagement not only expands manufacturing opportunities here in the United States, it also has the effect of raising the standard of living in countries around the world that benefit from an influx of quality, dependable American-made goods and services. As countries that import U.S. products see their economies grow stronger, greater political stability follows as a natural consequence, furthering America's national security interests.

During EXIM's early years, it provided direct assistance to support national security interests. In the 1960s, Congress determined that military sales could not be divorced from foreign policy and military policy concerns, and as such shifted responsibility for these transactions to the Department of Defense, which was better equipped to interface with foreign military counterparts. Beginning in 1968, EXIM was prohibited from supporting sales of defense articles and defense services to less developed countries. In 1992, the restriction was extended to cover U.S. exports to all countries – a restriction not shared by our European official export credit agency counterparts. There are limited exceptions to this prohibition for two categories of defense articles and services: anti-narcotics exports and dual use exports. Under the anti-narcotics exception, the Bank may guarantee or insure goods and services for primarily anti-narcotics purposes only if a Presidential determination of national interest is obtained.

DUAL USE

Under the Bank's Charter, EXIM can provide insurance, a loan guarantee, or a direct loan to support the financing of non-lethal defense articles or services where the "primary end use…will be for civilian purposes." Exports that have both military and commercial or civilian applications are referred to as "dual use" exports. EXIM requires convincing evidence that the item is non-lethal in nature and will be used primarily for civilian activities, and typically requires that the buyer or end-user provide certification to that point. Specifically, EXIM's investigation must indicate that the item is non-lethal, that the end user has a legitimate civilian requirement which the dual use item will meet, and that the primary motivation for the purchase is based on the civilian requirement.

A great example of a dual use project is a FY 2012 transaction that was authorized for the Cameroon Department of Military Engineering (Cameroon Corps), which is the equivalent of the U.S. Army Corps of Engineers. This transaction guaranteed a loan from a commercial bank to the Cameroon Corps for the purchase of mobile construction and material processing equipment sold by Hoffman International, Inc. of Piscataway, New Jersey. The transaction included 150 pieces of equipment from a variety of U.S. manufacturers and included earth moving equipment, road grading equipment, trucks, paving equipment, material processing plants, cranes and service vehicles. The transaction also included training, operating spare parts, and assistance setting up a warehousing management system provided by Hoffman International.

Just as the U.S. Army Corps of Engineers often completes projects for civilian benefit (levees, shoreline protection, dams, etc.), the Cameroon Corps is tasked with implementing projects associated with a civilian program called "Cameroon Vision 2035", which was the primary purpose of these acquisitions. These projects included such things as road clearing, grading and construction projects, demolition work, and support of geodetic studies to establish municipal boundaries. The equipment was also used for a small number of activities that provided a military benefit, including construction of a training and inoculation center that will be used by military personnel, construction of an ammunition storage facility, and support provided to the U.N mission in the Central Africa Republic. While there is some ancillary military benefit, 87.7% of equipment allocations were to those projects that were identified as providing a clear civilian benefit.

U.S. MARITIME ADMINISTRATION (MARAD)

In addition to indirectly supporting national security through commercial diplomacy and support for U.S. producers of dual use products, EXIM also plays a significant direct role in the U.S. Government's national security objective of maintaining a strong merchant marine by requiring that ocean-borne exports that we support with a direct loan or long-term guarantee are transported on U.S.-flag vessels. EXIM's shipping requirements are based on Public Resolution 17 enacted by Congress in 1934 concerning U.S. flag shipping of certain U.S. government agency supported export cargos.

U.S.-flag merchant marine vessels can be either U.S. Government-owned (though there are no U.S. Government-owned vessels in the fleet at this time) or commercial, privately-owned vessels registered under the laws of the United States and manned by U.S. citizens.

The U.S.-flag merchant marine provides sealift capacity in wartime or other emergencies, as well as a cadre of skilled mariners available to serve in times of national emergencies. Additionally, U.S.-flag transport is a service export that helps the U.S. balance of payments. In 2013 and 2014, EXIM-supported cargo generated over $90 million for U.S-flag carriers.

COMMERCIAL DIPLOMACY

Industries with a strong presence in both the commercial and defense fields often draw from the same set of skilled employees. For example, a similar set of skills is required to make trucks, commercial aircraft, and satellites as is required to manufacture goods for the defense industry. Similarly, the suppliers and subcontractors that larger companies use to source many of the materials needed for complex manufacturing equipment are often the same. Consequently, by financing the global commercial sales of U.S. manufacturers, EXIM indirectly contributes to maintaining a skilled defense workforce while supporting the defense supply chain, which is often comprised of small and medium-sized companies.

A great illustration of a company that has served both defense and commercial capacities is W.S. Darley & Co. (Darley), a third-generation family-owned company based in Itasca, Illinois, with manufacturing plants in Chippewa Falls, Wisconsin, and Janesville, Iowa. Darley manufactures and distributes firefighting, military, homeland security, law enforcement, and water purification equipment. Since 2008, Darley has moved from a primary focus on producing civilian fire trucks and pumps to an expanded defense product line. However, while Darley now operates a healthy defense division, they still maintain a strong commercial focus, particularly when it comes to exporting to developing nations. In order to make the sale, Darley not only had to come up with the best equipment offer, they also had to secure competitive financing. When private financing proved unavailable for Darley, EXIM provided financing that enabled them to sell 32 state-of-the-art fire trucks to the state of Lagos, Nigeria. That commercial transaction is supporting about 100 manufacturing jobs in Chippewa Falls. By equipping Darley's commercial arm to succeed, EXIM is indirectly fortifying its defense division, which works to manufacture a similar cross-section of products and services.

U.S. businesses small and large operate in a global economy. More often than not, American businesses and workers aren't simply competing against their Chinese, Russian, and French counterparts; more and more, they're being asked to compete against 'China, Inc.' Though the U.S. remains well-stocked with innovative businesses of all sizes—many of which are perfectly capable of winning sales opportunities on their merits throughout the world—American companies aren't always accustomed to bringing competitive financing packages with them to close a sale. Even those that can secure financing from private lenders face a serious disadvantage when going up against generous state financing support of national champions. This phenomenon has begun to threaten America's global economic leadership.

For larger American employers, the current state of competition means that no matter how much quality you pour into your goods, you're not simply competing against other goods—you're competing against unchecked and opaque loan terms. For small or mid-size American firms, it means that no matter how innovative you are, you're not competing against other innovative products—you're competing against opaque, often outsized financing and low pre-payments promised by your rivals' foreign governments.

The world has changed, and the stakes of commercial leadership have never been higher. It is incumbent upon America to continue to lead, and to strive to level the playing field in the global export arena—restoring free market factors to their rightful place at center stage.

OTHER COUNTRIES

I just returned from a meeting with the Berne Union, a group made up of my counterparts from many of the 60 or so export credit agencies around the globe. At that meeting, I wanted to know whether they anticipate doing more to support their domestic exporters over the next five years than they currently do, or less. Japan, Korea, Russia, Germany, France, United Kingdom, Brazil, and others all indicated that they expect to accelerate their financial backing for their exporters.

Our European rivals are keenly focused on job growth. Following our lead, they are also putting increased emphasis on supporting their small business exporters. A result, there's going to be more competition than ever for U.S. small businesses looking to win sales in global markets. And that's to say nothing of larger foreign exporters who will have access to more financial backing than ever before as they do business against some of America's largest manufacturing employers, including many companies with robust defense components.

What all of these countries recognize is that export credit agencies have been indispensable resources in the face of financial crises—both global and regional. When private financiers withdraw from regions or sectors that are experiencing downturns, export credit agencies are equipped to step in so that their domestic exporters don't see a drop in sales—thereby, maintaining domestic jobs. Export credit agencies are like firetrucks in that sense—and you don't sell off the firetruck just because there doesn't happen to be a fire at this time, because no one can predict when or where the next crisis will hit.

The U.S. Congress placed a prohibition on military exports into our Charter in 1968; and as mentioned above, shifted such responsibilities to the Department of Defense. Many of EXIM's counterparts in Germany, France, Italy, and the United Kingdom support military exports, making EXIM's primary focus on commercial transactions somewhat uncommon. While EXIM does not directly support military exports, we know that our commercial economic competitiveness has an enormous impact on our national security.

Other countries are aggressively supporting their commercial sectors as a means to enhance their sphere of influence. For example, in February, 12 former national security officials sent a letter to Congress stating: "By way of example, the government of China has announced a new initiative to devote an additional \$10 billion in export credit to Africa – bringing China's total to \$30 billion, roughly the equivalent of the Ex-Im Bank's global volume for the year. This will enable Chinese firms to expand their reach in the continent – particularly in the infrastructure sector, where projects can have a lifespan of twenty to thirty years. In an environment such as this, we should be exploring how to strengthen the EXIM Bank through sound reform and expand its efforts to counter the aggressive moves of our economic competitors."

As EXIM Bank's 2013 Competitiveness Report to Congress stated, as recently as 1999, nearly 100 percent of government-backed export credit support worldwide which is tied to procurement of national exports fell under the aegis of the Organisation for Economic Cooperation and Development Arrangement on Officially Supported Export Credits (OECD Arrangement), an international body of which the United States is a founding member. For decades, the OECD Arrangement has provided a framework for its member countries, one that sets responsible standards for export lending (including environmental, social, and financing terms) in order to promote fair practices. Among these standards are transparency requirements, limits on interest rates and the terms of loans, and minimum fees—baseline elements designed to prevent an export financing arms race among nations competing for global business.

Within five years, the share of tied and untied trade-related official support covered by the OECD had fallen from 100 percent to about two-thirds. By 2013, it had plummeted to less than 40 percent. The trend is unmistakable: over the last 15 years, the world has seen rapid growth in tied and untied trade-related government support that falls outside the international standards of the OECD. As a number of countries operate beyond the guidelines of the OECD Arrangement, they are also building up new walls against transparency. This trend is coinciding with China's rise up the value chain, away from inexpensive consumer goods such as garments and toys and towards larger, more valuable capital goods.

CONCLUSION

We appreciate the widespread bipartisan support of EXIM, and are eager to continue to support American jobs, as the Bank has done effectively and efficiently for more than eight decades. Providing long-term certainty to U.S. businesses seeking to compete in overseas markets is imperative as they make long-term plans to grow their global sales, to hire more workers, and to invest in innovation. These sales in turn lead to greater economic stability both in the U.S. and abroad.

Companies face a variety of challenges in competing for sales. In the global age we live in, the U.S. government has a role to play: breaking down barriers wherever we can, so that American businesses can get in the game for global sales—and win. We know that export-backed jobs pay up to 18 percent more on average than other jobs. We also know that exports have accounted for nearly one-third of our total economic growth over the past five years. Right now, U.S. exports are amongst record levels, representing over 13% of our GDP, but I think we can do better, which is why the President and Congress are trying to open more markets for American goods with bipartisan free trade agreements, and why EXIM works to fill in private sector gaps in order to encourage more U.S. exports.

Rising competition and an ever-globalizing world have made EXIM Bank more vital than ever for reducing the risks faced by American exporters so that they can unleash opportunity in the form of new jobs. I look forward to continuing to work with you on empowering your constituents to export, grow, and hire more American workers.

Mr. POE. Thank you, Mr. Hochberg. The Chair recognizes Ms. Littlefield for her opening statement.

STATEMENT OF THE HONORABLE ELIZABETH L. LITTLEFIELD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

Ms. LITTLEFIELD. Mr. Chairman, Ranking Member Keating and members of the committee, thank you for inviting me here to testify before you today.

I am Elizabeth Littlefield, the President and CEO of the Overseas Private Investment Corporation (OPIC). OPIC is the U.S. Government's development finance institution. It mobilizes private capital investment flows into poor and developing countries to help solve critical development challenges and in so doing, it advances U.S. foreign policy and national security objectives. We do this by providing long-term loans, guarantees and political risk insurance to businesses investing much needed capital into these developing countries, capital that would not be invested there without OPIC's financing and risk-mitigating services.

And because businesses are willing to pay the full cost of our services and more, OPIC generates income for the taxpayer and has done so reliably for 37 straight years.

Since the end of World War II, a strong, bipartisan consensus has recognized the fundamental link between poverty, economic instability, and conflict. In conflict, vulnerable nations, foreign direct investment helps to create jobs, opportunity, hope, and stability. At the same time, OPIC support helps our U.S. clients, a large majority of whom are small businesses, to tap into those fast growing, dynamic, emerging markets creating jobs both at home and abroad.

Today, OPIC manages just under 600 long term investment projects in over 100 developing countries, principally in critical infrastructure, in power, private education, private healthcare, low-income housing, and microfinance and other financial services, all of these being sectors that contribute powerfully to sustainable economic development.

In every one of these projects, our private investors also have their capital at risk. Every one of these projects is centered on achieving positive and measurable development impact and every one of those aims to be commercially viable. So OPIC uses the power of the markets and business to tangibly deliver American development and foreign policy goals. The Agency provides an effective development that pays for itself and more.

More than one third of OPIC's entire portfolio is invested in post-conflict nations or nations currently vulnerable to conflict. My own work at OPIC reflects these national security priorities. While I have been at OPIC, I have been on the ground in Haiti, Liberia, South Sudan, Afghanistan, Jordan, Egypt, Tunisia, and others to help draw investments into those fragile countries.

In Afghanistan, OPIC's large portfolio of investments includes a cashmere processing facility, a state-of-the-art water bottling facility, and a highly successful small and medium enterprise lending facility, created in partnership with USAID which now supports successful job creating businesses in and around Kabul.

In Iraq, OPIC's investment portfolio supported the reconstruction of that country in many, many ways, ranging from microfinance lending to low-income housing to a dredging project to clear Iraq's water ways.

In Haiti, OPIC worked with USAID and a U.S. company to deliver micromortgages and housing reconstruction loans after that earthquake.

Even South Sudan. I traveled to Juba immediately following the initial peace agreement to identify critical infrastructure projects that could potentially be financed, taxpayer-free, with the private sector investment.

So in closing, OPIC's goal is to help fragile market economies grow and stabilize so that the odds of conflict are reduced or to help restore the foundation of the market economy after a conflict as our troops begin to come home. As former Secretary of Defense Robert Gates once put it, "Development is one of America's great giant force multipliers." We agree.

Every single dollar that OPIC extends has a multiplier effect for national security. It has a multiplier effect for development and it has a multiplier effect for the taxpayer, as every $1 into OPIC's operations has generated up to $8 back to the Treasury, back in that deficit reduction.

Mr. Chairman, this is why we believe that OPIC is smart, lean, and market-driven development. Thank you very much and I welcome your questions.

[The prepared statement of Ms. Littlefield follows:]

Statement of Elizabeth L. Littlefield

President and CEO
Overseas Private Investment Corporation

Before the
Subcommittee on Terrorism, Nonproliferation, and Trade
Committee on Foreign Affairs
United States House of Representatives

114th Congress – 1st Session

"Trade Promotion Agencies and U.S. Foreign Policy"

Room 2172 Rayburn House Office Building
May 19, 2015

Chairman Poe, Ranking Member Keating, members of the Subcommittee, thank you for inviting me to testify here today. I am Elizabeth L. Littlefield, the President and CEO of the Overseas Private Investment Corporation.

OPIC is the U.S. Government's development finance institution. It mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy and national security objectives. OPIC does this by providing long term loans and political risk insurance to investors investing much-needed capital into these developing countries – capital that would not be invested there without OPIC's financing or risk mitigation. These investments also helps American businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. Currently, OPIC has 550 outstanding long term projects in 103 countries. The projects encompass critical infrastructure, education, health care, low-income housing, microfinance and other sectors that contribute to sustainable economic development.

Today many, if not most, OPIC projects have a national security dimension. More than one-third of our portfolio is in post-conflict nations – nations that border on conflicts and must deal with their spillover effects, or nations that are vulnerable to conflict because of persistent risk factors such as ethnic tensions, extremism or illicit activities. These priority countries for OPIC include nations such as Afghanistan, Iraq, Jordan, Egypt and Tunisia.

No other agency in the U.S. government exists for the strategic, economic and moral purpose of advancing markets through long-term investment by private business, investment that contributes to stability, improves the lives of people in developing nations and addresses critical needs.

The importance of this unique role of long-term, private investment for national security was established when OPIC was created in 1971 and has received growing bipartisan support ever since. In 1983 President Reagan offered his "congratulations" to OPIC for its "businesslike basis" and "its success in showing the private sector the benefits of full participation in the development process in the Third World". A decade later, President Clinton cited OPIC's model for contributing to national security as "small, efficient, and self-sustaining ... the very essence of good government."

The link between private sector investment, economic growth and national security is well-established. There is overwhelming evidence pointing to a causal link between poverty and violence.[i] Low per-capita income is "one of the most robust explanations for the outbreak and duration" of conflict. Poor nations, on average, experience a violent regime change every seven years; the average for the richest 10 percent of nations is every 60 years. Today, roughly 400 million of the extremely poor still live in fragile states, several of which possess weapons of mass destruction.

Further, the odds of conflict and terrorism are higher when the poor are predominantly young,[ii] which is precisely the pattern that exists in the 'Arab Spring' nations and post-conflict and fragile nations of strategic interest to the United States.

Put simply, OPIC aims to provide U.S. companies with otherwise unavailable market based finance so that they can invest in ways that stabilize communities and nations. This means that OPIC works closely with USAID and with the Defense community to help prevent conflict or restore communities and build the beginnings of a market economy following conflicts whether in Iraq, Rwanda or Ukraine. OPIC invests with the aim of creating tenable economies, not just transactions.

That is why OPIC's investment officers are working hard to support US investment into Ukraine today and into Tunisia and Egypt. That's why OPIC officers were on the ground in Central and Eastern Europe in the early 1990s, why they were on the ground in Bosnia, Croatia, and Albania in the late 1990s, and why they continue to be on the ground in Iraq, Afghanistan and conflict-vulnerable countries around the world. As I have been called upon to lead OPIC's efforts in conflict and conflict-vulnerable nations, I have travelled to Liberia, South Sudan, Afghanistan, and the West Bank. Recently, I travelled to Tunisia and Morocco. None are massive markets for U.S. goods and services now. They may become more significant markets in the future. But today, they are national security concerns, and they can be helped by the stabilizing force of jobs and opportunity through private investment.

It is worth underscoring, Mr. Chairman, that economic self-sufficiency – which is often reflected in reliable access to commercial credit – is OPIC's aim. If companies can obtain access to credit in the commercial markets, OPIC's work is done. We move on. Cases in point would be countries such as South Korea, the Czech Republic, or parts of Chile and Uruguay.

OPIC Background

In 1971, OPIC was made a free-standing agency so that its capital, operations and expertise could better augment the work of its sister agency, USAID. OPIC's governing statute directs it to operate under the policy guidance of the Secretary of State and to be fully self-sustaining. Thus, OPIC is an efficient, tangible and cost-free instrument of U.S. foreign policy.

Since its founding, OPIC has catalyzed over 4,300 developing country investments representing more than $225 billion in total investment value. These projects have also supported over 500,000 host country jobs.

Over the last five years, OPIC has committed roughly $3.2 billion to support micro, small, and medium sized enterprises throughout developing and emerging markets. These and other projects in OPIC's portfolio lent approximately $21 billion to micro and small business enterprises (MSMEs) last year.

OPIC reduces risks for U.S. investors who are considering investing in poorer countries, but who would not otherwise be able to do so. OPIC uses loans, loan guaranties, political risk insurance and support for private equity funds to reduce these risks. However, OPIC does not eliminate risk to co-investors. Investors must have a significant amount of their own capital at risk in any OPIC transaction.

OPIC's participation must also be "additional" – that is, it must complement what commercial financial institutions can provide, but not duplicate it or compete with it. Projects that can be handled by the private sector without OPIC's support will not receive the agency's backing.

OPIC is development that pays for itself. For 37 consecutive years, OPIC has collected more than it has expended. Last year, OPIC reduced the federal budget deficit by $358 million, according to Treasury's figures. This was more than five times the agency's operating costs. Over the past five years, OPIC has reduced the federal deficit by more than $1.6 billion. The Agency continues to have net write-offs of less than 1% of its portfolio. Moreover, OPIC accomplishes this while investing in some of the poorest or conflict-vulnerable countries in the world, such as Afghanistan, Iraq, South Sudan, Jordan, or Egypt.

OPIC addresses the need for foreign investment with long time horizons. The U.S. is home to the largest and most highly-developed capital markets in the world. But entrepreneurs focusing on developing countries frequently have difficulty accessing these capital markets, particularly for the kinds of long-term investments and very small projects that make significant contributions to development, including stabilization of post-conflict economies and support for critical needs in conflict-vulnerable nations. OPIC facilitates that access.

OPIC and National Security

OPIC is a quick, tangible, effective, and lean government tool of foreign policy. For example, following the Arab Spring, the agency was able to get "on the ground" with small teams, screen investments, conduct due diligence on partners and projects, and back high impact projects that can help create the foundation for future economic growth. Working in close contact with the Department of Defense and USAID, our role is to "crowd in" private capital to help build the foundations of a domestic market economy as our troop levels pull down.

- In Afghanistan, for example, OPIC has a portfolio of 13 projects, representing over $185 million in exposure. Projects include a wool processing plant, a beverage bottler, and road building companies. The OPIC-financed SME lending facility, in partnership with USAID, is now supporting over 30 job creating mid-sized businesses in the country.
- In Iraq, OPIC's investment portfolio includes 6 projects, valued at $189 million, including a dredging project to reopen the country's waterways and its hydroelectric power.
- In Pakistan, OPIC has 15 active projects, worth $621 million, including a biomass power plant, microfinance on-lending, and the expansion of healthcare facilities, including the building of a neonatal and pediatric intensive care unit.
- In Jordan, now a refuge for an estimated 1 million refugees from the Syrian conflict – OPIC projects are delivering a quarter of that country's electric power and over a fifth of the water flowing to its capital.
- In Egypt, OPIC provides political risk insurance to the country's largest oil and gas facilities, representing a major investment by the Apache Corporation of Houston that has been able to sustain its operations through the upheavals following the Arab Spring.

OPIC is constantly reassessing and reevaluating its approaches to post-conflict or conflict-vulnerable nations. Several lessons are clear. Mobilizing private investment into these locations takes more than addressing issues of infrastructure, currency stability, safety, or encouraging talented refugees to return. It takes time for investors to assess these markets, obtain technical assistance, assemble local partners, successfully press for necessary investment climate reforms, secure political risk insurance, and of course work with co-investors such as OPIC, who are willing to take a long view with their capital.

OPIC has applied this hard-won experience. Thriving, stable nations that are now staunch U.S. allies and partners in commerce, military, and foreign policy were once fledgling, unstable economies where OPIC previously supported frontier market investments.

- Shortly after the fall of the Berlin Wall, for example, OPIC moved expeditiously into Eastern Europe, providing $3.8 billion in insurance and finance within five years. This helped attract further investors to the region, accelerating a shift toward identification with the West and market-based economies. In many cases, these newly independent countries chose membership in NATO and the EU.

- Within months of outbreak of conflict between Russia and the Republic of Georgia, OPIC was on the ground in Georgia, scouting out potential investment opportunities. Since then, OPIC has backed over two dozen projects in Georgia, valued at more than $380 million – contributing to Georgia's economic growth and its increasingly strong ties with the West.

OPIC's Approach

OPIC's approach offers several key advantages:

Generating Positive Development Impact

When OPIC invests, it establishes a long-term commercial relationship that requires collaboration, goodwill and a commitment to positive development impact that reduces poverty or improves lives.

Catalyzing Additional Investment

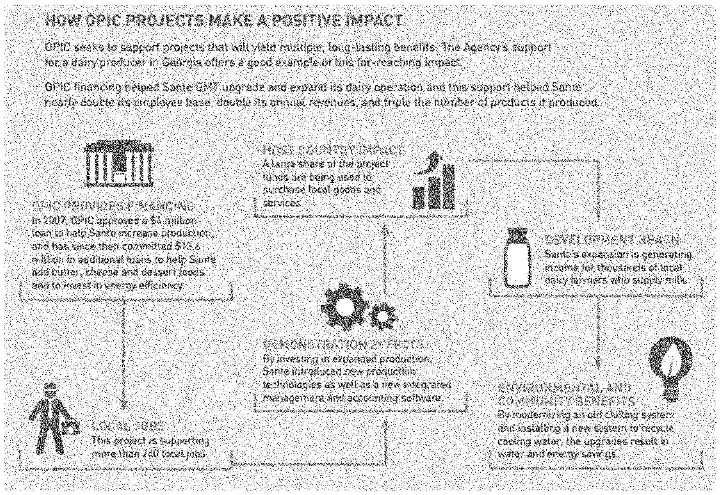
OPIC's visible presence and long-term commitment of significant amounts of capital in a country helps reassure a wider group of investors that the country's investment climate merits consideration. This frequently mobilizes further investments, beyond the investments that OPIC backs. Over its history, each $1 in OPIC commitments has mobilized about $2.46 in private-sector investment.

Applying Market Standards

OPIC requires an investment climate that supports the rule of law for foreign investors. Investors want, and will press for, reassurances from host-country governments about impartial dispute resolution, protections against the unlawful seizure of property, and the transparency of laws and rules. These "investment climate safeguards" are pillars of a viable commercial legal system.

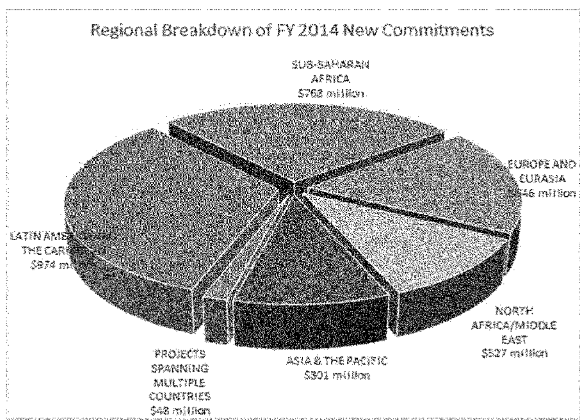
In underwriting and evaluating project proposals OPIC seeks both financial viability and development impact. That impact, which OPIC carefully analyzes and scores, is often indirect.

For example, here is the analysis that we used in evaluating the development impact of a dairy project in the Republic of Georgia, Sante GMT:



All of OPIC's work is in developing countries. The Agency aims for a balanced and diversified portfolio across these developing regions.

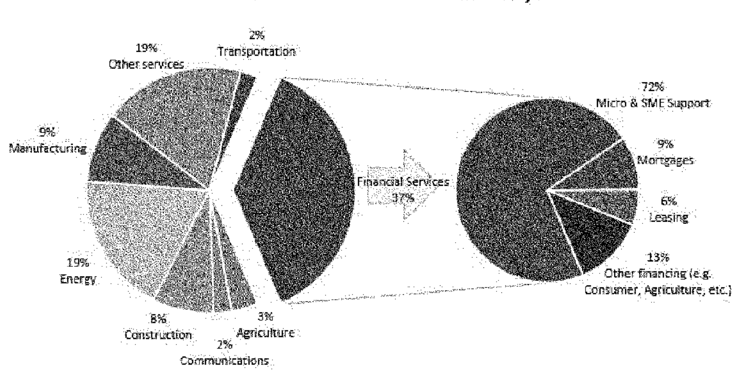
OPIC Key Regions:



In recent years, OPIC's Sub-Saharan Africa portfolio has seen a steady growth, so that it has become the agency's second-largest regional concentration, after Latin America and the Caribbean.

OPIC Priority Sectors

To help create and deepen capital pools in developing countries, OPIC often works through financial intermediaries that can meet the agency's high standards of credit underwriting, character risk due diligence and environmental and social policies.



Thus when the "financial services" sector of OPIC's portfolio is divided into subsectors, these different types of intermediaries can be highlighted. They include:

Microfinance and SME lending

In the finance sector, OPIC focuses on microfinance institutions and local banks that can make loans to microenterprises (generally, businesses with fewer than 10 employees), to small businesses (companies with 10-50 employees) and medium-sized enterprises (those with 50-200 employees).

Decades before microfinance became widely recognized as an effective tool for supplying small loans to individuals and micro-businesses, OPIC was using innovative financing for microlending in places facing tough development challenges, and to people who lacked access to traditional credit.

Microfinance borrowers at an OPIC-backed microlending center in Tanzania.

Today, OPIC supports dozens of successful microlending programs.

For example, through our partnership with a Bangladeshi development organization, OPIC has opened more than 100 new microfinancing branches in East Africa, serving an estimated 109,000 borrowers, 98 percent of whom are women.

Karur Vysya Bank in India, with OPIC's support, has in turn supported over 800,000 microfinance borrowers and 2 million small and medium enterprise borrowers.

Altogether, microfinance institutions that are backed by OPIC today reach more than 2 million borrowers. OPIC-backed loans to small and medium-sized businesses, provided through financial intermediaries like local banks, reach another 4 million borrowers.

Access to financial services through microfinance helps families improve income and invest in improved health care, year-round education for their children and empower women to take a bigger role in communities.

Affordable Housing

OPIC is also active in the housing sector, seeking reputable developers and builders of affordable housing. OPIC has worked closely with groups like Habitat for Humanity of Atlanta on housing projects in Africa and with companies like Inter-Mac of Arlington, VA on housing in Central America.

OPIC-financed low-income housing project in Honduras.

To address the severe shortage of safe, affordable housing with utilities like running water for low-income families in Central America, OPIC partnered with Inter-Mac to construct a community of basic homes that families can purchase for about $100 a month. These houses cost about the same as make-shift structures on the market, and come equipped with water, electricity and sanitary facilities, as well as a community daycare center and elementary school.

Education

Among its education projects, OPIC is supporting Bridge International Academies, a brand of elementary schools catering to low income families earning less than $2 per person per day. Using system-wide software and tablet computers, Bridge International efficiently delivers high quality, low-cost pre-primary and primary education for $5 per child per month. Each school is projected to be profitable after two years.

Students and a teacher at a Bridge International School in Kenya.

With OPIC support, Bridge has expanded significantly, now aiming to enroll 800,000 students by 2022 in 665 schools, including 237 in Kenya, 210 in India, 185 in Nigeria, and 33 in Uganda.

Health care

Like much of Sub-Saharan Africa, Angola's healthcare infrastructure struggles to meet the demand of the region's heavy disease burden. With OPIC financing, a new medical clinic has opened its doors in Angola's capital city. The facility provides affordable treatment to the local community and has introduced new medical diagnostic capabilities, such as state-of-the-art MRI and CAT scan technology. The clinic also provides medical training programs designed to increase the level of care throughout the entire country.

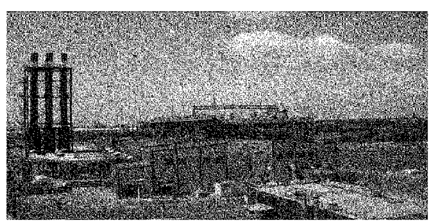
Nurse and patient at an OPIC-financed clinic in Luanda, Angola.

Power generation

More than 600 million people in Africa lack access to electricity, limiting accessible healthcare, quality education, economic development, human capital, and overall opportunity. To address these needs, both Houses of Congress have been actively considering legislation to promote African electrification. As an agency with over forty years of experience in financing developing country power projects, OPIC is a key player in the effort to extend electricity access across the continent. Using a mix of thermal power and renewable energy, on- and off-grid, OPIC has been moving forward on African electricity projects.

- **Thermal**

For example, OPIC provided loans and political risk insurance to build a "tri-fuel" power plant (low-sulphur heavy fuel oil, light fuel oil and natural gas) in the Republic of Togo. Before this, the country had one of the lowest rates of per capital energy generation in the world. Today, the Lomè Power Plant has tripled energy production capacity in Togo, and is actually exploring power to neighboring countries, providing reliable competitively-priced power to millions in West Africa.



Lomè Thermal Power Plant, Togo.

- **Renewable – On-grid**

The Olkaria geothermal plant in Kenya was recently expanded with the help of OPIC financing. The plant is sited in an area of abundant hot springs and volcanic vents, which are tapped to produce electricity. The plant is helping Kenya produce 12% of its electricity from geothermal sources.

Olkaria geothermal power plant, Kenya

- **Renewable - Off-grid**

Most families in rural areas of Africa and Asia live off-grid, far from the reach of the national power grid. The business model that Simpa Power developed from this idea today employs more than 350 village entrepreneurs and is used by 45,000 beneficiaries in India. Buyers pay a very modest rental on the solar panel and the recharger. After 18 months, the system is unlocked and ownership is transferred to the buyer. OPIC's investment is helping Simpa continue to grow this successful business.

Indian home illuminated by electricity from a rent-to-buy Simpa solar panel

Renewable energy projects in Sub-Saharan Africa benefit from the Africa Clean Energy Finance (ACEF) project, a joint financing facility funded by the State Department and executed by OPIC and the U.S. Trade and Development Agency (TDA) in cooperation with USAID. So far, this facility has supported 30 clean energy projects in Africa. For example, ACEF provided $400,000 for early-stage development costs for Gigawatt Global's 8.5 MW grid-connected solar power plant in Rwanda. This is Rwanda's first grid-connected solar photovoltaic project. It introduces a replicable renewable energy model to the country, and is increasing total energy output in Rwanda by 9.3%.

Small U.S. Businesses

OPIC also offers opportunities for American businesses that seek to gain footholds in fast-growing emerging markets. Over the past five years, smaller U.S. companies have accounted for about 70% of OPIC's direct financing transactions -- and many more if small businesses in the supply chains of larger ones are considered. There are also opportunities for small companies to serve as suppliers to OPIC projects abroad. To inform and attract these companies, OPIC conducts a series of outreach workshops, called "Expanding Horizons", across the country. To date, more than 3,000 small U.S. companies have participated in these workshops.

OPIC Audits, Monitoring and Evaluation

Audits

OPIC's financial statements have been examined each year since the agency was created by an independent financial auditor. The auditor reports to the Audit Committee of the OPIC Board of Directors. OPIC is honored to have received unqualified audits since 1971.

Policy compliance

Active OPIC-supported projects are required to report annually on host country development impact and relevant environmental, social, health & safety, and labor issues by completing a Self-Monitoring Questionnaire (SMQ). OPIC actively monitors projects in its portfolio through on-site monitoring of selected projects and the information provided through the Self-Monitoring Questionnaire. Site monitoring allows OPIC staff to ensure compliance and understand whether and to what extent a project succeeded. Yet its value extends beyond these functions. Through gathering, analyzing, and verifying information about projects, OPIC continually improves its development impact methodology, policy compliance practices, and investment strategy, which means better outcomes for U.S. investors and host country economies.

To most effectively use resources, OPIC selects sensitive projects for site-monitoring to uphold requirements that ensure there is no negative impact on the U.S. economy or local communities, and that labor, human rights and environment requirements are met. Additionally, projects are randomly drawn from OPIC's active portfolio for site visits. Further, projects with exceptional and particular sensitivities may be subject to audits conducted by a third party.

Development Impact

OPIC measures a variety of development impacts attributable to each of its proposed and current projects. Among these are human capacity building, demonstration effects of the business model or technology in the country, host-country revenue flowing from the project, and the reach of the project into underserved populations like poor, underdeveloped, and / or rural areas of the country.

One of the major benefits of OPIC's work is job creation in host countries. Jobs create opportunity and contribute to economic growth and stability. The projects OPIC committed to in 2014 are expected to support more than 9,000 host-country jobs. That's the equivalent to almost 40 jobs per OPIC employee.

Credit Considerations

Focusing on best practices, OPIC manages business risk in multiple ways. In-depth, multi-level underwriting is applied at the initial approval of each transaction, and the OPIC Portfolio Management Division actively monitors transactions over their lifecycles.

OPIC's goal is to maximize each project's ability to fully repay its debt and meet its developmental targets; therefore, part of that monitoring process may include loan modifications and restructurings. Each member of the Portfolio Management team is responsible for monitoring a group of loans in the portfolio.

OPIC prepares annual credit scores for the loans in its portfolio in conjunction with its post-disbursement loan review process. These scores feed into the overall agency budget process to adequately measure both the success of its transactions as well as any expected losses. Each individual transaction is linked to the larger picture of OPIC's portfolio at all times. Credit concentrations by geography and industry sector are carefully reviewed, and the lessons learned in lending to specific geographies and sectors are assembled and used to modify future underwriting standards.

This extensive financial and development review of the portfolio allows OPIC's management to develop well-tested goals for transaction origination and risk management – and to continually improve OPIC's effectiveness in meeting its mission and demonstrating its impact.

Room to Grow

In the past 40 years, most developed countries have created development finance institutions (DFIs) like OPIC, and many of these greatly exceed OPIC's capacities.

DFI Landscape in FY2012

	Sponsor	Total Portfolio	Staff (FTEs)	Total Portfolio per FTE	Profit	Profit per FTE	Portfolio as % of sponsor GDP	Overseas Offices	Equity Authority
OPIC	USA	$16.4 B	220	$74.6 M	$272 M	$1.24 M	0.11%	0	No
[illegible]	Multilateral	$45.8 B	3763	$12.2 M	$1.7 B	$0.44 M	--	104	Yes
FMO	Netherlands	$7.8 B	306	$25.5 M	$180 M	$0.59 M	1%	1	Yes
DEG	Germany	$7.4 B	480	$15.3 M	$163 M	$0.34 M	0.22%	13	Yes
Proparco	France	$4.3 B	170	$25.4 M	$49 M	$0.29 M	0.17%	12	Yes
CDC	United Kingdom	$2.4B	65	$42.7 M	$288 M	$4.43 M	0.11%	0	Yes

Source: 2012 Annual Reports. *Data for FY 2012; values in USD*

China, of course, is but the latest example. Last year, the Chinese DFI expanded its staff by more employees, and its portfolio by more dollars, than OPIC's total employee count and total portfolio value. The Chinese DFI is targeting areas of Chinese commercial and geopolitical interest, including Africa, Asia and Latin America.

Presently, OPIC is using just $17.3 billion of its Congressionally-set cap of $29 billion. OPIC is able to finance and insure only a fraction of the most deserving transactions it sees, and an even smaller fraction of other promising applications it receives.

OPIC's FY16 budget request calls for a funding increment that would be used for hiring more staff. With this increased staffing, OPIC could complete more transactions, have a greater development impact, return more money to the U.S. Treasury, and engage globally on a more effective basis with other Development Finance Institutions. With more staff, OPIC could complete more transactions, have a greater development impact, return more money to the U.S. Treasury, and engage globally on a more effective basis with other Development Finance Institutions.

In addition, OPIC looks forward to continuing engagement with this committee on a multi-year reauthorization. OPIC investments often span 18-20 years. A multi-year reauthorization is crucial to enabling the Agency to play its market-based functions and to enable U.S. businesses to be confident in using OPIC's financing commitments to win business aboard in planning with investors and potential investors.

Thank you again for this opportunity to appear here. I would be glad to take any questions at this time.

[i] Justino, Patricia, "Poverty and Violent Conflict: A Micro Level Perspective on the Causes and Duration of War" MICROCON Research Working Paper 6, January 2009. This paper includes a useful summary of literature over the past 15 years.\
[i] Cox, Gary, Douglass North, and Barry Weingast, "The Violence Trap: A Political-Economic Approach to the Problems of Development," September 2013.
[i] Udall, Henrik, "A Clash of Generations? Youth Bulges and Political Violence," *International Studies Quarterly,* 2006.

Mr. POE. Thank you, Ms. Littlefield. The Chair recognizes Ms. Zak for opening statement.

STATEMENT OF THE HONORABLE LEOCADIA I. ZAK, DIRECTOR, U.S. TRADE AND DEVELOPMENT AGENCY

Ms. ZAK. Chairman Poe, Ranking Member Keating, and members of the subcommittee, thank you for your interest in USTDA's work to help U.S. companies create jobs here at home while promoting sustainable development abroad.

As we were preparing for today, my staff came across a quote. It was incredibly relevant to the topic of this hearing. It is from former Secretary of State Cordell Hull who said, "When goods and products cross borders, armies don't." Secretary Hull understood what we at USTDA strongly believe, that robust, diplomatic trade relationships mean resilient economies and secure nations.

Now more than ever, given the impact of globalization, America's prosperity depends on trade with strong, stable states. Establishing secure markets and fostering trade ties is exactly what we do. In fact, it is part of the unique dual mandate that Congress gave us. That is to promote U.S. private sector participation in development projects in emerging markets with an emphasis on sectors with significant U.S. exports.

USTDA approaches this mission in three important ways. First, we help to build infrastructure for economic development, stable markets for U.S. exports, and secure routes for global trade. Colombia, for example, has been a strategic focus of U.S. engagement in Latin America for decades. As part of this engagement, USTDA maintained an active portfolio to not only build the infrastructure in Colombia, but also to strengthen diplomatic and economic ties. During the negotiations of the U.S.-Colombia Trade Promotion Agreement, USTDA helped the Port of Cartagena comply with the U.S. Customs Container Security Initiative. The port implemented changes from USTDA's technical assistance with the help of goods and services from several states. Moreover, Cartagena's designation as a CSI port strengthened commercial relations while enhancing the safety and security of cargo.

Second, our activities facilitate strategic partnerships to build long term trade ties. USTDA's public/private partnerships help U.S. industry establish long-lasting connections with leaders from the world's fastest growing markets. In fact, for those of you who have traveled to India, you probably didn't realize you were benefitting from the Agency's U.S.-India Aviation Cooperation Program. The ACP has enabled U.S. and Indian officials to collaborate in several critical areas, including safety and security. Because of the relationships that the ACP has developed, the Government of India asked USTDA for help in successfully restoring their Category 1 safety rating from the FAA. They have also asked us to help them develop the technical capacity to test, certify, and procure state-of-the-art aviation security equipment.

These projects present a significant opportunity for U.S. industry to provide India with the solutions necessary to achieve international standards and to meet its security needs. The India ACP is critical to the success of these efforts. That is because they, like our other PPPs, foster person-to-person connections, provide access to key stakeholders, and strengthen bilateral trade ties.

Third, and finally, I could not agree more with the chairman's statement regarding leveling the playing field and U.S. business doing the rest. That is why USTDA helps level the playing field for U.S. firms competing in international tenders.

Both our U.S. and foreign partners have told us about challenges presented by low cost procurement systems. I know at first blush this doesn't sound exciting, but relying on lowest cost often means that a host country is forced to acquire poor quality goods and services which is not in their long-term interest. We believe there is nothing low cost about buying something twice. Because we pride ourselves on listening to the needs of our stakeholders, we responded to this challenge by partnering with George Washington Law School to launch our Global Procurement Initiative. The GPI delivers customized solutions that target specific procurement issues.

One of our first GPI countries was Vietnam, a long-term partner of USTDA. They asked for our help in implementing their national procurement law which they revised to include low cost.

The GPI embodies our Agency's mandate. It responds to our partner countries' efforts to develop sustainable infrastructure projects. It also answers U.S. industry's call to level the playing field for greater international competition. Activities like these produce results for our foreign partners and for U.S. industry. And they provide a demonstrable return on taxpayer investments.

USTDA's current multiplier, $76 in exports for every $1 programmed is the highest in the Agency's history.

Mr. POE. Ms. Zak, I would ask you to sum up your statement, because it is a part of the record.

Ms. ZAK. Certainly. USTDA leverages the private sector. In what we have before us is a development model that is new and it is effective. And with this development model, we lay the foundation for strong, stable states, states capable of preventing conflict, states capable of managing crises, capable of promoting prosperity. USTDA's development model advances economic interests of the United States and even more importantly, it safeguards U.S. national security. It ensures that U.S. goods and products cross borders so our military doesn't have to.

Chairman Poe, subcommittee members, thank you very much for having us here this morning. I look forward to your questions.

[The prepared statement of Ms. Zak follows:]

Statement by The Honorable Leocadia I. Zak

Director, U.S. Trade and Development Agency

Before the House Committee on Foreign Affairs

Subcommittee on Terrorism, Nonproliferation, and Trade

"Trade Promotion Agencies and U.S. Foreign Policy"

May 19, 2015

Chairman Poe, Ranking Member Keating and Members of the Subcommittee, thank you for the opportunity to testify about the U.S. Trade and Development Agency's support of U.S. foreign policy and national security objectives. We welcome your interest in our work to help U.S. companies create jobs here at home, while promoting sustainable development in emerging markets around the world.

As we were preparing for today's testimony, my staff came across a quote from Cordell Hull about trade: "When goods and products cross borders, armies don't." Hull, who served under President Franklin Delano Roosevelt, was our country's longest-serving Secretary of State. His experiences during World War II taught him that strong diplomatic and trade relationships mean a resilient economy and a secure nation.

We at USTDA also understand the importance of trade to the United States' foreign policy and national security interests. Given the impact of globalization, America's prosperity is increasingly and irrevocably linked with the global economy. Over the past 40 years, trade has tripled as a share of our national economy, and today, one in four American manufacturing jobs is supported by U.S. exports.

The United States' future economic success depends on trade with strong, stable markets around the world. Our U.S. industry partners understand that their competitors are no longer just across our country – they are across the world. And so are their customers: The International Monetary Fund projects that 85% of the world's growth through 2018 will occur outside the United States.[1]

Many of these consumers are located in emerging economies. Indeed, the world's fastest growing markets – representing roughly half of U.S. exports – are in developing countries.[2] U.S. businesses are increasingly targeting these countries as export destinations in order to take advantage of the enormous opportunities that they represent. And many companies have

[1] International Monetary Fund, *World Economic Outlook Reports*, available at: http://www.imf.org/external/ns/cs.aspx?id=29, last accessed May 2015.
[2] U.S. Global Leadership Coalition, *Smart Power 2.0: America's Global Strategy*, available at: http://www.usglc.org/downloads/2012/12/USGLC-Smart-Power-Brochure.pdf, last accessed May 2015.

leveraged USTDA's activities, which are designed to help transform developing and middle-income countries into strong, vibrant trading partners for the United States.

USTDA's program provides mutual benefits: It helps U.S. firms see the value of exporting to and investing in high-growth markets. It also helps our host country partners understand the importance of creating and maintaining stable, secure environments that are attractive to investors. By drawing upon the resources, innovation and ingenuity of the private sector, the Agency is able to accomplish more than it could if it were simply working with public sector partners alone.

USTDA's program promotes American values, which is important in encouraging emerging markets to adopt U.S. principles for trade and international engagement. It also fosters human relationships and makes person-to-person connections. These are essential to building partnerships that will result in long-term economic and diplomatic engagement.

Partnerships like these help to create a more secure world. By taking deliberate steps – such as building infrastructure – to foster sustainable development and to spur economic growth, emerging markets are given the tools to attract investment and to identify longstanding partners. This lays the foundation for long-term economic stability, which, in turn, helps create strong states capable of preventing conflict, managing crises and promoting prosperity.

Today's challenging global economy has required reevaluating traditional approaches to foreign aid. With static budgets for official development assistance worldwide, the days of the traditional government-donor and recipient-nation "aid" relationship are waning. In its place, a new development model has arisen – one that mobilizes private capital to maximize development outcomes and that leverages industry expertise to create mutually beneficial, trade- and investment-based partnerships between nations.

This model of international development has been central to USTDA's core mission since the Agency's inception. In highlighting USTDA's "role in the future of international development" in 2011, the Center for Strategic & International Studies (CSIS) described USTDA's vanguard position: "USTDA's model of development represents the shift underway in Washington from an *official development assistance* paradigm of development to a *trade and investment* paradigm of development."[3] The USTDA model – which fosters sustainable growth abroad while increasing U.S. exports and creating jobs here at home – not only advances the economic interests of the United States, it also safeguards national security.

[3] Center for Strategic and International Studies (CSIS). Daniel F. Runde and Lauren Bieniek, *USTDA: Good Value for Development Dollars*, October 21, 2011, available at: https://csis.org/publication/ustda-good-value-development-dollars, last accessed May 2015.

USTDA's Mission and History

Congress created USTDA to "promote United States private sector participation in development projects in developing and middle-income countries, with special emphasis on economic sectors with significant United States export potential."[4] USTDA is unique among federal agencies in that it is mandated to engage the U.S. private sector in development projects at the critical early stages when technology options and project requirements are being defined.[5] By highlighting opportunities for the use of U.S. expertise and technology when they can effectively be incorporated into project planning, the Agency increases opportunities for the use of U.S. exports in project implementation.

The Agency accomplishes its mission by providing grants to overseas sponsors for priority infrastructure projects in their countries. The funding may be used to perform a feasibility study, launch a pilot project or provide a wide array of technical assistance. USTDA also connects project sponsors with U.S. businesses through its reverse trade missions, which bring foreign decision-makers to the United States to introduce them to the design, manufacture and operation of U.S. goods and services in advance of their procurement decisions.

USTDA has the authority to provide grant funding for projects that may ultimately be financed by any number of entities, including the Export-Import Bank of the United States (Ex-Im Bank), the U.S. Overseas Private Investment Corporation (OPIC), multilateral development banks, commercial banks or other regional lenders, and, where resources exist, the sponsors that will ultimately implement the projects themselves.

The Agency's activities have produced results for both U.S. industry and USTDA's partners in emerging markets: U.S. companies are provided access to the lead infrastructure project sponsors around the world, while foreign partners gain insight into the latest, most appropriate U.S. technologies to meet their development needs. USTDA focuses its program in sectors where U.S. firms are globally competitive, such as energy, transportation and telecommunications. Through this combination, the Agency is able to provide targeted foreign assistance, support U.S. trade and economic development priorities, and promote U.S. job creation.

USTDA's Program in Action

Building Stable Markets for U.S. Exports

In line with U.S. foreign policy and national security objectives, USTDA makes strategic investments to help developing and middle-income countries build infrastructure that can enable the flow of goods within and across borders. By helping our partner countries plan their large-

[4] 22 U.S.C. § 2421(a).
[5] 22 U.S.C. § 2421(b)(2).

scale infrastructure platforms, we are building stable markets for U.S. exports and secure routes for global trade.

Latin America, for example, has long been a strategic focus of U.S. engagement. For decades, the U.S. government has worked with its Colombian and international partners on a number of initiatives to strengthen security, diplomatic and economic ties between our countries. More recently, the implementation of the United States-Colombia Trade Promotion Agreement has been key to these efforts. During the agreement negotiations, USTDA worked closely with the Office of the U.S. Trade Representative and other members of the trade capacity building working groups.

As part of this cooperation, USTDA provided technical assistance to help the Port of Cartagena obtain certification as a Container Security Initiative (CSI)-compliant port from the U.S. Customs and Border Protection. In line with the recommendations from USTDA's assistance, the Port of Cartagena acquired non-intrusive inspection equipment, enhanced entry/exit controls and implemented risk mitigation management procedures – with the help of U.S. goods and services, including dredging equipment from Louisiana and trucks from Kansas. Moreover, Cartagena received its CSI designation – strengthening U.S.-Colombia commercial relations while enhancing the safety and security of cargo.

This collaboration illustrates how USTDA helps its partners build infrastructure and develop safer environments for trade. USTDA continues to do so in Latin America and is currently working with its interagency partners to develop a Clean Energy Finance Facility for the Caribbean and Central America (CEFF-CCA) that will catalyze public and private sector investment to support clean energy projects in the region.

Fostering Strategic Partnerships that Strengthen Trade Ties

USTDA's activities also foster strategic partnerships that strengthen human relationships and build long-term trade ties. USTDA has become well known for establishing successful public-private partnerships in high-growth emerging markets. These cooperation programs bring together government agencies and private companies from the U.S. and our partner countries to share technical, policy and commercial knowledge relevant to sectors like aviation and energy. Perhaps most importantly, these programs help U.S. industry develop person-to-person connections that will lay the foundation for future engagement with rising leaders in the world's fastest-growing markets. By providing a platform for sharing values, addressing challenges and achieving goals, these partnerships help U.S. companies expand their business overseas and help emerging markets strengthen their infrastructure.

In fact, for those of you who have traveled to India, you probably did not realize you were benefitting from the work of the Agency's U.S.-India Aviation Cooperation Program (ACP). The ACP has enabled U.S. industry and Indian aviation officials to collaborate in several critical areas, including air traffic management, regulatory oversight, and safety and security. Because of the relationships that the ACP has helped develop, the Government of India asked USTDA for help in successfully restoring their Category 1 status, the highest safety rating from the U.S. Federal Aviation Administration (FAA). They have also asked us to support specific projects that will help them develop the technical capacity to test, certify and procure state-of-the-art aviation security equipment. These projects are piloting U.S. technologies at India's largest airports and training aviation officials on how to detect security threats.

These efforts present a significant opportunity for U.S. industry to provide India with the solutions necessary to meet its aviation security needs and achieve internationally recognized standards. They will also support further growth in India's rapidly expanding aviation market and deepen economic ties between the world's oldest and largest democracies.

The India ACP is crucial to the success of these efforts as, like the rest of USTDA's public-private partnerships, it provides access to key stakeholders, helps foster long-term relationships and strengthens bilateral trade ties – all of which are in the economic and security interests of the United States.

Level the Playing Field for U.S. Firms Competing in International Tenders

The U.S. government is frequently called on to take action to help its overseas partners open their markets to U.S. business and foster a fair, level playing field. We at USTDA pride ourselves on our ability to respond to requests like these with flexibility that can meet the needs of the market and with expertise that can address challenges.

We have heard from several of our stakeholders that one of the greatest impediments to sustainable development in our partner countries – and the one of greatest hindrances to U.S. companies trying to enter new markets – is procurement systems that do not take into account the value of products over time. Many countries rely on least-cost procurement policies to govern their selection and award procedures. Our private sector partners report that these policies do not provide a level playing field, which often impedes competition for U.S. industry.

The reliance on lowest price as the determining factor for award discounts high-quality, high-value equipment and comprehensive maintenance agreements. While these elements may increase the initial investment, they actually lower the total cost of ownership and provide the best value for the project sponsor over the life of the project.

In response to this challenge, USTDA launched the Global Procurement Initiative: Understanding Best Value (GPI) to educate public officials on value-based procurement methodologies, including life-cycle cost analysis, total cost of ownership and cost savings over time. We develop GPI activities in collaboration with globally recognized public procurement advisors from the George Washington University Law School, our technical partner. The World Bank and all of the multilateral development banks also serve as GPI collaborators to ensure there is parity across procurement systems.

One of our first partner countries under the GPI was Vietnam, which recently revised its national procurement law to include an increased focus on value for money. USTDA has sponsored three GPI workshops and an orientation visit that have trained over 180 public procurement officials. USTDA intends to continue its partnership with Vietnam by providing procurement advisory services in the energy and information technology sectors.

The GPI responds to Vietnam's – and other emerging markets' – efforts to develop infrastructure projects in an efficient and sustainable manner, while at the same time answering U.S. industry's call to level the playing field for greater international competition. By helping developing and middle-income countries establish fair, transparent rules of the road, we are helping to ensure future markets for American exports.

USTDA's Economic Impact

Consistent with its mission, USTDA's primary strategic goal is to create U.S. jobs by increasing exports of U.S. goods and services for projects that promote sustainable development and economic growth in our partner countries. In Fiscal Year 2014 alone, the Agency identified $5.8 billion of new exports, which have helped to support approximately 33,000 jobs in the United States.[6]

The Agency's programs provide opportunities for U.S. companies of all sizes. USTDA particularly relies on small businesses, drawing extensively on the expertise of consulting and engineering firms, to provide independent technical and financial analysis during the critical early stages of a project's definition. In fact, in FY 2014, over 60% of the Agency's direct contracts were awarded to small businesses – far surpassing the Small Business Administration's goal for federal agencies to award at least 23% of their procurements to small businesses.[7]

USTDA's project planning and partnership building activities also create opportunities for U.S. businesses to succeed abroad by highlighting their technical expertise to global customers. As an illustration, USTDA partnered with The Ford Meter Box Company, a private, family-owned business based in Wabash, Indiana with manufacturing plants in Wabash and Pell City, Alabama. Despite their concerted efforts to expand sales of their water metering technology in Vietnam, the company faced several challenges reaching this growing market until they participated in a

[6] Chris Rasmussen and Martin Johnson, *Jobs Supported by Exports 2014: An Update*, Office of Trade and Economic Analysis, International Trade Administration, Department of Commerce, March 4, 2015, available at http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005406.pdf, last accessed May 2015.

[7] U.S. Small Business Administration, *Strategic Plan Fiscal Years 2011–2016*, http://www.sba.gov/sites/default/files/serv_strategic_plan_2010-2016.pdf, last accessed May 2015.

USTDA-funded reverse trade mission, which provided access to key decision-makers from Vietnam's water industry.

During the visit, representatives from Ford Meter Box were able to demonstrate their pioneering line of waterworks equipment and explain how U.S. water distributors employ the company's products throughout their operations. This visit served as a springboard for Ford Meter Box to increase its exports to Vietnam and establish long-lasting business relationships. As the Vice President at Ford Meter Box said, "Being a manufacturer located in small rural Indiana and Alabama communities, exporting our products overseas is important to building long-term opportunities for both of our factories. The strong support by USTDA in educating international customers on U.S. technologies, such as those used in the U.S. water supply industry, positively affects the many families in our communities that benefit from jobs generated when supplying our products to new international markets."

USTDA's Focus on Results

USTDA's effectiveness is demonstrated by the fact that its programs are now generating more U.S. exports per program dollar than at any other time in the Agency's history: $76 of exports for every dollar programmed, up from $41 just five years ago. The Agency's success is a result of its rigorous evidence-based decision-making processes. USTDA evaluates its program tools on a continuous basis to determine their overall effectiveness and responsiveness to U.S. industry, U.S. government policy priorities and emerging market needs.

USTDA's Program Evaluations Office monitors project development once USTDA-funded activities are completed to document the linkage between the activities and the project outcomes. The Office measures the U.S. content – defined as goods manufactured in the United States or services provided by U.S. citizens – of a commercial sale resulting from a USTDA-funded activity. They then use the data to calculate the Agency's *export multiplier*, the dollar amount of exports generated per USTDA program dollar obligated, as well as its *total cumulative exports*, the amount of exports associated with USTDA funding in any given time period.

During its annual strategic planning, USTDA combines its internal evaluations data with additional comparative factors – including Gross Domestic Product (GDP) per capita, World Bank income rankings, the International Monetary Fund's GDP growth projections, total U.S. exports, and the top five industry sectors for exports for each country – in order to prioritize countries and sectors for Agency funding. This strategic planning process, which engages the full participation of the Agency's staff, has helped foster a results-oriented culture at USTDA. This is evidenced by the fact that USTDA was ranked the Top Small/Independent Agency

Across All Indices in the 2014 Federal Employee Viewpoint Survey.[8] In the survey, 100% of USTDA respondents indicated that they believe the Agency is successful at accomplishing its mission.

Conclusion

As noted by CSIS, USTDA has the "unique ability to leverage its assets in a multitude of ways: to strengthen the domestic economy, continue international development priorities, and serve diplomatic interests in emerging markets around the world."[9] USTDA accomplishes this by making impressive use of a relatively small budget – the Agency's current export multiplier of $76 in exports for every $1 programmed, the highest in USTDA history, speaks for itself. In a time when results are more important than ever, the Agency is producing its best results. USTDA provides a demonstrable return on taxpayer investments while simultaneously supporting the engines of American job creation – thus helping to ensure that the nation's future is one of economic growth, opportunity and security.

---

[8] Office of Personnel Management. *2014 Federal Employee Viewpoint Survey*, available at: http://www.fedview.opm.gov/, last accessed May 2015.
[9] CSIS, *USTDA: Good Value for Development Dollars*.

Mr. POE. Thank you. Thank all the witnesses for being here. I will start with myself and would ask that the witnesses be as brief as possible under the time restraints.

Chairman Hochberg, I want to start with you. You may know that while we are having this hearing, there is a press conference down the next building over, a pep rally if you will, talking about the demise and end of EXIM Bank as we know it. Controversy here in Congress and we have heard a lot on both sides as you know.

A few questions. Is the statement true that Houston, Texas is the number one city in the U.S. that uses EXIM Bank for its businesses, small businesses?

Mr. HOCHBERG. Yes, it is.

Mr. POE. And Texas is the number one state, is that correct?

Mr. HOCHBERG. Texas is the number one state in the country for exports.

Mr. SHERMAN. Mr. Chairman, I would like to withdraw my support for EXIM Bank.

Mr. POE. Okay, you may do that. I don't know if you have ever heard of Olney, Texas or not. I know you are from New York. Have you ever heard of Olney, Texas?

Mr. HOCHBERG. Absolutely. One of our great American exporters is from Olney, Texas.

Mr. POE. Air Tractor.

Mr. HOCHBERG. Air Tractor.

Mr. POE. Air Tractor makes small planes that fertilize the fields and also does other things, fight fires. Olney is a town that is near Burnet and Flower Mound in case you were interested where they are. David Ickert owns it. Two hundred plus employees. And I would like your answers to be based upon this statement by him that "Air Tractor has been using EXIM for 20 years. Has never filed a claim for money from the Bank. In places such as Spain, Air Tractor has been selling for years. EXIM helped us to get a firm footing and they no longer need to use the Bank. In other countries in South America, the company needs EXIM to get financing because smaller banks don't pay any attention to Air Tractor in Olney, Texas."

Using this business as an example, the statement has been raised and I think it is a fair question, using EXIM Bank, how does that, if it does, deny equal competition from other businesses that don't use EXIM Bank in the U.S., other businesses that need financing as well?

Mr. HOCHBERG. I don't believe it does, sir. I mean when we support Air Tractor, it is a great company. They have less than 300 employees in a town with about 3,000 people. It is a big business for a town of Olney, Texas with three traffic lights. We support their exports to farmers in Argentina, Brazil, a lot of their farmers in Latin America that are not credit worthy without our export support, without our guarantee. We are not helping them when they compete in the United States. When they compete in the United States, they compete in a free and open market. The only time we help them is how they compete against other foreign competitors who are trying to take that sale away from them.

Mr. POE. All right, does EXIM Bank give loans to foreign companies?

Mr. HOCHBERG. We will do buyer financing. In the case with Air Tractor, we have actually provided a guarantee that the foreign buyer will pay over a 5- to 6-year period and then that is transferred over to—actually Wells Fargo Bank is the one bank that will work with them on these transactions.

Mr. POE. Does EXIM work with American banks in the loan process like Amegy in Texas, Wells Fargo, and other banks or not?

Mr. HOCHBERG. Actually, Amegy Bank, we named our lender of the year this past year—in 2015. But we also work with foreign banks. We will work with the bank that the buyer needs to work with in order to make sure we can provide the guarantee that will make the transaction go forward.

Mr. POE. If EXIM works with foreign companies, how does that help the United States?

Mr. HOCHBERG. Well, in the case of Air Tractor, using that as an example, it is a foreign buyer who has a choice. They can buy either American made crop dusters and firefighting equipment or foreign. So in that case, we—if the financing is the one thing that is needed to make that sale, the customer, the exporter has to deal with price, quality, value, service. We only can step in if financing is the one stumbling block and the private sector can't or won't do it. We can step in and make sure there is a level playing field so that they can buy an American product versus a foreign product.

Mr. POE. How about state-owned enterprises? Some of the concern is that EXIM Bank helps foreign state owned enterprises with financing. Comment on that if you would.

Mr. HOCHBERG. Well, occasionally, yes. In many other countries, much more so than the United States. There are a lot of state-owned enterprises in transportation, in power, in utilities, in a number of those fields. And in that case, those state-owned enterprises have a choice, to buy an American product or a Chinese or a Russian or a French product, particularly in the utility field. So if that is the case, we want to make sure there is a level playing field that American companies, American workers get an even shot at making that sale.

Mr. POE. Last question, let us go back to Air Tractor in Olney, Texas. There is no EXIM Bank. What are the possibilities—what would happen to Air Tractor in Olney, Texas without EXIM Bank?

Mr. HOCHBERG. Well, Dave Ichert recently said when I asked him, he said it is a matter of 68 jobs. That is the number of people likely to lose their positions at Air Tractor if the Bank isn't reauthorized by June 30th because right now half their sales, more than half their sales are export sales.

Mr. POE. The Chair will recognize the ranking member, the gentleman from Massachusetts, Mr. Keating.

Mr. KEATING. Thank you, Mr. Chairman. Unlike California, we are not worried about competition from Texas or any state. In Massachusetts, we are prepared to take on any comers. But I would like to deal with the critics.

Chairman Hochberg, get right to the point. Things that are heard are that EXIM is corporate welfare and it is for big business. I want you to address—I have demonstrated one of my districts. It is not a big business. Demonstrate how it is for medium and small businesses. Number two, do the U.S. taxpayers bear this cost? And number three, how do you address the critics that say well, this can be done in the private sector? They could just step in and provide the same kind of export financing instead of EXIM and take on those three with some information that you would have in detail.

Mr. HOCHBERG. Well, thank you, sir. Well, your first question you asked about corporate welfare. I frankly find that term confusing. Customers—people who use the Bank, foreign buyers or corporations, they pay a fee. They pay a fee just as Elizabeth Littlefield said at OPIC. People pay a fee for that service. They pay a fee for the service. We fulfill the service and we turn over to Treasury the excess. Last year, $675 million. Welfare implies taking money from one group of people and handing it to somebody else. We have actually customers, clients of the Bank, giving us money for a service. We render the service and then the excess we send to the taxpayer. So it goes the exact opposite direction.

Ninety percent of our customers are small businesses like Air Tractor that the chairman mentioned, like Darley, a company I mentioned in my oral testimony. So I am not sure I understand what that charge is. It has a nice ring to it, but it doesn't really have any meaning. In terms of taxpayer, we have reserves that are paid for. We collect a fee. We put aside low loss reserves like any responsible lending institution would do. Congress, we are a zero appropriation. We are totally self-sustaining which is required by WTO. However, Congress still appropriates about $100 million. The excess goes to the taxpayer. That low loss reserve account is there as a backstop in the rare cases we have a default. It is about $5 billion today and our default rate which we report is one of the reforms from Congress in 2012. Every 90 days we report on defaults to Congress. They are currently running at 0.167 percent, less than ⅕ of 1 percent. But those reserves are all paid for by customers and clients of the Bank. They are not coming out of the taxpayer.

And your last question about the private sector, the private sector is who brings us in. When a company needs support to make a sale and to make sure we have the jobs in America, they will usually go to a bank or they will go to an insurance broker. The bank or insurance broker is the one that calls us in, generally, and says we can't do this transaction without a government guarantee. That is certainly the case with Air Tractor. They cannot make those sales. A lot of banks are not anxious to make loans to farmers in Brazil and Argentina and other developing countries.

Darley has made it very clear, they have said if we are going to compete with our competitors in China, Austria and Germany, we have to come to the table with government-backed financing just like our competitors do. So again, it is the private sector that has called us in in order to make sure there is a level playing field.

Mr. KEATING. Thank you, Mr. Chairman, I think you were really concise on those criticisms. I don't think really warrant much material consideration, but it is good we address them because I think too many of us here are—it is not a bad thing, are all on the same page on this issue.

Now a question for Ms. Littlefield, you mentioned about OPIC's work in developing countries and how much that centered on conflict in at-risk areas. You mentioned specifics about Afghanistan and Iraq. Could you give us a few specifics about Pakistan, Jordan, Egypt, or Tunisia as well? Because I think when people hear the details, they will get a sense of how this can ameliorate the different conflicts around the world. Could you touch on some more examples and then how you find it helpful in terms of resolving these conflicts?

Ms. LITTLEFIELD. Absolutely, thank you very much, Congressman. I can give you an example or two of each of those countries, but perhaps I will start with Jordan because, as we all know, Jordan is one of the U.S.' staunchest allies and has been extraordinarily brave and outspoken against the forces of extremism. That tiny country is extremely poor. They are one of the most water insecure countries on the Planet Earth. Ever since the pipeline from Egypt, where they were getting their gas, has been blown up repeatedly, they are getting all of their fuel shipped up from Eilat to Amman in trucks, heavy fuel oil. And they have got anywhere between 750,000 and 1.2 million Syrian refugees all pouring into this tiny little country.

This is a country where we have made a significant effort to identify U.S. partners that would help us invest in critical infrastructure there. For example, now our OPIC projects provide 25 percent of the power in that country of Jordan; 22 percent of the water flowing into Amman, its capital; and in partnership with USAID, we have created a small and medium enterprise lending facility in Jordan that is made 200 loans that are supporting enterprises, that are creating 6,000 to 7,000 jobs, including jobs for Syrian refugees.

Mr. KEATING. My time is up. But that is a great detailed explanation of just one country. In just the last several days, I have seen the refugee settlements in Jordan. And I would just like to emphasize our Subcommittee of Terrorism and Trade, how today's hearing shows the connection between those things. With that, I will yield back, Mr. Chairman.

Mr. POE. The Chairman yields back his time. The Chair recognizes Mr. Perry from Pennsylvania for his questioning. Mr. Perry.

Mr. PERRY. Thank you, Mr. Chairman. Mr. Hochberg, in your prepared testimony you stated that "EXIM fills gaps when the private sector is unable or unwilling to provide financing for U.S. exports," a particularly important role for small business of which there are several in the district I represent.

What would you say your proportion of EXIM financing goes to small business?

Mr. HOCHBERG. Well, it is 90 percent of the transactions and last year, 39 percent of the exports we financed were shipped directly from small businesses and then, of course, there are many other small businesses in the supply chain of larger companies.

Mr. PERRY. Let me ask you this. How does EXIM define small business?

Mr. HOCHBERG. We actually follow the Small Business Administration's definition, so however the SBA, and I was at that agency in the 1990s, they define what a small business is and we use their definition.

Mr. PERRY. Which is?

Mr. HOCHBERG. Well, it varies industry by industry. Basically, it is 500 employees or less or a net worth of $15 million or less. But it does have some variation depending on unique industrial classifications.

Mr. PERRY. I will go with you on the 500 employees, but it is my understanding that EXIM defines small business as having fewer than 1500 employees which skews the ratios. What can you elucidate about that?

Mr. HOCHBERG. We follow precisely the SBA definition. We do not have any—there is no variance whatsoever between our definition and the SBA's definition.

Mr. PERRY. I will hold you to that in the future. Mr. Gutierrez, a former Export-Import Bank loan officer, of course, pled guilty to taking more than $78,000 in bribes for fast tracking unqualified loan applications for approval. And he also admitted that in one case he ignored that a company had defaulted in ten, ten prior deals backed by EXIM at the cost of $20 million. Twenty million dollars is real money to me, real money to taxpayers, but still recommended the company for approval. I guarantee if I default on one loan, on one, much less than $20 million, I am out at the bank. I am out.

How many open fraud investigations and indictments are there currently involving EXIM Bank? Do you know?

Mr. HOCHBERG. The Inspector General stated most recently that there are 31 investigations, none of which have to do with employees. All have to do with outside companies that are trying to defraud the government.

Mr. PERRY. And I understand that. Let me ask you that in this vein then because I think sometimes we hear that it is—and there are plenty of anecdotes on either side, but some in particular is the appearance of some kind of professional nepotism when we look at former New Mexico governor, Bill Richardson, regarding his association with the Spanish energy company Abengoa's International Advisory Board. An investigation by the Daily Caller found that fully half, fully half of EXIM's advisors on the board in 2014 were executives at companies or unions that directly benefitted from EXIM financing during their term. What is EXIM's plan to fix that? Or should there be a plan?

Mr. HOCHBERG. The advisory committee was established by Congress to advise the Bank and a report is going to Congress in a few weeks on how competitive we are versus other export creditors.

Mr. PERRY. Does it require people to sit on both EXIM's advisory board and work for the companies of which are receiving the loans from EXIM?

Mr. HOCHBERG. Generally speaking, they are clients of the Bank because they are in the best position to advise us.

Mr. PERRY. But does it require that they sit on both? I am asking you what is EXIM—Congress requires an advisory board. But what is EXIM doing to ensure that there is not a quid pro quo, that there is not someone on both sides of the arrangement putting taxpayer dollars in peril?

Mr. HOCHBERG. There are strict ethical rules in place that none of them influence whatsoever any——

Mr. PERRY. Do you believe that none of them influence that?

Mr. HOCHBERG. Absolutely.

Mr. PERRY. I sleep with my wife. Do you think she doesn't influence me on my daily decisions regarding my children, my bank account or what clothes—I am serious. Do you believe that? And do you think it deserves further scrutiny in that regard?

Mr. HOCHBERG. Every advisory committee member is fully vetted. We have a full ethics briefing——

Mr. PERRY. All right, I hear you.

Mr. HOCHBERG. None of them have anything to do with any transactions whatsoever.

Mr. PERRY. Let me ask you this. Why does EXIM understate the risk regarding being tied to Treasury securities and it kind of inflates the appearance of profit because you don't consider the changes in the market based on Treasury securities? Why does EXIM do that particularly?

Mr. HOCHBERG. I am not following your question, sir. We completely comply with U.S. accounting rules, FCRA. We have been audited by currently Deloitte Touche, previously by PricewaterhouseCoopers.

Mr. PERRY. Why does EXIM have a different standard of default than every other bank that I have checked with?

Mr. HOCHBERG. We follow the default rules that have been promulgated by Congress and sent to us. That is how we report to Congress every 90 days. That 0.167 percent is in full compliance with the way Congress has defined it.

Mr. PERRY. Thank you, Mr. Hochberg. Thank you, Mr. Chairman. I yield.

Mr. POE. I thank the gentleman from Pennsylvania for his questions. The Chair recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Hochberg, I think it is entirely reasonable that you have an advisory board made up in chief of your customers. You know, there are very few vegans who are on the Ruth's Chris Advisory Board. You want to survey your customers to see if you are doing a good job.

Ms. Zak, you quoted, I guess it was Cordell Hull about the trade, a beautiful, poetic, often false characterization of history. If you make a list of Germany's chief trade partners in 1938, then you make a list of the countries they were at war with in 1942, it is the same list. Same with Japan having as its chief trading partners, China, Britain, and the United States, so trade is wonderful, but the idea that it prevents wars is more poetry than history.

Mr. Hochberg, why it is in our national interest that our allies buy weapons from us some of the times? Do our weapons exporters face foreign governing financing in competition? Do we lose military sales because there is a provision now in your charter that prevents you from financing military objects?

Mr. HOCHBERG. I can't verify whether we lose military sales, but I can state that Britain, France, Italy, Germany, their export credit agencies do finance their defense sales.

Mr. SHERMAN. So unless they are stealing sales from us, they are wasting their time and the efforts of those European governments. I mean obviously we want to be careful, but we are careful as to who we export weapons to and once the State Department determines that it is in our interest to export weapons, it is very much in our interest to export those weapons rather than see those other competing finance agencies. So I look forward to working with you after the demonstration dies down the hall, not only to keep you in business, but to allow you to do the work that will build American export capacity, build our defense infrastructure and I love those other countries you mentioned, but I would just as soon have all the defense infrastructure here. Now and then they are going to export weapons to countries we wouldn't want to see.

Ms. Zak, sometimes companies are going to come to you and say we need your effort to help our supply chain, our globals. And what they are really doing is they are saying we want you to help offshore jobs. Do you ever get sucked into providing assistance where in the name of a global supply chain for an American company you are helping to build the infrastructure, otherwise help exports from other countries to the United States?

Ms. ZAK. USTDA's mandate is very clear. We focus on U.S. jobs, not jobs abroad. And we do not help with jobs abroad.

Mr. SHERMAN. And Mr. Hochberg, I am sure you listen to the opponents of the Bank. They have their rallies. Are any of them rallying for the elimination of the export financing authorities of Britain or Germany or China? Do you see any signs on that?

Mr. HOCHBERG. Not a single one, sir.

Mr. SHERMAN. And are any of them, any of those signs saying let us increase the U.S. budget deficit by $670 million per year?

Mr. HOCHBERG. I haven't heard that either, sir.

Mr. SHERMAN. Are any of them proposing tax increases that would generate $670 million per year?

Mr. HOCHBERG. I have not seen that either.

Mr. SHERMAN. So there is a sign shortage. I yield back.

Mr. POE. Thank the gentleman from California. The Chair recognizes the gentleman from South Carolina, Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman, and I thank each of you for being here and the opportunities really provided to create jobs and as was stated by Mr. Keating, the State of South Carolina, we are so grateful to be the number one exporter of cars. Who would imagine in 20 years from zero with BMW and the last 3 years the leading manufacturer of tires and the leading exporter. And this is by Michelin which has the largest single investment in the world in the district I represent. Also, we are grateful for Bridgestone Japanese, Continental German, and Giti Singapore. So over and over, we see the benefit of trade.

With that, Ms. Littlefield, with the Overseas Private Investment Corporation, how is the corporation funded?

Ms. LITTLEFIELD. Thank you very much, Congressman. OPIC was capitalized back in 1971 in the Nixon administration and subsequently paid back all the capital with which we were capitalized in the Reagan administration. And in the ensuing years since then, we have generated capital every single year back to the Treasury.

Mr. WILSON. And this would be through fees?

Ms. LITTLEFIELD. Through fees and commissions. We charge cost covering fees and commissions and interest rate spreads which our clients are more than happy to pay since we are the only source of financing or insurance for them in these markets.

Mr. WILSON. And so it is not taxpayer funded?

Ms. LITTLEFIELD. It is not taxpayer funded. We are a net reduction of the deficit every single year, sir.

Mr. WILSON. And how much would be the net reduction on average?

Ms. LITTLEFIELD. In the last few years, it has ranged between $325 million and $425 million.

Mr. WILSON. Thank you, and Mr. Hochberg, the same. How is the EXIM Bank financed?

Mr. HOCHBERG. By WTO in order to be an allowable government support for exports, we have to be self sustaining. We have been self sustaining since 2007. We have sent to the Treasury just under $7 billion over the last 20 years. Last year, as the congressman mentioned, it was $675 million. The year before it was more than $1 billion that was sent to the Treasury.

Mr. WILSON. But there are accusations that you are conducting crony capitalism. But yet it is actually a payback for the benefit of the taxpayers.

Mr. HOCHBERG. Well, we actually—we don't receive the money. We actually just send the money to the taxpayers for deficit reduction each year and CBO scores our budgets so it is actually used by the appropriators in budgeting for 2016.

Mr. WILSON. Well, that is certainly a story that the American people and my constituents need to know. So thank you very much.

And Ms. Zak, what types of criteria must a business meet to qualify for trade promotion and investment programs? What types of factor might prevent a company from receiving assistance?

Ms. ZAK. Thank you very much. The first thing that USTDA looks at is one, that it does create jobs in the United States. We focus on exports and we also focus on development opportunities. We also ensure that there is additionality, that our services are needed to be able move an active forward to implementation. Then we undergo a very serious due diligence process and we look at everything from the financial aspects to the legal aspects, and our due diligence process as well. But we look for mutual interest, but jobs are one of our number one criteria.

Mr. WILSON. And again, Mr. Hochberg, the EXIM Bank charter specifically states that you will not compete with the private sector. And because of this, it is a bank of last resort. How do you ensure that people have attempted to use the private sector and not succeeded?

Mr. HOCHBERG. Well, the customers actually have to state that on their application. They have to assert and certify that they are coming to us because they cannot get financing elsewhere. We verify that. I mean frankly, candidly, with small businesses, I ran a small business for 20 years. It is pretty clear small businesses don't have a lot of options. But again, they are coming to us because a bank is bringing to them or an insurance broker is bringing them because they cannot secure it independently.

And sometimes we also have to level the playing field. When we see the kind of financing that China, Russia, France, Germany, others do in different fields, when we see evidence of that, we want to make sure there is a level playing field that U.S. companies can compete and we don't lose jobs because of outsized government financing on the other side of the transaction.

Mr. WILSON. Thank you. And as I conclude, I appreciate again Mr. Keating giving me the opportunity to talk about the Port of Charleston. Just in the last month, Governor Nikki Haley secured from Daimler $½-billion investment for trucks, and then last Monday, Volvo Corporation announced its first North American manufacturing facility at Ridgeville, South Carolina in the district of Congressman Jim Clyburn. So we see a huge benefit. Thank you very much.

Mr. POE. The gentleman yields back. The Chair recognizes the gentleman from Texas, Mr. Castro.

Mr. CASTRO. Thank you, chairman. And thank each of the witnesses for your testimony today.

I want to pick up where the congressman left off, Mr. Hochberg. Can you describe some of the infrastructure for financing that foreign countries use that are comparable to EXIM? What are we competing against basically?

Mr. HOCHBERG. Well, we are competing for power, transportation. We have got a company called Acrow that builds bridges in Cameroon and Ghana. There is intense Chinese competition to build that kind of infrastructure in Africa. We did a transaction of locomotives just last year. Half the order was split between the United States and China for locomotives in South Africa. We have done a power project where we also competed in West Africa, so I am not just focusing on Africa, but frequently developing countries are where we face intense competition in the infrastructure.

Mr. CASTRO. What are the European governments or the Asian governments doing for their businesses?

Mr. HOCHBERG. Well, to just give you an example, when I have met with the Customer TransNet in South Africa, and inquired what were the Chinese terms for the loan so I would make sure that we were competitive, I was told well, they asked me what I would like, would I like a 10-year, a 15-year, a 20-year loan? Do I need a grace period? It was somewhat of a menu pricing. That was not the case what we can provide. We adhere to international standards and it is either 12 or 14 years for locomotives and there are very fixed fees attached to that.

Mr. CASTRO. Sure. I come from Texas as the chairman does, and Texas does more trade than any other state in the nation. So this is obviously a very big deal for us. We have companies, big and small, but some like Boeing and Caterpillar who have a significant presence around San Antonio who benefit from EXIM. But I would ask all of you what is at stake for us for a state like Texas if your services go away?

Mr. HOCHBERG. Well, on the second panel you actually have a witness, Susan Jaime, who is from San Antonio who can speak for herself about her coffee exports that—we chatted just before the hearing about 40 percent of her sales are exports.

When I talked to Air Tractor, a company mentioned previously from Texas, Dave Ichert talked about the potential of laying off 68 employees that are attributed to their export sales which we are pleased working with them. We have grown from 10 percent of sales to 50 percent of sales. And most importantly, in the oil and gas field which is laboring over a drop in prices, keeping that industry vital is important to America's national interest in terms of us having a presence globally and keeping our technology up. We do extensive work with the oil and gas companies, exploration, engineering, equipment manufacturers in the Houston area.

Ms. LITTLEFIELD. Thank you, Congressman. We know that when U.S. companies invest capital in emerging markets, that creates a magnet in future years for exports to then flow. And we also know that 95 percent of the world's customers, as the chairman said in the beginning, are outside of these borders. This is where the markets are the most dynamic. They are growing and this is where the future for American businesses is.

In Africa alone, we don't talk about Africa much when we talk about trade, but in the next 10 years the number of households with disposable income is going to grow by 50 percent. All of those households have reached the tipping point beyond subsistence where they can begin to invest in consumer goods and other things that U.S. companies are making. So it is critically important that we be able to have a level playing field as my colleagues have said and provide the services that U.S. companies need to access these markets, both in terms of their investments which is the business of OPIC as well as the exports that may follow which is, of course, the business of EXIM.

Ms. ZAK. And just following on from what the chairman mentioned at the beginning and President Littlefield mentioned, 95 percent of the consumers are outside of the United States. This is a very important market and that there is a need to level the playing field which is one of the things that our agency does.

And last year alone, for every dollar programmed, we are seeing $76 in U.S. exports, we noted that there were $5.8 billion associated with our program which supports approximately a little over 32,000 jobs. So it is important to jobs, exports, and the future.

Mr. CASTRO. Sure. And then I will just make one last remark in my last 15 seconds. I support the reauthorization of EXIM and support the work that you all are doing. I think every agency in the U.S. Government deserves a thorough vetting and quite frankly to be improved probably, but you are running in the black. You are doing a great service for American companies and I hope that this Congress can find a way to preserve the services that you are providing. I yield back, Chairman.

Mr. POE. The gentleman from Texas yields. The Chair recognizes the gentleman from Wisconsin, Mr. Ribble, for his questioning.

Mr. RIBBLE. Thank you, Mr. Chairman. Mr. Hochberg, I will go ahead and start with you and then go on to Ms. Littlefield. Just to kind of give you my own historical perspective, I am a former business owner and I have voted in support of reauthorizing EXIM in the past. I am a little bit more sanguine today than I was 2 or 3 years ago and in part I am sanguine because of the CBO's fair value accounting method to determine the actual cost to the taxpayer.

I am going to quote from the CBO's 2014 report: "For Fiscal Years 2015 to 2024, CBO found that EXIM Bank's six largest credit programs would generate budgetary savings of about $14 billion under FCRA accounting, but costs about $2 billion on a fair value basis." They then go on to say later in the report, "In CBO's view, fair value estimates provide a more comprehensive measure of the cost of Federal credit programs and CBO has provided fair value estimates for many programs to help lawmakers more fully understand the tradeoffs between certain policies." That is a big swing, $14 billion plus to $2 billion negative over a decade. Would you care to comment on that?

Mr. HOCHBERG. Sir, we have one accounting system in the United States Government. Congress passed an accounting system called Federal Credit Reform Act in 1990. And we fully comply with that. I ran a company for 20 years. We don't keep two sets of books. There is one set of books. Those are the books that Congress has determined. If Congress changes the accounting system, we will change our operations. But one thing is unmistakable. We transferred, we sent $675 million to the Treasury. We sent the year before over a $1 billion. Cash is cash. If the accounting system were different, some of that cash would remain at the Bank and would not transfer to the Treasury. It would build up more and more reserves that would be sitting at the Bank's balance sheet instead of the Federal Government's balance sheet.

Mr. RIBBLE. Wouldn't that go then to reduce taxpayer risk in case of default when the economy dips?

Mr. HOCHBERG. Well, first of all, we have over $5 billion of reserves paid for by customers. These are not taxpayer monies. It is paid for by customers. We send the default rate report to Congress every 90 days. Our peak default before the financial crisis was 1.6 percent in 2006. So if we are looking for a real stress test, we have had the most real stress test you can devise in the last 5, 6 years, looking at the financial crisis we faced. And our default rate has sadly declined from that 1.6 level in 2006 going through the worst financial crisis we have ever incurred. So nothing is certain in life, sir, but I think we have seen one, a demonstration of good underwriting by our staff and the fact is we do report this to Members of Congress every 90 days. We just sent a report up for the March 30th period.

Mr. RIBBLE. What is the current interest rate that you charge your customers?

Mr. HOCHBERG. Most of our credit is through either insurance or a guaranteed loan. So in a guaranteed loan, a bank essentially pays a premium, an insurance premium, and thereby we guarantee the loan. Then the Bank makes a direct—makes a loan to its customer. So most of the loans are either insurance or guarantee. And the rare cases we make a direct loan which is an unusual case, sometimes usually government to government or certain transactions, it is 100 basis points over Treasury which is the global rules that we have to apply to.

Mr. RIBBLE. And is that as well what the European Union's rates would be?

Mr. HOCHBERG. We all have to charge 100 basis points over the relevant Treasury rate for that currency.

Mr. RIBBLE. You have heard the discussion between—it has been pretty widely publicized that Delta Airlines has got a problem because they want to buy Boeing airplanes and couldn't get it at discount. Air India got it at discount, not that they are competing.

And so we gained jobs at Boeing, lost jobs at Delta. How do you respond to that?

Mr. HOCHBERG. Well, two ways, sir. One, we voluntarily do what is called an economic impact study. We are the only credit agent in the world that does this. We look at the benefits to the U.S. economy from an export and we compare that against any potential loss to the U.S. economy. And we actually do that on every single transaction of the Bank, down to $10 million or less to make sure we are adding, we are accretive to the U.S. economy. That is number one.

Number two, Delta has sued us. Four times the courts have ruled in favor of the Export-Import Bank. And we did double the fees that we charged foreign carriers back in 2011. And we make sure that foreign carriers are paying more than any U.S. carrier pays.

Mr. RIBBLE. I see I am out of time, Mr. Chairman, so I will yield back. Mr. Littlefield, I will talk to you offline.

Mr. POE. I thank the gentleman. The Chair recognizes the gentlelady from Illinois, Ms. Kelly. Turn on your mic, too. Thank you.

Ms. KELLY. Thank you. I would say most of us in this room recognize the importance of trade to the future of our economy. Accordingly, as we consider future trade deals, we must engage in a deeper, broader, and more inclusive dialogue about its impact on American families. This stated objective of U.S. trade policy is to liberalize markets by reducing trade and investment barriers, creating a rules-based trading system, enforcing commitments under trade agreements, and supporting economic growth.

What role do EXIM Bank, OPIC, and TDA play in supporting U.S. trade policy goals?

Mr. HOCHBERG. Well, the Export-Import Bank obviously works closely with the other two panelists here, Commerce Department, and U.S. Trade Representative, State Department. Our role is very narrow and very precise. It is to provide financing when the private sector is unable, when it cannot handle that transaction. And our focus is really on U.S. jobs and making sure that we don't cede jobs to foreign competitors because they provide financing and U.S. companies don't have access to it.

Ms. KELLY. Thank you.

Ms. LITTLEFIELD. Thank you, Congresswoman. OPIC's role is a little bit different, a development agency rather than a trade agency. So I would answer the question slightly differently and to say that we are all clearly in this room and elsewhere very concerned about the need to pay for stability and development in fragile places. And we know that we need to engage in these places for strategic, economic, and moral reasons. OPIC's model may not be the only solution for stabilizing these markets, but it certainly is an incredibly effective one as it calls upon the private sector to shoulder some of the burden of helping address these issues and do so in a way that is actually creating income for those private sector investors as well as jobs built at home and abroad. Thank you.

Ms. ZAK. And USTDA helps to build infrastructure. So with respect to trade one of the things we do is that we help to develop infrastructure in other economies. But we want to ensure that it is done in a way that creates a fair playing field for U.S. businesses and jobs to be created at the same time.

USTDA has also helped with respect to the implementation so that we ensure that standards that are required under trade agreements are met as well.

Ms. KELLY. I yield back the remainder of my time. I have to go vote, Mr. Chairman.

Mr. POE. I thank the gentlelady. Just for Mr. Rohrabacher's information, there is a vote in another committee, not on the floor. And with unanimous consent, unless there is an objection, the Chair will allow a member of the full committee, but not a member of this committee to ask questions, the chairman of the European Subcommittee, Mr. Rohrabacher from California.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. There is a lot of discussion about trade going on on Capitol Hill these days. I am glad that you are here. And just a couple of items just for—in terms of OPIC. Is OPIC policy—there has been an on-going problem with a constituent that I have had that his family owned a major company in Ethiopia and frankly, they have been offering like a pittance as compensation for this very expensive piece of property and business. OPIC has decided not to fund that situation. Not to be involved in Ethiopia until situations like that are corrected. Is that still the policy that if a government like Ethiopia is engaged in these type of activities that are denying the U.S. citizens the right to compensation for property that they have confiscated, do we still have that policy that we are not providing loans in that country?

Ms. LITTLEFIELD. Mr. Rohrabacher, we spoke about this before and as it stands now, OPIC continues to operate under the guidance of the Secretary of State in terms of selecting the countries in which we operate. That being said, we are not active currently with any major projects in Ethiopia.

Mr. ROHRABACHER. Right.

Ms. LITTLEFIELD. I am not involved with the details of this. We have left it for the State Department, but I know that the U.S. Government——

Mr. ROHRABACHER. Let me ask, that is good, number one, thank you for that. But is that a standard policy that if we have outstanding claims by American citizens against a particular government that we are not going to be improving or approving transactions in that country?

Ms. LITTLEFIELD. That is not one of our policies. We do believe that when U.S. investors invest in these markets, they bring with them very high standards of environment, labor, and human rights standards as well as an improvement in the governance standards in those countries. So we see a direct correlation between foreign direct investment flow into countries and improvements in the business climate.

Mr. ROHRABACHER. Well, let me note I believe that that is encouraging dictatorship and the worst kind of a situation. You have American citizens themselves who have been denied due compensation for confiscated property, for us to go in is ridiculous, but I appreciate the fact that at least in Ethiopia that that is kept in mind because my constituent is having that problem.

By the way, I take it that OPIC is engaged in actually promoting the development of businesses overseas in these various countries. Is that not creating competition for American products?

Ms. LITTLEFIELD. It is not. We certify that not one of our projects causes any damage to the U.S. economy nor causes the loss of any job in the U.S.

Mr. ROHRABACHER. So you don't have any projects that you are financing to develop, to build in a foreign country, that you are not financing anything that has any competition with American counterparts. Is that correct?

Ms. LITTLEFIELD. That is correct, sir.

Mr. ROHRABACHER. All right, we will check into that, but we will have to see. In terms of the foreign banks that you mentioned about the Export-Import Bank coming to you with these banks have come and said well, you are guaranteeing some loans with foreign banks, but mainly American banks. Do banks benefit from this guarantee?

Mr. HOCHBERG. Well, the benefit really goes to the exporter.

Mr. ROHRABACHER. That's not the question. Do the banks benefit from this?

Mr. HOCHBERG. The banks pay a fee.

Mr. ROHRABACHER. Yes.

Mr. HOCHBERG. For insurance and in exchange for that fee, we ensure the loan.

Mr. ROHRABACHER. Okay, but the banks aren't benefitting?

Mr. HOCHBERG. You can say they are benefitting, but they are paying for it.

Mr. ROHRABACHER. The banks are benefitting. Let us just put it this way, they wouldn't be coming to you with customers if they were not benefitting?

Mr. HOCHBERG. Right.

Mr. ROHRABACHER. Okay, so we have in some way basically guaranteed the banks the profit that they will make from the deal or they at least will not have a loss from that deal. Is that correct?

Mr. HOCHBERG. We provide insurance to the banks that make the loan, exactly.

Mr. ROHRABACHER. Let me just suggest that that is crony capitalism where we take the banks and we make sure that they are not going to lose money and we put our taxpayers' money at risk and the question is is whether or not that would happen in the private sector. In the film business, they have a thing called bonding. You have a project and they bond it. If you are making a profit every year, like you suggest, why don't we just leave that to the private sector then? Can't they do bonding with these banks that are looking for a guarantee that they are not going to lose money?

Mr. HOCHBERG. Congressman, the private sector does a spectacular job. They just don't do all the job. So we finance about, as I have said about 2 percent of U.S. exports. A third of them go to developing countries. The private sector does a great job. They just don't do it in every market and every product category.

Mr. ROHRABACHER. Right.

Mr. POE. The gentleman's time has expired.

Mr. ROHRABACHER. Thank you.

Mr. POE. I thank the gentleman. I thank the witnesses for being here. I want to advise the witnesses that all members have the opportunity to present written questions to the witnesses. Several members were not here, could not be here and I would encourage the members to put those questions in writing as soon as possible regardless of where they are on this issue that we have been discussing today. With that, I thank the witnesses for being here and we will begin with our second panel as soon as they are seated.

The Chair is ready to begin the second panel if the witnesses will be seated. The Chair will introduce the next four witnesses. I want to thank the witnesses for waiting all morning to give their testimony. It is appreciated.

Mr. Daniel Ikenson is director of the Herbert Stiefel Center for Trade Policy at the Cato Institute. Mr. Ikenson has held several positions focusing on international trade planning, and is widely published in the area of trade policy.

General Jim Jones is the founder of the Jones Group International and previously has served as the National Security Advisor to the President of the United States. General Jones has served our country with a long, distinguished military career including leading NATO military operations as Commander of the United States European Command and Supreme Allied Commander in Europe.

Ms. Susan Jaime is the founder of Ferra Coffee International in San Antonio. In addition to roasting coffee, she has joined with Texas A&M's AgriLife projects to teach coffee growers around the globe how to grade, roast, and market their coffee beans.

Carly Seidewand is vice president of the Global Sales and Administration of Resin Technology, LLC. Ms. Seidewand took over the global petrochemical trading and compounding company from her father, an entrepreneur chemist.

We will begin with Mr. Ikenson. You have 5 minutes.

STATEMENT OF MR. DANIEL J. IKENSON, DIRECTOR, HERBERT A. STIEFEL CENTER FOR TRADE POLICY, CATO INSTITUTE

Mr. IKENSON. Thank you, sir. Good morning, Chairman Poe, Ranking Member Keating, and members of the subcommittee. I am Dan Ikenson, Director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute. Thank you for the invitation to share my views with you today concerning trade promotion agencies and the U.S. foreign policy. The views I express are my own and should not be construed as representing any official positions of the Cato Institute. To the extent today's hearing will help clarify some of these issues and prompt a serious effort to reform and retire some of the redundant, distortionary, and frankly, scandal-prone agencies among the panoply of Federal offerings, I am pleased to be of assistance.

U.S. trade promotion agencies are in the business of promoting exports, not trade, in the more inclusive sense. That is worth noting because despite some of the wrong-headed merchantilist assumptions that undergird U.S. trade policy that exports are good and imports are bad, the fact is that the real benefits of trade are transmitted through imports, not through exports.

In January 2010, President Obama set a national goal of doubling U.S. exports in 5 years and prominent net plan was a larger role for government in promoting exports including expanded non-market lending programs to finance export activity and increase in the number of Commerce Department foreign outposts to promote U.S. business and an increase in Federal agency chaperoned marketing trips. But the NEI neglected a broad swath of worthy reforms by ignoring the domestic laws, regulations, taxes, and other policies that handicap U.S. businesses and their competition for sales in the United States and abroad. For example, nearly 60 percent of the value of U.S. imports in 2014 consisted of intermediate goods, capital goods, and other raw materials. Those are the purchases of U.S. businesses, not consumers. Yet many of those imports are subject to Customs duties which raise the cost of production for the U.S.-based companies that need them, making less competitive at home and abroad.

U.S. duties on products like sugar, steel, magnesium, polyvinyl chloride, and other crucial manufacturing inputs have chased companies to foreign shores where those imports are less expensive and they have deterred foreign companies from setting up shop stateside.

Policy makers should stop conflating the interests of exporters with the national interest and commit to policies that reduce frictions throughout the supply chain from product conception to consumption. Why should U.S. taxpayers underwrite and U.S. policymakers promote the interest of exporters anyway when the benefits of those exports accrues primarily to the shareholders the companies enjoin the subsidized marketing or matchmaking? There is no national ownership of private export revenues.

If policymakers seek a more appropriate target for economic policy, it should be to attract and retain direct investment which is the seed of all economic activity including exports. Given the exalted status of exports in Washington's economic policy narrative, it is understandable why agencies would want to portray themselves as indispensable to U.S. export success. But on that metric, none of the subject agencies is scarcely relevant. EXIM supported $27.4 billion in exports in 2014. USTDA supports approximately $2.5 billion per year. And OPIC less than $2 billion. In aggregate, these agencies support less than 2 percent of all U.S. exports.

But the relevant economic question concerns the cost and benefits of these agencies to the U.S. economy. So let me focus a little bit on EXIM. EXIM financing helps two sets of companies, U.S. firms whose exports are subsidized through direct loans or loan guarantees and the foreign firms who purchase those subsidized exports. But those same transactions impose costs on two different sets of companies, competing U.S. firms in the same industry who do not get EXIM banking and U.S. firms in downstream industries whose foreign competition is now benefitting from reduced capital costs courtesy of the U.S. Government.

EXIM financing reduces the cost of doing business for the lucky U.S. exporter and reduces the cost of capital for his foreign customer. But it hurts U.S. competitors of the U.S. exporter, as well as U.S. competitors of his foreign customer, by putting them at relative cost disadvantages. According to the findings by a recent CATO Institute study, the downstream cost alone amount to a tax of approximately $2.8 billion every year and the victims include companies in each of the 21 broad U.S. manufacturing sectors.

The notion that because Beijing, Brasilia, and Brussels subsidize their exporters, Washington must too sweeps under the rug the fact that the United States is a major export credit subsidizer that has been engaged in doling out such largess since 1934 well before the founding of the People's Republic of China.

To say that U.S. exporters need assistance with financing to level the playing fields suggest that they lack advantages among the multitude of considerations that inform the purchasing decision. Moreover, the fact that less than 2 percent of U.S. export value goes through export promotion agencies, suggest this rationale for EXIM is bogus. Congress should allow EXIM to expire at the end of next month and the administration should announce plans to bring cases to the WTO against governments operating their export credit agencies in violation of agreed-upon limits under the Agreement on Subsidies and Countervailing Measures.

The combination of the carrot of U.S. withdrawal from the business of export credit financing and the stick of WTO litigation would likely incent other governments to reduce and possibly eliminate their own subsidy programs. For better or worse, at different times and for different purposes over the years, the U.S. trade policy has been a tool of U.S. foreign policy, trade preference programs, trade agreements, the trade Trans-Pacific Partnership, investment treaties, trade sanctions, infrastructure funding and trade financing of all bid pursuit or deployed for reasons not entirely economic in nature. Pursuing strategic objectives through trade policy has a long history.

The State Department's mission is to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people everywhere. That broad mission may justify one or two export promotion agencies, but according to the CRS, the Congressional Research Service, there are at least 20 such agencies within the U.S. Government with overlapping responsibilities and in some cases working at cross purposes. Thirty seconds.

EXIM's Inspector General——

Mr. POE. I am sorry, you cannot have 30 seconds. Your statement is in the record. We all have it.

Mr. IKENSON. Concluding thought, the United States maintains enormous commercial advantages over other countries. We have the world's largest market, strong institutions, including respect to private property and the rule of law, etcetera, etcetera. These things underlie the strength of the U.S. economy which is crucial to reaching U.S. security and foreign policy goals going forward. Thank you.

[The prepared statement of Mr. Ikenson follows:]

Written Statement of Daniel J. Ikenson
Director, Herbert A. Stiefel Center for Trade Policy Studies,
Cato Institute, Washington, DC

before the

Subcommittee on Terrorism, Nonproliferation, and Trade
Committee on Foreign Affairs
United States House of Representatives

Trade Promotion Agencies and U.S. Foreign Policy

May 19, 2015

Introduction

It is a great pleasure to have been invited to share my views concerning "Trade Promotion Agencies and U.S. Foreign Policy" with the subcommittee. The invitation asked that I provide thoughts on three broad – and broadly related – topics:

- the impacts on the U.S. economy of trade promotion agencies, specifically the Export-Import Bank of the United States;
- the question of what to do about foreign governments' trade promotion agencies, and;
- the relationship between the Export-Import Bank and U.S. foreign policy.

Before providing some thoughts on those topics, I would like to applaud the subcommittee for taking up these important issues in a public hearing. Committed oversight of the executive branch by the legislative branch is crucial to our system of checks and balances, which must remain functionally robust to ensure the health of our constitutional republic and protect it from even the most subtle encroachments.

Congress, the president, and the public have turned their attention to so-called trade promotion agencies in recent years, as there have been (and continues to be) reauthorization and funding battles; renewed, post-recession focus on export growth beginning with the announcement by President Obama in 2010 of his National Export Initiative; and, on-again-off-again efforts to consolidate, streamline, or simplify the maze of U.S. federal agencies that seem to have some overlapping responsibilities, functions, and missions with respect to trade policy.

To the extent that today's hearing will help clarify some of these issues and prompt a serious effort to reform and retire some of the redundant, distortionary, and, frankly, scandal-prone agencies among the panoply of federal offerings, I am pleased to be of assistance.

The General Folly of Export Promotion Programs

Let me begin by offering some clarity about what is meant by "trade promotion" in Washington. Whereas trade includes both the selling to foreigners (exports) and purchasing from foreigners (imports) of goods and services, trade promotion is exclusively about promoting *exports*. There are no federal programs devoted to import promotion and, in Washington, the benefits of exports are what most people have in mind when they talk about the benefits of trade. U.S. trade promotion agencies are in the business of promoting exports, not trade in the more inclusive sense.

That is worth noting because despite some of the wrongheaded mercantilist presumptions undergirding U.S. trade policy – that exports are good, imports are bad, the trade account is the scoreboard, and our trade deficit means that the United States is losing at trade – the economic fact of the matter is that the real benefits of trade are transmitted through imports, not through exports. As Milton Friedman used to say: imports are the goods and services we get to consume without having to produce; exports are the goods and services we produce, but don't get to consume.

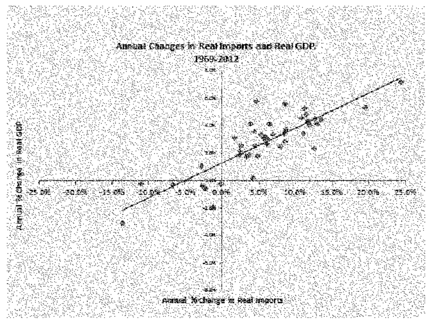
The purpose of exchange is to enable each of us to focus on what we do best. By specializing in an occupation – instead of allocating small portions of our time to producing each of the necessities and luxuries we wish to consume – and exchanging the monetized output we produce most efficiently for the goods and services we produce less efficiently, we are able to produce and, thus, consume more output than would be the case if we didn't specialize and trade. By extension, the larger the size of the market, the greater is the scope for specialization, exchange, and economic growth.

When we transact at the local supermarket or hardware store, we seek to maximize the value we obtain by getting the most for our dollars. In other words, we want to import more value from the local merchant than we wish to export. In our daily transactions, we seek to run personal trade deficits. But when it comes to trading across borders or when our individual transactions are aggregated at the national level, we forget these basics principles and assume the goal of exchange is to achieve a trade surplus. But, as Adam Smith famously observed: "What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."

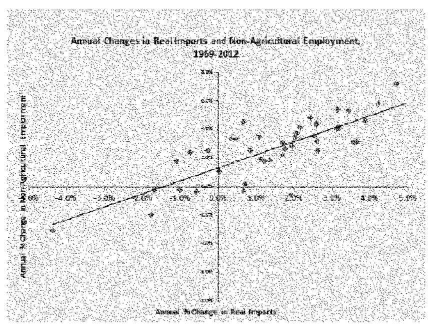
The benefits of trade come from imports, which deliver more competition, greater variety, lower prices, better quality, and innovation. Arguably, opening foreign markets should be *an aim* of trade policy because larger markets allow for greater specialization and economies of scale, but real free trade requires liberalization at home. The real benefits of trade are measured by the value of imports that can be purchased with a unit of exports – the so-called terms of trade. Trade barriers at home raise the costs and reduce the amount of imports that can be purchased with a unit of exports. Yet, holding firm to those domestic barriers while insisting that foreign markets open wider is both the U.S. trade negotiating strategy and the rationale for the existence of our export promotion agencies.

Nowhere among the web of federal agencies is import promotion found to be a program objective or mission. In Washington, "import" is a four-letter word. Whereas exports are associated with increased economic output and job creation, imports are presumed to cause economic contraction and job loss. But that is demonstrably false.

The first[1] of the two charts below plots annual changes in imports and annual changes in GDP for 44 years. If imports caused economic contraction, we would expect to see most of the observations in the upper left and lower right quadrants – depicting an inverse relationship. Instead, we see a strong positive relationship. In 43 of 44 years, imports and GDP moved in the same direction.



The second[2] chart plots annual changes in imports and U.S. employment. Similarly, there is a fairly strong positive relationship between these variables, as well.



In keeping with the conventional Washington wisdom that exports are Team America's points and imports are the foreign team's points, in his January 2010 State of the Union address President Obama set a national goal of doubling U.S. exports in five years. That goal was subsequently enshrined as the "National Export Initiative," which decreed establishment of an Export Promotion Cabinet "to develop and coordinate the implementation of the NEI." Six months later, the new cabinet produced its recommendations in a 68-page report titled "The

[1] Data from the U.S. Bureau of Economic Analysis
[2] Data from the U.S. Bureau of Economic Analysis and the U.S. Bureau of Labor Statistics

Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years," which became the centerpiece of the administration's trade policy agenda.

Though the NEI missed its target of $3.14 trillion of annual exports by the end of 2014, some of its objectives were laudably atypical of the average five-year plan. For example, the goal of clarifying, simplifying, and streamlining U.S. export control procedures – though unattained – offered the promise of reducing regulatory obstacles and spurring meaningful export growth without imposing new burdens or diverting resources from elsewhere in the economy. Likewise, the goals of passing long-pending bilateral trade agreements with South Korea, Colombia, and Panama (which was achieved), and concluding the Trans-Pacific Partnership negotiations (which is in progress) to reduce trade barriers were worthy components of the NEI.

But most prominent in the plan was a larger role for government in promoting exports, including expanded nonmarket lending programs to finance export activity, an increase in the number of the Commerce Department's foreign outposts to promote U.S. business, an increase in federal agency-chaperoned marketing trips, and other sundry subsidies for export-oriented business activities. U.S. trade promotion agencies suddenly had more prominent roles to play.

Shortsightedly, the NEI systemically neglected a broad swath of opportunities to facilitate exports by contemplating only the export-focused activities of exporters. The NEI presumed that the only barriers impeding U.S. exporters were foreign made. But before companies become exporters, they are producers. And as producers, they are subject to a host of domestic laws, regulations, taxes, and other policies that handicap them in their competition for sales in the U.S. market and abroad.

For example, nearly 60 percent of the value of U.S. imports in 2014 comprised of intermediate goods, capital goods, and other raw materials – the purchases of U.S. businesses, not consumers.[3] Yet, many of those imported inputs are subject to customs duties, which raise the cost of production for the U.S.-based companies that need them, making them less competitive at home and abroad. Indeed, U.S. duties on products like sugar, steel, magnesium, polyvinyl chloride, and other crucial manufacturing inputs have chased companies to foreign shores – where those crucial ingredients are less expensive – and deterred foreign companies from setting up shop stateside.[4]

The potential dividends from removing these and other impediments to a more competitive domestic production environment are surely greater than any benefits derived from export promotion.

In the 21st century, it is inaccurate to characterize international trade as a competition between "us" and "them." Because of foreign direct investment, joint ventures, and other equity-sharing

[3] Bureau of Economic Analysis, U.S. International Trade in Goods and Services, Exhibit 6. U.S. Exports and Imports of Goods by Principal End-Use Category, February 2015, http://www.bea.gov/newsreleases/international/trade/tradnewsrelease.htm.

[4] Daniel Ikenson, "Economic Self-Flagellation: How U.S. Antidumping Policy Subverts the National Export Initiative," Cato Trade Policy Analysis No. 46, May 31, 2011, http://www.cato.org/publications/trade-policy-analysis/economic-selfflagellation-how-us-antidumping-policy-subverts-national-export-initiative.

arrangements, quite often "we" are "they" and "they" are "we." And as a result of the proliferation of disaggregated, transnational production and supply chains, "we" and "they" often collaborate in the same endeavor. As trade barriers have diminished, opportunities for new combinations of labor, investment, and human capital have emerged in defiance of what were once formidable obstacles to wealth creation. "Autonomous" or "unilateral" liberalization of trade barriers has accounted for most of the trade liberalization in developing countries over the past two decades and, on average, applied tariff rates globally are well below their maximum allowable rates or "bound" rates under World Trade Organization agreements. Global economic integration has enabled enterprises to flourish on scales unimaginable just a generation ago.

To nurture the promise of our highly integrated global economy, policymakers should stop conflating the interests of exporters with the national interest and commit to policies that reduce frictions throughout the supply chain—from product conception to consumption. Why should U.S. taxpayers underwrite – and U.S. policymakers promote – the interests of exporters, anyway, when the benefits of those efforts accrue, primarily, to the shareholders of the companies enjoying the subsidized marketing or matchmaking? There is no national ownership of private export revenues. And the relationship between revenues (domestic or export) and jobs is today more tenuous than in years past.

Globalization means that companies have growing options with respect to where and how they produce. So governments must compete for investment and talent, which both tend to flow to jurisdictions where the rule of law is clear and abided; where there is greater certainty to the business and political climate; where the specter of asset expropriation is negligible; where physical and administrative infrastructure is in good shape; where the local work force is productive; where there are limited physical, political, and administrative frictions; and so on. The crucial question for U.S. policymakers is: why not focus on reforms that make the U.S. economy a more attractive location for both domestic and foreign investment?

Relative to attracting domestic investment, export promotion is a circuitous and uncertain path to economic growth and job creation. If policymakers seek a more appropriate target for economic policy, it should be attracting and retaining investment, which is the seed of all economic activity, including exporting.

What is the impact on the U.S. economy of U.S. Trade Promotion Agencies, specifically the Export-Import bank?

According to the Congressional Research Service, there are approximately 20 federal government agencies involved in supporting U.S. exports, either directly or indirectly. Among the nine key agencies with programs or activities directly related to export promotion are the Department of Agriculture, the Department of Commerce, the Department of State, the Department of the Treasury, the Office of the U.S. Trade Representative, the Small Business Administration, and the three agencies that are the subject of this hearing: the Export-Import Bank, the Overseas Private Investment Corporation, and the U.S. Trade and Development Agency.

The mission of the Ex-Im is "to support American jobs by facilitating the export of U.S. goods and services." OPIC's mission is "to [mobilize] private capital to help solve critical development challenges and in doing so, [advance] U.S. foreign policy and national security objectives." The U.S. Trade and Development Agency's mission is to "[help] companies create U.S. jobs through the export of U.S. goods and services for priority development projects in emerging economies."

Although the three subject agencies have slightly different missions, each uses U.S. export sales supported as its chief success metric. Given the exalted status of exports in Washington's economic policy narrative, it is understandable why agencies would want to portray themselves as indispensable to U.S. export success. It's a reasonable survival strategy. But on the metric of contribution to export success, none of these agencies is scarcely relevant. Ex-Im supported $27.4 billion in exports in 2014[5]; USTDA supported approximately $2.5 billion[6]; and, OPIC supported less than $2 billion[7].

In aggregate, these three agencies "support" less than 2 percent of all U.S. exports. Of course, $32 billion is nothing to sneeze at, but the implication that most, if not all, of those sales would never have happened in the absence of these federal middlemen agencies is unrealistic. But the relevant economic question is not whether these agencies support U.S. exports. That's the political question. The relevant economic question concerns the costs and benefits of these agencies to the U.S. economy.

Supporters of Ex-Im and OPIC limit their analyses to the impact their agencies' operations have on taxpayers. In recent years, both programs have generated positive returns to the Treasury, but their myopic focus doesn't come close to approximating the appropriate cost-benefit analysis.

The remainder of these written remarks will be devoted to the Export-Import Bank, which I have studied more closely and for which I have recent data. Moreover, the problems identified below are generally problems associated with the other agencies, as well. Namely, while the benefits of each program's activities are visible (the value of exports supported, projects financed, insurance policies underwritten), the costs imposed on non-beneficiaries go unseen – or at least unacknowledged by Ex-Im and its supporters. Identifying and quantifying those costs are necessary to measuring the net benefits of the respective programs.

Ex-Im supporters claim that the bank fills a void left by private sector lenders unwilling to finance certain riskier transactions and, by doing so, contributes importantly to U.S. export and job growth. Moreover, rather than burden taxpayers, the Bank generates profits for the Treasury, helps small businesses succeed abroad, encourages exports of "green" goods, contributes to development in sub-Saharan Africa, and helps "level the playing field" for U.S. companies competing in export markets with foreign companies supported by their own governments' generous export financing programs. So what's not to like about Ex-Im?

First, by dismissing the risk assessments of private-sector, profit-maximizing financial firms and making lending decisions based on nonmarket criteria to pursue often opaque, political

[5] http://www.exim.gov/about/facts-about-ex-im-bank.
[6] http://www.ustda.gov/about/ataglance.asp.
[7] https://www.opic.gov/who-we-are/overview.

objectives, Ex-Im misallocates resources and puts taxpayer dollars at risk. That Ex-Im is currently self-financing and generating revenues is entirely beside the point. Ex-Im's revenue stream depends on whether foreign borrowers are willing and able to service their loans, which is a function of global economic conditions beyond the control of Ex-Im. Given the large concentration of aircraft loans in its portfolio, for example, Ex-Im is heavily exposed to the consequences of a decline in demand for air travel. Recall that Fannie Mae and Freddie Mac also showed book profits for years until the housing market suddenly crashed and taxpayers were left holding the bag.

Second, even if taxpayers had tolerance for such risk taking, the claim that Ex-Im exists to help small businesses is belied by the fact that most of Ex-Im's loan portfolio value is concentrated among a handful of large U.S. companies. In 2013 roughly 75 percent of the value of Ex-Im loans, guarantees, and insurance were granted on behalf of 10 large companies, including Boeing, General Electric, Dow Chemical, Bechtel, and Caterpillar.

Third, the claim that U.S. exporters need assistance with financing to "level the playing field" with China and others doesn't square with the fact that the United States is a major export credit subsidizer that has been engaged in doling out such largesse since well before the founding of the People's Republic of China. It implies the United States is helpless at the task of reining in these subsidies. And it implies the United States lacks enormous advantages among the multitude of factors that inform the purchasing decision. But, somehow, 98 percent of U.S. export value is sold without the assistance of trade promotion agencies.

Fourth, and perhaps most importantly, by trying to "level the playing field" with foreign companies backed by their own governments, Ex-Im "unlevels" the playing field for many more U.S. companies competing at home and abroad. This adverse effect has been ignored, downplayed, or mischaracterized, but the collateral damage is substantial and should be a central part of the story.

A proper accounting reveals that Ex-Im's practices impose significant costs on manufacturing firms across every industry and in every U.S. state. When Ex-Im provides financing to a U.S. company's foreign customer on terms more favorable than he can secure elsewhere, it may be facilitating a transaction that would not otherwise occur. That is the basis for Ex-Im's claim that it helps the U.S. economy by increasing exports and "supporting" jobs. But the claim is questionable because those resources might have created more value or more jobs if deployed in the private sector instead. If that is the case, Ex-Im's transaction imposes a net loss on the economy. But suppose it could be demonstrated that Ex-Im transactions grow the economy larger or create more jobs than if those resources had been deployed in the private sector instead. Would Ex-Im then be correct in its claim? No. Further analysis is required.

Ex-Im financing helps two sets of companies (in the short-run): U.S. firms whose export prices are subsidized by below market rate financing and the foreign firms who purchase those subsidized exports. It stands to reason, then, that those same transactions might impose costs on two different sets of companies: competing U.S. firms in the same industry who do not get Ex-Im backing, and U.S. firms in downstream industries, whose foreign competition is now benefitting from reduced capital costs courtesy of U.S. government subsidies. While Ex-Im financing reduces the cost of doing business for the lucky U.S. exporter and reduces the cost of capital for his foreign customer, it hurts U.S. competitors of the U.S. exporter, as well as U.S. competitors of his foreign customer by putting them at relative cost disadvantages.

These effects are neither theoretical nor difficult to comprehend. Yet proponents of Ex-Im reauthorization rarely acknowledge, let alone concede, that these are real costs pertinent to any legitimate net benefits calculation. Instead, they speak only of the gross benefits of export subsidies, which they consider to be the value of exports supported by their authorizations.

But there are at least three sets of costs that are essential to determining the net benefits of Ex-Im: (1) the "Opportunity Cost," represented by the export growth that would have obtained had Ex-Im's resources been deployed in the private sector; (2) the "Intra-Industry Cost," represented by the relative cost disadvantage imposed on the other U.S. firms in the same industry (the domestic competitors) as a result of Ex-Im's subsidies to a particular firm in the industry, and; (3) the "Downstream Industry Cost," represented by the relative cost disadvantage imposed on the U.S. competitors of the subsidized foreign customer.

Opportunity Cost is difficult to estimate, but suffice it to recognize that opportunity costs exist. Indeed, opportunity costs exist whenever there are foregone alternatives to the path chosen.

The Intra-Industry Cost is somewhat easier to calculate, in theory. If Ex-Im provides a $50 million loan to a foreign farm equipment manufacturer to purchase steel from U.S. Steel Corporation, the transaction may benefit U.S. Steel, but it hurts competitors like Nucor, Steel Dynamics, AK Steel, and dozens of other steel firms operating in the United States and competing for the same customers at home and abroad. The $50 million subsidy to U.S. Steel is a cost to the other firms in the industry, who can attribute a $50 million revenue gap between them (aggregated) and U.S. Steel to a government intervention that picked a winner and made them, relatively speaking, losers. The $50 million "benefit" for U.S. Steel is a $50 million cost to the other steel firms.

But then that distortion is compounded when taking into consideration the dynamics that would have played out had the best firm—the one offering the most value for the best price—secured that export deal instead. Reaching revenue targets, raising capital, and moving down the production cost curve to generate lower unit costs all become more difficult to achieve on account of the original intervention, amplifying the adverse impact on other firms in the industry. When government intervenes with subsidies that tilt the playing field in favor of a particular firm, it simultaneously penalizes the other firms in the industry and changes the competitive industry dynamics going forward. Every Ex-Im transaction touted as boosting U.S. exports creates victims within the same U.S. industry. Without Ex-Im's intervention, Nucor might have been able to win that foreign farm equipment producer's business, which is a prospect that undermines the premise that Ex-Im boosts exports at all and reinforces the point that it merely shifts resources around without creating value, possibly destroys value instead. What is given to U.S. steel is taken from Nucor and the other firms, among whom may be the more efficient producers.

The Downstream Industry costs are those imposed by the transaction on the U.S. companies that compete with the foreign customer. When a foreign farm machinery producer purchases steel on credit at subsidized interest rates, it obtains an advantage over its competitors—including its U.S. competitors. So, when that subsidized rate comes courtesy of a U.S. government program committed to increasing U.S. exports, it only seems reasonable to consider the effects on firms in downstream U.S. industries before claiming the program a success: Has the subsidy to the foreign farm machinery producer made John Deere, Caterpillar, New Holland, or other U.S. farm machinery producers less competitive? Has it hurt their bottom lines?

Delta Airlines has been vocal in its objection to Ex-Im-facilitated sales of Boeing jetliners to foreign carriers, such as Air India. Delta rightly complains that the U.S. government, as a matter of policy, is subsidizing Delta's foreign competition by reducing Air India's cost of capital. That cost reduction enables Air India to offer lower prices in its bid to compete for passengers, which has a direct impact on Delta's bottom line. This is a legitimate concern and it is not limited to this example.

Consider the generic case. A U.S. supplier sells to both U.S. and foreign customers. Those customers compete in the same downstream industry in the U.S. and foreign markets. ExIm is happy to provide financing to facilitate the sale, as its mission is to increase exports and create jobs. The U.S. supplier is thrilled that Ex-Im is providing his foreign customer with cheap credit because it spares him from having to offer a lower price or from sweetening the deal in some other way to win the business. The foreign customer is happy to accept the advantageous financing for a variety of reasons, among which is the fact that his capital costs are now lower relative to what they would have been and relative to the costs of his competitors—including his U.S. competitors, who are now on the outside looking in. Ex-Im helps some U.S. companies increase their exports sales. But it hinders other U.S. companies' efforts to compete at home and abroad.

Moreover, by subsidizing export sales, Ex-Im artificially diverts domestic supply, possibly causing U.S. prices to rise and rendering U.S. customers less important to their U.S. suppliers. Especially in industries where there are few producers, numerous customers, and limited substitute products, Ex-Im disrupts the relationships between U.S. buyers and U.S. sellers by infusing the latter with greater market power and leverage. Delta was able to connect the dots. Other companies have, too. But most of the time, the downstream U.S. companies are unwitting victims of this silent cost-shifting.

According to the findings in a recent Cato Institute study that I authored, the downstream costs alone amount to a tax of approximately \$2.8 billion every year.[8] The victims of this shell game include companies in each of the 21 broad U.S. manufacturing industry classifications used by the government to compile statistics. And they are scattered across the country in every state. Among the stealthily taxed were companies such as Western Digital and Seagate Technologies — two California-based computer storage device producers that employ 125,000 workers; Chicago-based Schneider Electric Holdings, which employs 23,000 workers in the manufacture

[8] Daniel Ikenson, "The Export-Import Bank and Its Victims: Which Industries and States Bear the Brunt?" Policy Analysis No. 756, September 10, 2014, http://www.cato.org/publications/policy-analysis/export-import-bank-its-victims-which-industries-states-bear-brunt.

of environmental control products, and; ViaSystems, a St. Louis-based printed circuit board producer with 12,000 employees. These companies haven't received Ex-Im subsidies, but companies in their supplier industries have, which effectively lowers the costs of their foreign competitors.

While it is relatively easy for a big company like Delta to connect the dots and see that Boeing is being favored at its expense (airplanes constitute a large share of Delta's total costs), most manufacturing companies are unaware that they are shouldering the costs of government subsidies to their own competitors. But the victims include big and small producers – of electrical equipment, appliances, furniture, food, chemicals, computers, electronics, plastics and rubber products, paper, metal, textiles – from across the country. Companies producing telecommunications equipment incur an estimated collective tax of $125 million per year.

The industries in which companies bear the greatest burdens – where the costs of Ex-Im's subsidies to foreign competitors are the highest – are of vital importance to the manufacturing economies of most states. In Oregon, Delaware, Idaho, New Jersey, Nevada, and Maryland, the 10 industries shouldering the greatest costs account for at least 80 percent of the state's manufacturing output. The most important industry is among the ten most burdened by these costs in 33 of 50 states. The chemical industry, which bears a cost of $107 million per year, is the largest manufacturing industry in 12 states.

For all the praise Ex-Im heaps upon itself for its role as a costless pillar of the economy, it is difficult to make sense of the collateral damage left in its wake. Thousands of U.S. companies would be better off if Ex-Im's charter were allowed to expire, as scheduled, on June 30.

What to do about foreign governments' trade promotion agencies?

Of all of the arguments put forward by Ex-Im supporters, the "leveling the playing field" rationale is the most difficult to dispense with. It is appealing intuitively. But the implication that the United States is an innocent party that has no choice but to follow suit is laughable. The United States invented this stuff.

The notion that because Beijing, Brasilia, and Brussels subsidize their exporters Washington must, too, is a rationalization that sweeps under the rug the fact that there are dozens of criteria that feed into the ultimate purchasing decision, including product quality, price, producer's reputation, local investment and employment opportunities created by the sale, warranties, after-market servicing, and the extent to which the transaction contributes toward building a long-term relationship between buyer and seller. To say that U.S. exporters need assistance with financing to "level the playing field" suggests that they lack advantages among the multitude of factors that inform the purchasing decision. Moreover, the fact that less than 2 percent of U.S. export value goes through export promotion agencies suggests this rationale for Ex-Im is bogus.

If the offer of cheap financing is the determining factor in these international transactions, what is to stop a growing number of inefficient low-quality producers from contesting these markets with ever-increasing subsidies from their own governments? U.S. companies and the taxpayers that would support them would be better off not competing for business in these markets if the key to winning foreign customers is participating in an endless subsidies race.

There is a way to end the madness. The United States should allow Ex-Im to expire at the end of next month and then announce plans to bring cases to the World Trade Organization against governments operating their export credit agencies in violation of agreed upon limits under the Agreement on Subsidies and Countervailing Measures. The combination of the carrot of U.S. withdrawal from the business of export credit financing and the stick of WTO litigation would likely incent other governments to reduce, and possibly eliminate, their own subsidy programs.

The Relationship between the Export-Import Bank and U.S. foreign policy

For better or worse, at different times and for different purposes over the years, U.S. trade policy has been a tool of U.S. foreign policy. Trade preference programs, trade agreements, the Trans-Pacific Partnership, investment treaties, trade sanctions, infrastructure funding, and trade financing have all been pursued or deployed for reasons not entirely economic in nature. Pursuing strategic objectives through trade policy has a long history.

Certainly, one of the rationales for preserving the Export-Import Bank is that it provides the U.S. government some leverage to influence policies or actions abroad and to monitor and possibly counter strategic investments underwritten by other foreign governments. That may be true. And there may be convincing evidence to demonstrate that these considerations warrant one or two export promotion agencies. But there are at least 20 such agencies within the U.S. government with overlapping responsibilities and, in some cases, working at cross purposes.

Despite the rhetoric of U.S. decline, the United States maintains enormous commercial advantages over other countries. We have the world's largest market; strong institutions, including respect for private property and the rule of law; relatively free markets; a highly educated and productive workforce; the world's best research institutions; a society that encourages innovation and produces deep and broad capital markets to fund it. From these commercial advantages comes security and strength, so it is important that we maintain and build on those advantages.

By subsidizing the export sales of generally large U.S. multinational corporations, Ex-Im's policies penalize the smaller, dynamic, up-and-coming businesses that are the well springs of new ideas, better mousetraps, and smarter business practices that will spawn subsequent generations of businesses in perpetuity. That process underlies the strength of the U.S. economy, which is crucial to reaching U.S. security and foreign policy goals going forward. On the other hand, U.S. economic strength is undermined when subsidies are deployed in a spiraling race with other nations to the detriment of the next crop of leading U.S. businesses.

Mr. POE. Thank you, Mr. Ikenson. You got more in 6 minutes than anybody I have ever heard in my life. But thank you very much.

The Chair recognizes General Jones. First of all, General Jones, thank you for your service to our country.

STATEMENT OF GENERAL JAMES L. JONES, USMC, RETIRED, FOUNDER, JONES GROUP INTERNATIONAL (FORMER NATIONAL SECURITY ADVISOR TO THE PRESIDENT OF THE UNITED STATES)

General JONES. Thank you, sir. Mr. Chairman, Ranking Member Keating, committee members, thank you for holding this very important hearing and for inviting me to testify before you today.

With your permission, I would like to submit two items for the full hearing record; an op-ed I authored on the national security implications of the Transatlantic Trade and Investment Partnership and Trans-Pacific Partnership and "The Task Ahead" an article on the dynamics of U.S. global engagement in the 21st century.

As requested by the committee, I will briefly summarize my statement and look forward to your questions. I have had the honor of serving in our Nation's uniform for over 40 years. Much of that time was during the Cold War when the world was a very different place, defined by the long struggle between the West and the former Soviet Union. Ultimately, democracy prevailed over Communism and our ideals proved superior to those of our adversaries, as did our resolve and military might of the United States and the NATO alliance. As a result, freedom prevailed and despite today's many challenges the truth is that freer societies, freer markets, and freer trade have achieved a great leap forward in the human condition and our values have contributed immeasurably to a better world and to America's interests around that world.

But today, the geostrategic operating environment of the 21st century is vastly different from that of the past century. As such, we need a much broader toolkit to be successful. Maintaining global stability is essential to America's peace and prosperity, it is no longer a function solely of our ability to deploy and defeat but of our capacity to engage and endow, and ultimately, to turn promise and opportunity into jobs and higher quality of life for those seeking true freedom.

By leading on trade, the United States tightens bonds with allies around the globe, strengthens influence and would-be hot spots and bolsters greater global stability through expanding economic cooperation, the kind envisioned by the Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership, and the African Growth and Opportunity Act advanced by the extension of trade promotion authority.

So if America wishes to remain a nation of great leadership and influence in the years and decades ahead, we shouldn't shrink from competing in the trade-based global economy, the world mainly of America's making in the last century and one I think we can be extremely proud of.

But much is riding on our success. Economically and geostrategically, 95 percent of the world's customers live outside our borders. Most are hungry for American goods and services and solutions. And for this reason, America's future jobs and prosperity depend greatly on trade and global economic engagement and leadership.

But it is equally true that 95 percent of the hearts and minds America must win to achieve a more peaceful and prosperous future also live outside our borders, so commercial diplomacy, the kind that Secretary of Commerce Penny Pritzker advocates, is a key ingredient in the strategy for winning them. Importantly, this hearing was conceived to analyze whether the U.S. trade promotion agencies play an important role in U.S. foreign policy. My answer is an unequivocal yes. They play a crucial role.

Many of the pertinent facts are presented in my full statement, but I would simply boil down my reasoning to the following points. One, trade and trade promotion are critical to American jobs and prosperity. A prosperous America is far better able to protect this country's values and advance its interests in a dangerous world.

Two, trade promotion is critical to America's security. As the former NATO Commander Service Chief and National Security Advisor, I have seen first-hand the geostrategic importance of American economic engagement. Where the U.S. private sector is not present, America's influence suffers. And this vacuum is filled by economic and geostrategic competitors, and in the developing world is often filled by those who don't share either our values or our principles; the result is a less stable and secure world.

Three, many opponents of trade promotion agencies base their arguments on a vision of a world with no export financing and no foreign government support for our competitors, where markets are untrammeled by state directed export finance and other support. But in today's real world, approximately 60 export credit agencies are jockeying to offer enticing financial terms to win more sales for their companies and workers, often at the expense of U.S. companies.

Russia and China have expanded their state backed export support even as we continue to deliberate on the future on the EXIM Bank and our desire for expanded trade agreements.

They and the leaders of America's other export competitors would welcome the United States ending export finance and trade promotion programs, which means more business for their companies and more influence for them around the world. Although I agree that we should aspire to a world of pure private sector competition, unilaterally disarming by eliminating the EXIM Bank and our other trade promotion agencies is not the answer. It would destroy the U.S. Treasury's leverage at negotiating reductions to state backed export finance that would be observed by all, creating the level playing field that we should all seek.

Finally, I agree that Congress has a sacred responsibility to ensure the taxpayers' dollars are used wisely. Our country has yet to see an agency or program that couldn't be improved. In that regard, the constant work of reforming and refreshing our initiatives is crucial, but let us improve them where we can and not eliminate them. After four decades of service to the nation, a strong aversion is ingrained in me as I know it is in you, to anything that threatens our national well being. Among them, anything that would set back our country's economic competitiveness in the world. Thank you, Mr. Chairman.

[The prepared statement of General Jones follows:]

Trade Promotion Agencies and U.S. Foreign Policy

Testimony before the House Foreign Affairs Subcommittee on Terrorism, Nonproliferation and Trade

General James L. Jones, USMC (Ret.)

May 19, 2015

Thank you, Chairman Poe, Ranking Member Keating, and other members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the vital role that U.S. trade promotion agencies play in advancing U.S. economic and security interests across the globe.

Few people who have experienced war would suggest armed conflict as anything but a last, strategic resort. Yet in times of geopolitical uncertainty like the present, we find ourselves groping for tactical, short-term responses to crises we have neither prevented nor anticipated, and all too often the proposed solutions involve military force.

Obviously, we must defeat entities like the Islamic State in Iraq and al-Sham that are a cancer on world civilization. But we also need to broaden opportunities for peace by preventing competitors from becoming adversaries and giving violent extremism a chance to flourish.

In my view, employing American leadership to expand international trade presents precisely such an opportunity--one we squander at the risk of US interests, lives, and national honor.

Promoting robust international trade contributes to national prosperity--a simple, empirically based fact of modern economic life. A strong economy won't solve all our problems, foreign or domestic, but without it we can solve very few of them. Last year, U.S. exports supported 11.7 million American jobs. Since-mid 2009, the increase in U.S. exports has accounted for one-third of our overall economic growth.

More broadly, however, trade runs right to the heart of international security in the 21st century. Maintaining global stability, essential to America's peace and prosperity, is no longer a function solely of our ability to deploy and defeat, but rather of our capacity to engage and endow--and ultimately to turn promise and opportunity into jobs and a higher quality of life. By leading on trade, the United States tightens our bonds with allies around the globe, strengthens our influence in would-be hotspots, and fosters greater global stability through expanding economic cooperation.

Three initiatives highlight the critical need for trade leadership in these challenging times.

An ambitious and comprehensive Trans-Pacific Partnership (TPP) free trade agreement amongst the United States and 11 other countries around the Pacific Ocean will open markets and expand our influence in this critical region. Once finalized, this agreement will increase trade and investment across 40% of the world's GDP and help American farmers, workers, and businesses reach new customers and grow their sales. The Transatlantic Trade and Investment Partnership (TTIP) will strengthen the already significant U.S.-European economic relationship which encompasses $1 trillion in annual trade, $4 trillion in investment, and supports 13 million jobs. An ambitious TTIP will strengthen the American and European economies which will also strengthen our security alliance and NATO to help keep the world free and safe.

Last Thursday, the Senate passed 97-1 a trade preferences bill that extends the Africa Growth and Opportunity Act (AGOA) for ten years, extends the Haiti preferences bill for an additional 5 years, and renews and extends the Generalized System of Preferences. Taken together, these programs expand economic opportunity and improve development outcomes in the developing world while also creating new trade and investment opportunities for American businesses in many of the fastest growing countries in the world. On the African continent and around the developing world, increasing U.S. economic engagement through trade and investment today may well obviate the costly need for security-based crisis response tomorrow.

All three of these initiatives must advance and enter into force. To achieve this goal, Congress must pass Trade Promotion Authority(TPA), which the Senate will debate next week and that the House should take up after TPA passes in the Senate . For four decades, bipartisan Senators and Congressmen alike worked with every President--Republican and Democrat - to grant trade negotiating authority. I hope in the ensuing weeks the 114th Congress will continue this critically important tradition of bipartisan cooperation to advance our economic and strategic goals around the world.

Ex-Im Bank

Over two centuries ago John Adams observed that "facts are stubborn things." Whether they are resilient enough to prevail over ideological passions is being sorely tested in the current Congressional debate whether to reauthorize the Export-Import Bank (EX-IM Bank) whose charter is set to expire this summer.

Despite the opposition's extreme rhetoric, the basic facts remain.

Fact: America's prosperity and strength depends upon vigorous trade and reaching markets abroad. Fact: Ninety-five percent of the world's customers live outside our national borders, where massive middle classes with huge purchasing power are emerging.

Fact: America must fiercely compete for these markets with other countries for sales, for investments, and to develop supply chains. Fact: Export credit – the kind provided by the EX-IM bank – anchors a critical component of America's competitiveness toolkit.

Since its founding during America's effort to emerge from the Great Depression, the Ex-Im bank has supported American jobs by financing our exports when competitive, affordable rates are not commercially available or when U.S. companies face competition in foreign markets from foreign state-backed competitors provided financing by their governments. Ex-Im levels the playing field for American businesses so they can compete in foreign markets against foreign competitors.

Many opponents of reauthorization base their arguments on a vision of a world with no export financing and no government support for our foreign competitors, and where markets are untrammeled by state-directed export finance. In today's real world, approximately 60 export credit agencies are jockeying to offer enticing financing terms to win more and more sales for their foreign companies often at the expense of U.S. companies.

Russia and China have expanded their state-backed export support even as Congress continues to deliberate on the future of EX-IM Bank. One of China's multiple export credit arms has authorized more financing in the last two years than EX-IM Bank has since its founding eight decades ago.

Last year alone, the Ex-Im Bank backed U.S. exports valued at approximately $27.5 billion and supported 164,000 export-related U.S. jobs, while turning a $674.7 million profit for taxpayers. Ex-Im's record of strengthening U.S. exports and competitiveness while generating revenue for the U.S. treasury explain its long history of bipartisan support from Republican and Democratic presidents and the U.S. Congress.

There is no evidence that Vladimir Putin and Xi Jinping will suddenly about-face and dam their tidal waves of export credits to support Russian and Chinese if Congress were to shutter EX-IM Bank's doors. They and the leaders of America's other economic competitors would welcome the United States unilaterally disarming and ending its export finance program – which means more business for their companies around the world. If Ex-Im is shut down, and the United States leaves the field on export financing, such a vacuum will not only undermine U.S. business abroad and risk jobs at home but undermine American influence and economic leadership at a time when it's needed more than ever.

I would agree that a world without state-funded export credits is one to which we should aspire. However, unilaterally disarming by eliminating the EX-IM bank is not the answer. It would destroy the U.S. Treasury's leverage in negotiating reductions to state-backed export finance that would be observed by all—creating the level playing field that we should all seek.

As Americans, we hope and trust that despite the divisive rhetoric and fractiousness in our political system, we can still overcome gridlock to advance our own clear national interest. Reauthorizing the EX-IM bank helps our neighbors and businesses sell more American products abroad; expands U.S. global influence and economic leadership; supports American jobs; and returns money back to the Treasury. EX-IM's record advancing all of these national interests goals demands our support and renewal.

The stubborn fact is that reauthorizing the Ex-Im bank is squarely in our national interest. Whether this stubborn fact trumps short-sighted slogans remains to be seen. For our country's sake, let's hope that John Adams was right and the facts and our national interest prevail.

OPIC

The Overseas Private Investment Corporation (OPIC) is an agency that has global development as its primary mission. OPIC partners with expanding business enterprises in more than 150 countries worldwide, and over its history has supported more than $200 billion of investment in over 4,000 projects, generating an estimated $76 billion in U.S. exports and supported more than 278,000 American jobs.

OPIC operates on a self-sustaining basis and has provided positive net transfers to the US Treasury for nearly 40 consecutive years. OPIC's has generated a net profit of more than $6 billion for the U.S. Treasury.

With the majority of capital flows into developing countries coming from the private sector, the U.S. government should expand and improve its development finance capabilities in order to steer private investment towards key development sectors and to better align private sector investment with development grants. In 1980, aid to developing nations was three times larger than private investment flows. Today, for every $1 in aid going to developing nations, nearly $7 in private investment flows goes to developing nations. Put simply, FDI is now a bigger lever for development than aid by far.

Roughly $6.1 billion of OPIC's current $18 billion portfolio – or 34 percent – supports U.S. national security by investing in regions in or vulnerable to current violent conflict. And despite these being challenging investment destinations, OPIC's full portfolio is prudently managed, with write-off rates net of recoveries at less than one percent, and 37 consecutive years of federal deficit reduction

Almost a third of OPIC's total 2014 commitments were in the world's poorest countries, places where U.S. support can be the most catalytic. OPIC has also significantly increased commitments in post- conflict regions, helping to serve as a stabilizing force in an unstable world and further advancing our national security interests. Today, 34 percent of OPIC's portfolio is invested in regions such as Afghanistan, Yemen, Ukraine and Nigeria, that are in or are vulnerable to violent conflict.

I would submit to the committee that given it's critical mission and record of success, we should be looking for ways to bolster and strengthen OPIC, ensuring that it has the tools and authorities it needs to compete. Unlike other development finance banks, OPIC does not have the authority to utilize a portion of its proceeds for equity investments in the projects it finances. The lack of this authority prohibits OPIC from making strategic, minority-share equity investments into the countries and regions with the most opportunity for growth and enormous strategic importance to the United States. OPIC has forged partnerships with other grant-making agencies (e.g. USAID, State Department) and development banks (e.g. the World Bank's International Finance Corporation), but this does not create sufficient nor reliable access to technical assistance resources. The end result is that OPIC is forced to leave hundreds of millions in promising finance deals on the table because of its inability to provide technical assistance.

USTDA

The U.S. Trade and Development Agency (USTDA) has a successful program in countries around the world that is built on cooperation and results. Over the last 10-year evaluation cycle, USTDA identified over $25 billion in U.S. exports to emerging markets that are directly attributable to its programs, supporting an estimated 110,000 American jobs. Put another way, for every $1 programmed, the Agency has identified over $76 in U.S. exports.

Utilizing USTDA's programs to engage with countries provides the United States with the opportunity to reorient its relationship from one of "aid donor" to one based on partnerships. USTDA aims to assist the U.S. private sector's increased involvement in emerging economies to develop the infrastructure necessary to facilitate trade.

As a member of the Export Promotion Cabinet, USTDA is working hard to realize the goals of increasing trade and expanding international business partnerships. As exports are proven job creators for U.S. businesses, enhancing our trade partnerships is imperative to continue to bring the unemployment figure down.

Conclusion

As a former NATO commander, service chief, and national security advisor I have seen firsthand the geostrategic importance of American economic engagement. Where U.S. private sector is not present, American interests and values suffer. The result is a less stable and secure world. Having served for over 40 years in uniform, I am deeply concerned with threats to our national well-being. The undermining of our own economic competitiveness counts among them.

Among the enduring lessons of the past century is that a prosperous America is far better able to protect the country's values and advance its interests in a dangerous world.

Again, I thank the Chairman, ranking member and your colleagues for your leadership and service. With your permission I would like to submit two items for the full hearing record: an op-ed I authored on the national security implications of the Trans-Atlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership and a piece called Task Ahead on the dynamics of U.S. global engagement in the 21st Century, with trade and commercial diplomacy as pillars fostering the security, development, and good governance that is the foundation of sustainable security.

Mr. POE. Thank you, General Jones. The Chair recognizes Ms. Jaime.

STATEMENT OF MS. SUSAN JAIME, FOUNDER, FERRA COFFEE INTERNATIONAL

Ms. JAIME. Mr. Chairman and Trade Subcommittee of the House of Representatives, thank you for inviting me to share my perspective on the importance of the EXIM Bank.

I have been working in the coffee industry for more than 18 years, and started my own company, Ferra Coffee International, in 2009 with $50 in the bank and a passion for international trade and soft commodities. From the start, the heart, soul, and goal of my business has always been to help coffee growers worldwide. I learned very quickly that the coffee grower is the last one in the chain of the coffee trade business to get a fair price for their product and the last, if ever, to get training to properly assess the quality of their coffee or effectively negotiate a fair price with international buyers.

To make a lasting difference in the lives of those coffee growers, by paying them fairly and according to the quality of their coffee, to prevent families from being broken apart because parents or young adults must leave their home countries and families to come to the United States to work illegally, my business plan had to change.

If Ferra Coffee sold only to distributors in the State of Texas or any other domestic state, we could only expect to sell one or two pallets of approximately 1200 pounds at a time. In contrast, when we are able to secure an international contract with an international distributor, orders are generally for at least one full container, which is 48,000 pounds average. It is easy to see the advantage.

Behind each bag of Ferra Organic Flavor Coffee, or each bag of Ferra Liquid Coffee, there are seven U.S. small businesses that supply products and services contributing to our finished product, that is labeled USDA organic, roasted, Q graded, and manufactured in San Antonio, Texas.

Ferra Coffee has successfully started offering our roasted specialty coffees internationally, thanks to the support that the EXIM Bank has provided. By their doing due diligence in checking that the distributors with whom we establish relationships and make contracts are legitimate, and that we do not get involved with dubious, unreliable, or criminal groups while conducting international trade, the EXIM Bank has truly ensured our success.

The EXIM Bank also literally insures payment of our shipments, and has given my company the peace of mind of knowing that the value of the product shipped is secure and legally insured. The EXIM Bank also allows me the ability to offer products that have a higher quality for the gourmet market.

Ferra Coffee International, along with the other small companies that are our partners, completely depends for our growth and survival on our ability to sell internationally. Internationally, there is no market saturation, and USA made and USDA organic products have a great deal of value to the consumer.

The EXIM Bank is the one and only entity that we can rely on to help us continue to grow, be competitive in markets that are not available to us in our own country, and to give us the necessary competitive edge in international trade.

My small company, by purchasing coffee directly from the growers is contributing to stopping illegal immigration and the displacement of family units. We also help seven other small U.S. businesses with opportunities to hire more workers and increase their revenue by purchasing more products for international contracts.

Without the EXIM Bank offering their services that allow my company to engage in this type of international trade contracts, I will not be able to grow my business beyond the saturated coffee market that we have in the U.S.A.

The EXIM Bank can also do so much more. It can help me, and other companies like mine which conduct businesses that are usually not funded by the regular bank system because we have contracts in international markets. By not acting as a conventional bank to qualify exporters like me for financial low interest loans. Instead of using only a credit score to qualify a company for funding, EXIM Bank could look at, and assess the overall potential, growth, and increased revenue that can be achieved by additional funding. That is the vision that is needed, and that what we are asking for.

My company is not able to get loans from conventional banks because all of my products are bought in cash. That is the way the majority of specialty coffee and tea companies operate. We do not have a history of loan payments or credit with coffee or tea growers. We need the EXIM Bank's support.

The EXIM Bank is a crucial, vital and important entity that I and many other U.S. exporting companies depend on for survival, growth, and the ability to compete successfully in business. Every U.S.A. company that has the capability to export and do business internationally, whether that company is small or large, contributes to the health of our national economy and our country's leadership in innovation, in the development of more qualified and competitive businesses, and of individuals who see our potential markets as global opportunities for the kind of success that is indeed, the greater good.

Every aspect of the EXIM Bank has the potential to create positive and strong advancement for the good of all of us, and the good of U.S.A.

Thank you for your time, kind attention, and for inviting to share my story on behalf of all exporters in the U.S.A.

[The prepared statement of Ms. Jaime follows:]

May 15, 2015

Susan Jaime
CEO and Q Grader for Ferra Coffee International
House Committee on Foreign Affairs
Subcommittee on Terrorism, Nonproliferation and Trade
Hearing date 19 of May, 2015
Hearing Entitled, "Trade Promotion Agencies and US Foreign Policy.

Mr. Chairman and Members of the Terrorism, Nonproliferation and Trade Subcommittee of the House of Representative's Committee on Foreign Affairs, thank you for inviting me to share my perspective on the Importance of the ExIm Bank to exporting businesses such as mine in the international market, and the competitive influence and edge in the International Exporting Trade that the ExIm Bank provides for United States Companies in the International Market.

I have been working in the Coffee Industry for more than 18 years, and started my own company, Ferra Coffee International, in 2009 with $50.00 in the bank and a passion for international trade and soft commodities.

From the start, the heart, soul and goal of my business has always been to help coffee growers worldwide. I learned very quickly that the coffee grower is the last one in the chain of the coffee trade business to get a fair price for their product...and the last, if ever, to get any training to properly-assess the quality of their coffee or effectively negotiate a fair price with international buyers.

To make a lasting difference in the lives of these coffee growers, by paying them fairly and according to the quality of their coffee, to prevent families from being broken apart because parents or young adults must leave their home countries and families to come to the United States to work illegally, my business plan had to change.

Ferra Coffee International had to change from a specialty micro roaster that only supplied high quality coffees to the US market, to a company that sells that same product to the international market.

If Ferra Coffee sold only to distributors in the State of Texas or any other domestic state, we could only expect to sell one or two pallets of approximately 1200 lbs. at a time. In contrast, when we are able to secure an international contract, with an international distributor, orders are generally for at least one full container, which is 48,000 lbs. average. It is easy to see the advantage.

Behind each bag of Ferra Organic Flavor Coffee, or each box of Ferra Liquid Coffee there are seven (7) US Small Businesses that supply products and services contributing to our finished product, that is labeled USDA Organic, Roasted, Q Graded and Manufactured in San Antonio, TX, USA.

Ferra Coffee has successfully started offering our Roasted Specialty Coffees internationally, thanks to the support that the ExIm Bank has provided. By their doing due diligence in checking that the distributors with whom we establish relationships and make contracts are legitimate, and that we do not get involved with dubious, unreliable or criminal groups while conducting International Trade business, the ExIm Bank has truly ensured our success.

The ExIm bank also literally insures payment our shipments, and has given my company-the peace of mind of knowing that the value of the product shipped is securely and legally insured. The ExIm bank also allows me the ability to offer products that have a higher quality for the Gourmet Market.

Ferra Coffee International, along with the other small companies that are our partners, is completely dependent for our growth and survival on our ability to sell internationally. Internationally, there is no market saturation, and USA Made and USDA Organic products have a great deal of value to the consumer.

The ExIm Bank is the one and only entity that we can rely on to help us continue to grow, be competitive in markets that are not available to us in our own country, and to give us the necessary competitive edge in international trade.

My small company, by purchasing coffee directly from the grower is contributing to stopping illegal immigration and the displacement of family units. We also help seven (7) other small US businesses with opportunities to hire more workers and increase their revenue by purchasing more products for international contracts.

Without the ExIm Bank offering their services that allow my company to engage in this type of international trade contracts I will not be able to grow my business beyond the saturated coffee market that we have in the USA.

The ExIm Bank can also do so much more. It can help me, and other companies like mine which conduct businesses that are usually not funded by the regular bank system because we have contracts in international markets. By not acting as a conventional bank to qualify exporters like me for financial low interest loans. Instead of using only a credit score to qualify a company for funding, ExIM Bank could look at, and assess the overall potential, growth and increased revenue that can be achieved by additional funding. That is the vision that is needed, and that we are asking for.

My company is not able to get loans from conventional banks because all of my products are bought in cash. That is the way the majority of specialty coffee and tea companies operate. We do not have a history of loan payments or credit with coffee or tea growers. We need the ExIm Bank's support.

Conclusion:

The ExIm Bank is a crucial, vital and important entity that I and many other US Exporting Companies depend on for survival, growth and the ability to compete successfully in business.

Every USA Company that has the capability to export and do business internationally, whether that company is small or large, contributes to the health of our National Economy and our country's leadership in innovation, in the development of more qualified and competitive businesses, and of individuals who see our potential markets as a global opportunity for the kind of success that is indeed, the greater good.

In all, it makes us, USA entrepreneurs and exporters, even more valuable men and women, who deserve programs that foster our capability to build better, more productive, stronger businesses and have a bright and secure future. The ExIm Bank has the unique ability to make this happen.

Every aspect of the ExIm Bank has the potential to create positive and strong advancement for the good of all of us, and of our USA.

Thank you for your time, kind attention and for inviting to share my story on behalf of all Exporters in the USA.

Mr. POE. Thank you, Ms. Jaime. Ms. Seidewand.

STATEMENT OF CARLY SEIDEWAND EPPLEY, VICE PRESIDENT, GLOBAL SALES AND ADMINISTRATION, RESIN TECHNOLOGY, LLC

Ms. SEIDEWAND. Thank you, Chairman Poe, Ranking Member Keating, and the other subcommittee members for inviting me. I hope that my story can actually point to the interconnection of small- and medium-size businesses across the United States as exporters, some direct, and some indirect.

Resin Technology is a now $100 million global petrochemical trading and compounding company. It has been in operation for close to 20 years. I am second generation of my family business. It was started by my parents and it is still a father-daughter run business today. We sell about 98 percent U.S.-made petrochemicals in Houston, Texas. It is an extremely important area for us. And we export into over 30 countries worldwide, some developing nations, and more mature economies. The majority of our sales go into vinyl construction products worldwide such as water pipe, windows, wire and cable, and even some more sophisticated engineered parts, all dependent on the level of development in those import countries.

Today, our largest export markets are Canada, Europe, very importantly, the Caribbean and Mexico, Latin and South America account for about 50 percent of 2014 sales. It should be noted that we started the business at about 70 percent U.S. sales and with the help of EXIM financing it is now over 70 percent export sales. So it has made a huge difference in sort of where our business has gone.

We have fierce competition from large commodity international trading firms and foreign producers, the largest ones being between Korea, China, and especially Japan where they sell very much on price and very low cost to no cost financing in markets where we have to compete.

Prior to the housing decline, we were solely focused in the U.S. and Canadian markets with over 70 percent sales in the U.S. We started exporting at the end of '06, doubled our sales, year on year for many years. And we didn't really have the idea that the housing boom would persist, so we knew that export needed to be a part of our future growth plan. And obviously, 2008, 2009 proved that point very clearly and we needed to compensate for those lower sales since everything really—the largest portion goes into construction projects.

In 2011, Bank of America suggested using Export-Import Bank to back our export receivables and inventory via a working capital guarantee program where domestic sales remain under their current structure. We had for probably 2 years tried to find other ways to finance our exports with Bank of America by increasing the size of our insurance policies. We looked at inventory appraisals to try and increase the advance rates. We do use an external credit insurance agency which is a big portion of our—what is underwritten. But it never could meet the size that we needed to really compete in the export market on the buy and on the sell side because a very important part of our business is being able to finance the supply side with these major Fortune 500 companies.

What we did was increase our advance rates up to 90 percent of receivables and 75 percent of export inventory, affording us to be able to compete with our Asian counterparts which is the most important part because oftentimes they have not only subsidies on their freight, but their financing seems almost zero to very low in comparison and offer extremely long terms where we normally try to finance 60 to 90 days. Sometimes they will finance 120, 270 days. It is a very different Wild West in certain areas of market. And since our product is a more commodity element, the 75 percent loan rate than inventory really isn't considered excessive and our credit that we do with customers is the Euler-Hermes credit insurance policy or via letters of credit all with Bank of America or with local banks in the United States.

In our view, the Working Capital Guarantee Program with EXIM has been more disciplined. They have audited us more often than even our domestic program has. They have very detailed, down to customer level on sales. We have to provide waiver letters for foreign currency transactions which is very important in our markets. There is tough management on credit overseas and we also have to have comprehensive marine and warehouse insurance policies.

EXIM financing is actually somewhat expensive but where we couldn't find any other options that didn't include factoring or discounting by the bank with letters of credit where none of customers can, there really was no other option for us to really increase to where we needed to be. And really, Bank of America said they just couldn't justify the export receivables because they didn't have the global infrastructure or for inventory if something did go wrong to actually collect on those receivables which is a very important point.

But the other point that I first brought up was how we partner with hundreds of small to medium size U.S. businesses across the United States. We are in the Boston market and obviously we have people there, but also we have a lot of people that are near the ports in Houston and Louisiana that do trucking, toll blending, packaging, warehousing, freight forwarding, ones that don't even realize how much they would be affected if trade by EXIM wasn't financed.

Three such firms that I have mentioned before, Fleur De Lis Worldwide, which is in Chairman Poe's area; TCI, a packaging and trucking firm in New Orleans, Louisiana; and JPI South in Pasadena, Texas, all have doubled and tripled their workforces from our loyalty in working and partnering together.

Now with the new boom that we may see in front of us, petrochemicals, it is even more important for us to capitalize on those. We personally have doubled our workforce from 4 to 12 people and we have actually opened an office in Houston because of the concentration that we need there.

Mr. POE. Can you summarize the rest of your comments? We have your statement for the record.

Ms. SEIDEWAND. No problem. Basically, for us, if EXIM is not authorized, which I think is really the most important point for us, personally, as Resin Technology, we would probably drop back to just a North American business and probably would be somewhere between $30 million and $50 million in sales. We wouldn't be able to negotiate the freight, the actual export contracts. There are about five major U.S. producers that we work with. Three of them are discussing export contracts that we have in place now and all of them continually ask what is happening with EXIM. And if that isn't reauthorized that would obviously—actually signing those contracts for expert, so we would have to reduce in sales, reduce staffing and obviously all the multitude of other businesses that we work with. Because really the foreign companies that are our competitors, they just don't have the loyalty to our other U.S. businesses that we would. And I think that is the most important thing for us.

Mr. POE. Thank you, Ms. Seidewand. Thank you.

Ms. SEIDEWAND. Thank you.

[The prepared statement of Ms. Seidewand follows:]

RESIN TECHNOLOGY, LLC™

1 Forge Village Rd., Suite 2A
Groton, MA 01450
Tel. 978.448.6926
Fax 978.448.5937

Written Statement

Name: *Carly Seidewand Eppley*
Title: *Vice President, Global Sales and Administration*
Organization: *Resin Technology, LLC*
Name of Committee: *House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation and Trade*
Date of Hearing: *Tuesday May 19, 2015 at 10am EST*
Title of Hearing: *Trade Promotion Agencies and U.S. Foreign Policy*

Dear Chairman Poe, Ranking Member Keating, and Subcommittee Members,

I am here as a member of the small business community committed to the export of U.S. goods. Resin Technology is a $100M global petrochemical trading and compounding company that has been in operation for close to 20 years. I am second generation of this business started by my father, an entrepreneur chemist, starting his career under Jack Welsh at GE Plastics. We sell 98% U.S-made petrochemical products from major U.S. Fortune 500 firms in the export market to over 30 countries worldwide, some developing nations and other mature developed economies. The majority of our sales go into vinyl construction products worldwide such a water pipe, windows, wire and cable, and more sophisticated engineered parts, all dependent on the level of development in the economy of the import country.

Today, our largest export markets are Canada, Europe, the Caribbean and Latin/South America accounting for 49% of 2014 sales, though we have seen growth in selected countries in the Middle East and Africa, namely Egypt, Algeria and South Africa. We have fierce competition with large, more commodity-oriented international trading firms and foreign producers from Korea, China and Japan that sell on price and low cost financing where we must attempt to compete by adding a more focused, technical approach via formulation assistance, new product growth and alternative material selection.

Prior to the housing decline, we were focused solely on U.S. and Canadian markets with over 70% of sales in the U.S. We started exporting at the end of 2006 and doubled our exports year on year until we reached a point that we were outgrowing our current financing. Selling resins in the United States and Canada is basically cash neutral, but our end goal with the 2008-2009 construction crash was to compensate for lower U.S. growth with new products and significantly grow our export sales which require longer working capital to compete.

In 2011, Bank of America suggested using the Export-Import Bank of the United States (Ex-Im) to back our export receivables and inventory via their Working Capital Loan Guarantee program and our domestic sales would remain under the current financing structure. What this did was increase our advance rates up to 90% of export receivables and 75% of export inventory vs. 80% and 40-65% affording us the ability to compete with our Asian counterparts whom are given an unfair hand with subsidizes on freight as well as working capital financing. We are selling a product that has commodity elements, so 75% loan rates on inventory is not considered excessive, plus we sell via letters of credit or with our global Euler Hermes credit insurance policy whereby the payment is insured.

In our view, the Working Capital Loan Guarantee program with Ex-Im is more disciplined and audited than our domestic financing ever has been. They require more audits per year, monthly or bi-monthly details on our sales to the customer level, waiver letters for foreign currency transactions and tough management of how credit is given to overseas customers but most importantly comprehensive marine and warehouse insurance policies. Ex-Im financing is quite expensive but it is the only real option for small to medium-sized U.S. businesses to compete in the export marketplace. They have the global infrastructure and power to manage these advance rates where the U.S. banks do not.

We partner with hundreds of small to medium-sized U.S. businesses in trucking, toll blending, packaging, warehousing and freight forwarding that rely on our loyalty. Three such firms that I have mentioned many times before, Fleur de Lis Worldwide, our freight forwarder in Humble, Texas, TCI, a packaging and trucking firm in New Orleans, LA and JPI South in Pasadena, TX have all doubled and tripled their workforces. Now with the new boom, we are working together to figure out how to further manage and capitalize on these opportunities.

We personally have also doubled our workforce from 4 to 12 people between full and part-time and are still growing as well as the multitudes of other small businesses across the country that we partner with to export these US goods. Our workforce is a hard-working and intelligent group of men and women. This month, we have also opened an office in Houston since our future growth and existence depends on exports with a strong concentration in the Gulf Coast, the petrochemical capital of the United States, and where all our export infrastructure is located. We will likely expand some back-office staff in this area as well as in Massachusetts.

Today, the United States is on the verge of a boom in petrochemicals, creating generations of jobs in needed areas around the country. It essentially will upgrade our position in the global marketplace. U.S. petrochemical producers are expanding instead of consolidating for the first time in 20 years. If we do not take advantage of the opportunity in front of us, we could become obsolete and would only give up our position to foreign companies that don't have a loyalty to our U.S. business community and valuable U.S. job growth.

The assistance of Ex-Im financing has not only made us a strong global player but also afforded us the ability to innovate what we can offer into that global marketplace. As a small growing exporter in the United States, we have tried to look for alternative financing but without large assets or resources, it just doesn't exist. If it does exist, it is priced at rates that are completely unsupportable.

If Ex-Im is not reauthorized, our export sales would drop in half overnight as we would not be able to support the capital needs to compete, and if we had to rely on North American markets we would see sales and staff drop at least by half and at our partners as well. Not to mention we are in the midst of negotiating with the US producers on the buy side for our export contracts and it has come into question about the existence of Ex-Im and if they cease to exist, those contracts will be at risk. We are in deep discussions with three of the five producers and each of them has asked to be continually updated on Ex-Im's reauthorization prior to signing.

All in all, we, at Resin Technology, and our partners across the country need to export and in order to do so we need the programs and support that Ex-Im can provide and has provided our nation for years in order to keep us competitive and moving forward. It is vital to our and our partners' existence.

Thank you for your kind attention and allowing me to share our story like many other US exporters.

Mr. POE. The Chair recognizes itself for 5 minutes. I want to thank all four of you for being here. I have a lot of questions. I will submit some of them in writing for the reasons I mentioned earlier. As I mentioned in my opening statement, in Houston, Texas, half of our economy is based upon the Port of Houston, and we are an export port. We send stuff all over the world that goes through our port, so trade is important. Unlike the West Coast, primarily import ports.

Ms. Jaime and Ms. Seidewand, I want to start with you all and then move over to our gentlemen, ladies being first, of course. You have heard all of the comments by all of the witnesses. You both have been here since we started early this morning. You probably read, when you had time and were not doing your work in your business to read, the press about EXIM Bank and the volatile controversy over it. So my questions will be first to both of you specifically, because you are in the business world and you use EXIM Bank.

Ms. Jaime, tell me a little bit more about how your business got started in San Antonio.

Ms. JAIME. Yes, Mr. Chairman. My business got started basically by going to Latin America and finding coffees that were specialty graded which is one of the highest quality in coffee; bringing that coffee into the United States, and selling it here in the United States. Microroasters generally they do and roast approximately 20 pounds per batch. As time developed, we started distributing more to our market in San Antonio and we dedicated ourselves to do commercial roasting for chefs, restaurants, hospitals. We are not in the retail because the retail is over saturated. If you go to the grocery stores, you have more than a dozen different labels, of course, of coffees. So it is not a good idea for my business to have my coffee sitting on a shelf in a supermarket where it is not going to be noticeable.

Mr. POE. So if there was no EXIM Bank, how would that affect your business?

Ms. JAIME. Tremendously.

Mr. POE. How? How would it affect you?

Ms. JAIME. It would affect it because I am not going to be able to grow as quickly and help as many coffee growers as we can when we are exporting.

Mr. POE. Would you be able to export if you did not have the EXIM Bank?

Ms. JAIME. No.

Mr. POE. How much of the business is export business?

Ms. JAIME. Forty percent of my business right now.

Mr. POE. You mentioned in your testimony that EXIM helps screen your distributors in foreign countries to make sure you are not working with criminals. What does that mean?

Ms. JAIME. Well, it basically means that when we have a submission from a distributor overseas, they give us their information. We send that to the EXIM Bank. The EXIM Bank checks to make sure that there is no problems with their payments. That they have a good record of being an international distributor; if they have a history of doing any business with any manufacturer in the United States. And once we get that information back to us, then we can negotiate better with that distributor. If they have never had a history of doing business in the United States, then we are not going to be able to offer any kind of payment terms and they are going to have to pay for that order up front.

Mr. POE. You mentioned that your business helps stop illegal immigration. How in the world does you business help stop illegal immigration?

Ms. JAIME. In the majority of the countries that coffee is grown, the coffee grower is very poor and is very limited in the resources they have. It is countless and countless number of times, every year that I go to the Latin American countries, I find coffee growers that say please represent us well, ma'am. Please sell our product well and pay us well, so that I don't have to leave my country, my family, and have to go and work in the United States illegally.

Mr. POE. Ms. Seidewand, same line of questioning for you and I will try to move as quick as I can. if you don't have EXIM, how does that affect your Boston, Houston business? Microphone.

Ms. SEIDEWAND. It is interesting how it crosses between both of you gentlemen. Really what it means for us is no growth. Really in the United States when housing did crash, there was also a lot of consolidation of U.S. customers. A lot of manufacturers started to consolidate. They were bought by global conglomerates. So the U.S. market in manufacturing actually shrunk which is where we would sell into.

So the market isn't even still the same then—isn't the same now as it was then and really it wouldn't eliminate exports, but it would far reduce them and make them much less attractive.

Mr. POE. Why?

Ms. SEIDEWAND. Because we just wouldn't have the financing to offer terms. When I buy from U.S. producers, they give me 30 to 60 days terms. I need time to actually export, prepare and sell those exports. And then I have to compete on terms. I need potentially 60 to 120 days of working capital financing which if your line is being held and it is not large enough because you can't lend against enough of your inventory and receivables, you just don't have enough capacity.

Mr. POE. So why not go to Bank of America and get those 120-day time limits as opposed to 30 to 60?

Ms. SEIDEWAND. So LCs are wonderful. If I could do every single customer on a documentary letter of credit that came directly to me and was all the terms that I wanted, then I would do every one. But in certain areas, especially Latin America, as I am sure she knows, LCs are not something that they are able to do.

Mr. POE. Banks won't do those?

Ms. SEIDEWAND. They won't do them.

Mr. POE. American banks won't do those?

Ms. SEIDEWAND. No, the local banks there. The customers won't actually open an LC for them. And if they do, it could cost as much as 30 or 40 percent. They just don't make sense in a commodity market.

Mr. POE. Okay, thank you. My time has expired. I will yield from the gentleman from Boston, Massachusetts.

Mr. KEATING. Thank you, Mr. Chair. I want to just to follow a couple of threads one with you, Ms. Seidewand. You mentioned about what other international areas of a company—other countries, actually, are offering in terms of some of the financial terms that you need. So you are competing against them. Can you tell us, you mentioned Asia, generally. Can you tell us what countries and what they are doing that makes it so hard for you to compete?

Ms. SEIDEWAND. So the loudest one I would say would probably be from the trading companies in Japan where their lending rates are so low that they are able to offer terms that far outweigh what I can compete with. I may have the same price because we have competitive products in the United States. For a service, or maybe even offering the same types of products from the United States, that they and oftentimes are also them and four other countries' worth of products. But they can do so maybe doubling my terms. They consistently extend, extend, extend, and so if I can't compete with that, I am not able to offer that to those customers on a long-term basis.

Mr. KEATING. So it just gives you a level playing field?

Ms. SEIDEWAND. Absolutely. Absolutely.

Mr. KEATING. The other thread I wanted to just follow up on and thank you for service, General Jones, and having you here has prompted this question that I wasn't prepared to ask, but your background and I think you are uniquely positioned to answer this. Looking at our trade issues, shared values with Europe and looking at the incidents of what is going on Ukraine and some of the other countries around there, can you draw a parallel to the advantages of our trade particularly with countries who have shared values and our security in this part given your NATO background?

General JONES. Thank you for that question. I think that we are living in a very different century and whereas the 20th century was characterized by a lot of violence, global wars, and who had the strongest and the best armies who wanted to fight, the 21st century to me is much more of an economic competition. And this is the path that the country—this is a national security issue as well. And I believe that if you look at Mr. Putin's aggression in the Crimea and Ukraine and the response to it, it is primarily economic. And there are projects afloat in Europe that the U.S. is also participating in to draw up long-term consequences for Mr. Putin's behavior. We can do something about reducing Europe's dependence on Russian energy, but it is an economic response. We can help Ukraine divest itself of being too dependent on Russian energy.

And so I think the times that we live in, we need to have the tools to do that. The Transatlantic Trade and Investment Partnership is already our largest alliance of over $1 trillion in trade, $4 trillion in investment, and 13 million jobs. And this is a way that we can connect with Europe in the 21st century, much the same way we did in the 20th century, but with a much more balanced approach vis-à-vis military and economic development.

So many of our nation's responses to international threats that are facing us are going to be economic. The day that ISIS is defeated in Iraq is a day that we need to have an international plan, hopefully, with U.S. leadership to have economic recovery for that region because if we don't, as we did in the Iraq invasion, Iraq will just continue to spiral out of control.

In my view, it is a simple formula. Security plus economic development, plus governance and rule of law, are the three components that have to be factored into international engagements in the 21st century.

Mr. KEATING. I would mention, too, that some of these countries wouldn't be able to participate in the sanctions.

General JONES. Exactly.

Mr. KEATING. If they are not strong and join with us which have really thwarted Putin's aggression more than anything else. And the second thing, even with NATO, part of their 2 percent contribution is limited because of their economic well being.

General JONES. Sure.

Mr. KEATING. And that is important, too, because hopefully after Wales and the economy that is advancing although too slowly to be able to meet that challenge. Do you think that is important as well?

General JONES. The only reason Iran is at the table is because of economic sanctions. The only reason Mr. Putin is going to find a way out of his problems in Ukraine is because the economic conditions will ultimately force him to do that. I believe that to be true.

Mr. KEATING. Thank you for your comments.

General JONES. Thank you, sir.

Mr. KEATING. I yield back.

Mr. POE. I thank the gentleman. I have a couple of questions left for Mr. Ikenson and General Jones and then I will yield to the ranking member if he has further questions.

Mr. Ikenson, two questions. I will give you both questions and then answer both of them. If EXIM Bank is reauthorized, what reforms do you think must be in the reauthorization? And second, you said that manufacturers are victims of the Export-Import Bank. National Association of Manufacturers representing large and small manufacturers support the reauthorization. So could you explain that discrepancy and also answer the first question?

Mr. IKENSON. Sure.

Mr. POE. Briefly.

Mr. IKENSON. Thank you for the question. Well, I hope that EXIM is not reauthorized. I believe in free market capitalism and I think we should try it. But if it is to be reformed, to me, the big problem is not necessarily the burden on taxpayers. It is the absence of concern toward other companies when an export sale is subsidized, that customer, that foreign customer benefits at the expense of the U.S. customers of that U.S. exporter. And I know that Mr. Hochberg mentioned that they do a cost benefit analysis of all of their pending transactions. I rather doubt that they do that with respect to—they never go into full mode with respect to the impact on downstream industries.

A study that I did took a look at the costs, the costs that are actually imposed on these companies by seeing how important the export product is to the downstream industry as a manufacturing input. And based on that and based on the largess that is doled out to the exporting industry and to the downstream industry, I was able to calculate a cost. The problem is this is a situation of what is seen and that which is not seen. We see the export subsidies and we all seem to like exports and we celebrate that, but we don't often see the impact on the downstream industries. Delta is a big company and it was able to discern it and bring it to the attention of the public. But there are lots of companies, smaller companies, that rely on inputs that don't even really realize that they are being affected in a relative way, vis-à-vis their foreign competitors, so some mechanism that brings that to the fore so that there is a channel through which companies can evaluate the impact on them and maybe seek damages.

That sort of parlays into the second question, the manufacturing sector has many, many victims in a variety of states. It costs about $2.8 billion per year.

Mr. POE. Then why does the National Association of Manufacturers support EXIM Bank?

Mr. IKENSON. It does because those who benefit, the companies that benefit from it are the ones that are speaking out. They want EXIM. We have heard some stories here about how crucial EXIM is to their businesses. The companies that suffer and then incur costs are often unaware of what is going on.

Mr. POE. So they don't know they are victims?

Mr. IKENSON. Many times they don't know that they are victims. They are not as big as Delta.

Mr. POE. I need to reclaim my time because we are about out of time.

General Jones, be more specific. You make the statement that EXIM Bank is important for national security. Why is EXIM Bank important for national security and what would be the consequences if we didn't have it?

General JONES. Mr. Chairman, if I could just quote from my formal statement and I quote, "If EXIM Bank is shut down, and the United States leaves the field on export financing, such a vacuum would not only undermine U.S. business abroad and lose jobs at home, but undermine American influence and economic leadership at a time when it is needed more than ever."

I believe it is an instrument that is valuable. I think the numbers are impressive. And I don't believe it is in our national interest, if I could use a military term, "to unilaterally disarm." If we do this, you can be sure that the Russians, the Chinese, our friends in Europe, they are not doing this. They are competing. And they are competing every single day with their missions, not only trade missions but heads of state missions, and I believe that the future is the public and private sector finding more ways to work together, not ways in which we drift apart. And I think that is a very fundamental difference between us and the rest of the competitive world that we deal with.

Mr. POE. Thank you, General Jones. The Chair will yield to the gentleman from Massachusetts, Mr. Keating, the ranking member.

Mr. KEATING. Well, briefly. In response to Mr. Ikenson's concern, I can only ask the two people that are actually in business, Ms. Jaime and Ms. Seidewand. If you are worried about downstream affecting it, well in a void like that that downstream I am afraid is going to be taken by another country, acting in ways that we don't, directly getting involved as a country funding. So in a void in that downstream, it is going to be filled somewhere by someone.

We want it filled by the U.S. Could either of you comment on that? Am I right in that thinking?

Ms. JAIME. Yes, Mr. Congressman. Basically, just in my field, coffee bean is the second most profitable commodity, traded commodity. If we don't act as importers and also exporters and be able to fill right now the emerging markets, international markets for specialty coffees, you are right. Somebody else is going to get it.

One of the main problems that I have when I go to those countries to buy those coffees that are specialty and they are high quality is that the Chinese buyers are coming in and being very aggressive to be able to get those coffees. And since the coffee grower really does not know how to negotiate for those contracts, they are still on the losing side. So it is important for us not only to go, be competitive in purchasing these coffees, but immediately put them in the international market that we have a great opportunity to do that right now.

Mr. KEATING. Thank you, Mr. Chair. I yield back and I thank all of you for taking the time to be part of this hearing.

Mr. POE. The gentleman yields back. I also want to thank you four for being here most of the morning, here at the testimony and your testimony. And as I mentioned to the first panel, there may be questions submitted by members on both sides on these issues and they will be submitted to you because of the necessity of hearing your answers from other Members of Congress that may not have been able to ask questions. In any event, I thank you for being here and the subcommittee is adjourned.

[Whereupon, at 12:17 p.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE RECORD

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on Terrorism, Nonproliferation, and Trade
Ted Poe (R-TX), Chairman

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held by the Subcommittee on Terrorism, Nonproliferation, and Trade in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at http://www.ForeignAffairs.house.gov):

DATE: Tuesday, May 19, 2015

TIME: 10:00 a.m.

SUBJECT: Trade Promotion Agencies and U.S. Foreign Policy

WITNESSES:

Panel I
Mr. Fred P. Hochberg
Chairman and President
Export-Import Bank of the United States

The Honorable Elizabeth L. Littlefield
President and Chief Executive Officer
Overseas Private Investment Corporation

The Honorable Leocadia I. Zak
Director
U.S. Trade and Development Agency

Panel II
General James L. Jones, USMC, Retired
Founder
Jones Group International
(Former National Security Advisor to the President of the United States)

Ms. Susan Jaime
Founder
Ferra Coffee International

Mr. Daniel J. Ikenson
Director
Herbert A. Stiefel Center for Trade Policy
Cato Institute

Carly Seidewand Eppley
Vice President
Global Sales and Administration
Resin Technology, LLC

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Terrorism Nonproliferation and Trade* HEARING

Day *Tuesday* **Date** *May 19, 2015* **Room** *2172*

Starting Time *10:00 a.m.* **Ending Time** *12:17 p.m.*

Recesses ☐ (__ to __) (__ to __) (__ to __) (__ to __) (__ to __) (__ to __)

Presiding Member(s)

Chairman Ted Poe

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑

Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

"Trade Promotion Agencies and U.S. Foreign Policy"

SUBCOMMITTEE MEMBERS PRESENT:

Reps. Poe, Wilson, Perry, Ribble, Keating, Sherman, Higgins, Castro, Kelly

---

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

Rohrabacher

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

TIME SCHEDULED TO RECONVENE ______
or
TIME ADJOURNED *12:17 p.m.*

Subcommittee Staff Director

MATERIAL SUBMITTED FOR THE RECORD BY GENERAL JAMES L. JONES, USMC, RETIRED, FOUNDER, JONES GROUP INTERNATIONAL (FORMER NATIONAL SECURITY ADVISOR TO THE PRESIDENT OF THE UNITED STATES)

Published 3:25 pm, Friday, April 17, 2015

Few people who have experienced war would suggest armed conflict as anything but a last, strategic resort. Yet in times of geopolitical uncertainty like the present, we find ourselves groping for tactical, short-term responses to crises we have neither prevented nor anticipated, and all too often the proposed solutions involve military force.

Obviously, we must defeat entities like the Islamic State in Iraq and al-Sham that are a cancer on world civilization. But we also need to broaden opportunities for peace by preventing competitors from becoming adversaries and giving violent extremism a chance to flourish. In my view, employing American leadership to expand international trade presents precisely such an opportunity--one we squander at the risk of US interests, lives, and national honor.

Promoting robust international trade contributes to national prosperity--a simple, empirically based fact of modern economic life. A strong economy won't solve all our problems, foreign or domestic, but without it we can solve very few of them. Among the enduring lessons of the past century is that a prosperous America is far better able to protect the country's values and advance its interests in a dangerous world. Last year, U.S. exports supported 11.7 million American jobs. Since-mid 2009, the increase in U.S. exports has accounted for one-third of our overall economic growth. Striking deals that continue to boost these exports will bolster our economy, protecting the military edge and global influence that economic vigor affords.

More broadly, however, trade runs right to the heart of international security in the 21st century. Maintaining global stability, essential to America's peace and prosperity, is no longer a function solely of our ability to deploy and defeat, but rather of our capacity to engage and endow--and ultimately to turn promise and opportunity into jobs and a higher quality of life. By leading on trade, the United States tightens our bonds with allies around the globe, strengthens our influence in would-be hotspots, and fosters greater global stability through expanding economic cooperation.

Three initiatives underway epitomize the importance of US trade leadership in these challenging times.

In Asia, approval of the Trans-Pacific Partnership (TPP) will help stabilize a region in flux. An ambitious and comprehensive trade accord among the United States and 11 other countries that touch the Pacific Ocean, the TPP is essential for expanding our market access and influence in this strategically critical area. These 12 nations account for nearly 40 percent of the world's GDP and about a third of all trade, creating not only an enormously lucrative trading bloc but a vital geostrategic counterweight to China.

Likewise, the Transatlantic Trade and Investment Partnership (TTIP) is the next great step forward in the US-European economic relationship. It is already the world's largest such alliance, encompassing $1 trillion in annual trade, $4 trillion in investment, and 13 million jobs. TTIP would enable us to build on this powerful foundation and scale it to loftier heights through even greater economic integration and collaboration. Vibrant U.S. and European economic cooperation means a stronger and more capable NATO--a 28-member military alliance that remains indispensable to keeping the world free and safe.

In Africa, updating and renewing the Africa Growth and Opportunity Act (AGOA) will boost human development and advance U.S. economic and national security interests in this continent of fast-growing markets and unparalleled human potential. Africans want and need greater economic engagement with the United States to build a better future. Our relative absence, commercial and otherwise, creates a dangerous void being filled by rivals who don't share our ideals and aspirations--a bad outcome for all. On the African continent, as elsewhere, implementation of a trade-based US economic engagement strategy today may well obviate the costly need for security-based crisis response tomorrow.

If the United States--home to the best products and companies on the planet--squanders these three opportunities to build prosperity and relationships through enhanced trade, then we lose. If we fail to set the example needed to help lift millions out of poverty, not by the caliber of arms but by the power of free and efficient markets and healthy economic competition, then the world loses.

As always, American leadership remains the indispensable element. That leadership should begin with Congress granting President Obama trade promotion authority. For four decades, that's how Congress has worked with every President--Republican and Democrat alike--to help America speak with a single voice and strike deals that advance our nation's economic and strategic interests.

The words of General Eisenhower ring as true today as when he first uttered them: "If we fail in our trade policy, we may fail in all. Our domestic employment, our standard of living, our security, and the solidarity of the free world--all are involved."

General James L. Jones served as National Security Advisor to President Barack Obama, Supreme Allied Commander Europe, and Commandant of the US Marine Corps.

[NOTE: The article entitled "The Task Ahead," submitted by General James L. Jones, is not reprinted here but the link may be found on the following Internet page: http://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=103486]

○