

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

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING WHAT CHANGES SHOULD BE CONSIDERED TO PROMOTE
SMALL- AND MEDIUM-SIZED BUSINESSES, WHILE CONTINUING TO
ENSURE THAT ANY RISK TO AMERICAN TAXPAYERS IS MINIMIZED

JUNE 27, 2019

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C O N T E N T S

THURSDAY, JUNE 27, 2019

	Page
Opening statement of Chairman Crapo	1
Prepared statement	28
Opening statements, comments, or prepared statements of:	
Senator Brown	2
Prepared statement	28

WITNESS

Kimberly Reed, President and Chairman of the Board of Directors, Export- Import Bank of the United States	4
Prepared statement	30
Responses to written questions of:	
Senator Scott	38
Senator Sasse	41
Senator Warren	45
Senator Cortez Masto	51

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Statement of the Bankers Association for Finance and Trade	65
Statement of the Reinsurance Association of America	67

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THURSDAY, JUNE 27, 2019

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

The Committee met at 10:02 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. The Committee will come to order.

Today the Committee turns its focus to the Export-Import Bank of the United States.

Just last month, the Senate confirmed Kimberly Reed to be President and Chairman of the Export-Import Bank, along with board members Spencer Bachus and Judith Pryor.

The nominations of Claudia Slacik and Paul Shmotolokha to be board members have been approved by this Committee and are pending before the full Senate floor.

United States exporters are able to compete very effectively in international markets on the basis of price and quality. However, when aggressive foreign Governments provide subsidies as a matter of policy or general practice to their exporters, U.S. exporters are placed at a competitive disadvantage purely because of such financing arrangements.

According to the 2017 EXIM Bank *Competitiveness Report*, Chinese export credit agencies provided more medium- and long-term investment support than the rest of the world combined.

As President Trump and other senior officials in his Administration have noted, a fully functioning Export-Import Bank has the ability to provide financing and level the playing field in response to Governments like China, which can provide almost limitless subsidies from its treasury and place the U.S. exporters at a disadvantage.

Director of the National Economic Council Larry Kudlow recently noted that the EXIM Bank is vitally necessary in the current trade environment in order for the United States to compete and succeed in international markets, calling it “a financial tool and a national security weapon.”

During her confirmation process, Chairman Reed committed to focusing on strong standards of conduct, increased transparency,

sound risk management practices, and eliminating waste, fraud, and abuse at the Bank.

Now that she has been confirmed, I look forward to hearing about the work that she is doing and that which still needs to be done to process the backlog of pending export deals and how the reforms that Congress initiated in the 2015 reauthorization are being implemented.

In addition, we will begin the debate about what changes, if any, should be included in the reauthorization for the EXIM Bank's charter, which is set to expire at the end of September.

We have been seeking feedback from stakeholders, our colleagues, and the Administration as part of the reauthorization process.

In the 2006 reauthorization, I worked on a number of provisions to make sure that small business communities have advocates to help address their needs and concerns.

However, the Bank historically has had trouble meeting its 20 percent small business mandate in terms of authorizations, as opposed to sheer number of transactions.

I look forward to discussing what changes should be considered to promote small- and medium-sized businesses, while continuing to ensure that any risk to American taxpayers is minimized.

Despite only being on the job a short time, Chairman Reed's perspective is very valuable to this process, and she will be a critical partner throughout the reauthorization.

Senator Brown.

OPENING STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, for calling this important hearing.

Welcome. I am so glad you are here for a whole lot of reasons, so thank you.

I want to thank the Chairman for his work to advance EXIM's board nominees. We have restored, finally, EXIM's board quorum, but the full Senate, as the Chairman said, needs to consider the nominations of Paul Shmotolokha and Claudia Slacik so they can provide their expertise as the bank resumes full operations.

Today we will hear from the bank's new President, Kimberly Reed, been at work for 7 weeks. She has hit the ground—I do not use cliches, so I would say she has hit the ground sprinting. Thank you for that, traveling the world promoting U.S. economic interests.

I am grateful that the full Senate confirmed Ms. Reed last month. Every single Democrat in the Senate voted for you, and I could see the gratitude as each of us arrived and you walked up here. Thank you for that.

She was confirmed 79–17. I especially want to call out Senator Rounds—he could not be here today for this hearing, but for his support and work on all that he has done on reauthorizing and getting these nominees through.

These overwhelming votes make it clear, we have strong bipartisan support for the bank's mission of helping American businesses and American workers compete. Look around the world. There are now 109—109—export credit agencies and credit programs that support foreign, non-U.S. manufacturers. Every other

major Nation has been aggressively helping their companies win sales and the jobs that come with them, jobs that could be in the United States if EXIM had been functioning the past 4 years. And it was not functioning because of this President and this Vice President and this Republican Majority not wanting to move forward.

China has multiple, massive export credit agencies. In 2017, China's two official export credit agencies provided one-third of the world's medium- and long-term export credit, and their broader medium- and long-term investment support for Chinese exports is greater than the rest of the world combined.

Chinese export credit agency activity is key to their plans to sell Chinese-made infrastructure throughout Asia, Africa, and Europe, under their Belt and Road Initiative. Senators or anyone else who travels in any of those continents see the Chinese presence. China has provided more than \$500 billion in insurance to Belt and Road projects just in the last 5 or 6 years.

China is far from alone. The term "weaponization" is used to describe what European and Asian Nations are doing to make their export credit agencies more aggressive, more flexible, and more proactive. If Congress is serious about ensuring American businesses and workers stay competitive, we must have a robust export credit agency.

We all know what happened here in Congress. In 2015, during the last debate on reauthorizing the bank, a small group of opponents supported by far-right special interests tried to kill the bank altogether. When that did not work—I thank Chairman Crapo for his work on this. When that did not work, they decided to block all nominees to the bank's board and block all transactions greater than \$10 million dollars, essentially straitjacketing, handcuffing American companies and American workers.

That had real consequences for our businesses and for our workers. The amount of jobs EXIM supported dropped from—think about this—164,000 to just 34,000 while the bank was hobbled. I had dozens of Ohio companies—they were not Boeing. They were not the large companies. They were supply chain companies, many of whom I had never heard of—dozens of Ohio companies come to me, representing thousands and thousands of jobs that could not deliver because of our inability to pass this. That obstruction hurt Ohio manufacturers. Ohio companies exported \$400 million a year in products using EXIM credit assistance. That amount has been cut roughly in half.

We know, Ms. Reed, the work that you have to do to make up for that.

We can turn the page. We need to provide the Bank a long-term reauthorization of 7 years or longer, as the House has done.

American exporters, particularly small businesses, need a reliable partner. EXIM steps in when private banks and insurers cannot assist or complete a transaction. If Congress lets EXIM lapse again, the greatest pain will be felt not by Boeing and the big guys, but by small businesses, including the small businesses that form the supply chain for these larger companies.

Last year, EXIM initiated \$2.2 billion in authorizations that support small businesses. Three-hundred-and-fifteen small business exporters used EXIM small business products for the first time.

Congress must also increase the bank's authorization limit or exposure cap, which is currently set at \$135 billion. EXIM must be ready to assist new transactions.

Finally, Mr. Chairman, a renewed bank must be dedicated to transparency and accountability. EXIM has carefully managed risks associated with its transactions, as we see from its extremely low default rate.

The bank must continue to be vigilant in monitoring risks and preventing fraud. The bank must also be vigorous in complying with requirements set out for the bank to monitor and mitigate environmental and social impacts of projects that receive financing.

President Reed and the new board have taken the long-overdue steps of finishing the implementation of reforms from the 2015 export reauthorization. Thank you for that. I look forward, Madam President, to hearing about that.

If President Trump and Republicans in Congress are serious about helping American manufacturers after years of obstruction, they need to work with us to reauthorize the bank before the end of September 30th.

I would urge my colleagues to visit some of the businesses in Ohio or in Montana or Rhode Island or Minnesota or Georgia or Pennsylvania or Idaho and see the work around the country that EXIM is doing.

We have a choice. Do we care about these businesses? Do we want to promote American manufacturing and American workers, or do you care more about extreme special interests? The choice is ours.

Thank you.

Chairman CRAPO. Thank you.

As I indicated, we are joined today by the Honorable Kimberly A. Reed, President and Chairman of the Export-Import Bank of the United States.

I thank you for joining the Committee this morning, and, Chairman Reed, you may proceed.

**STATEMENT OF KIMBERLY REED, PRESIDENT AND CHAIRMAN
OF THE BOARD OF DIRECTORS, EXPORT-IMPORT BANK OF
THE UNITED STATES**

Ms. REED. Good morning. Chairman Crapo, Ranking Member Brown, Members of the Committee, thank you for inviting me to testify exactly 7 weeks after I was sworn in as President and Chairman of the Export-Import Bank of the United States.

This is my third time to come before this Committee. I have taken our conversations over the past 2 years to heart. Under my leadership, it is a new day for EXIM. I am committed to working with you to transform this agency.

Let me set the stage by sharing my priorities that I relayed to my nearly 400 dedicated EXIM colleagues on day one. I am committed to fully reopening, reforming, reauthorizing EXIM, and providing positive results for America's workers and businesses while

protecting taxpayers, so that we can better compete with countries like China.

As I have testified, I am prioritizing small business. Since my first day, we have approved 260 small business authorizations, and again, that was just 49 days ago. We will build on this success, such as with agricultural exports in collaboration with the U.S. Department of Agriculture.

President Trump understands that EXIM supports his agenda of creating jobs and bringing manufacturing back to the U.S.A. He asked me to fight to give American workers a level playing field and to expand foreign markets for American-made goods.

He also knows that EXIM advances U.S. strategic interests around the world. It is a tool in our economic and national security toolbox at a time when global competition has never been more intense.

Today EXIM offers a full range of financing but only as the lender of last resort. EXIM is self-financing because of the fees that interests it charges to its international customers.

After covering costs, EXIM has been able to send nearly \$10 billion to the U.S. Treasury since 1992. EXIM has had an average default rate of less than .5 percent over the past decade because of the diligence that goes into the review and structuring of these transactions.

With nearly \$40 billion in the pipeline and more applications on the way, EXIM staff estimate that \$20 billion in transactions will be presented to the board for consideration in our first year of full functionality, but we must be responsible and protect taxpayers. That is why I am focused on reform.

During my confirmation hearing here, I committed to increased transparency, strengthen taxpayer protections, improve protection for domestic companies, ensure EXIM does not crowd out private financing options, crackdown on bad actors, and work to the reliance on export credit agencies globally.

Under my leadership, we have made progress on these efforts over the past 49 days. Immediately after being sworn in, I went to China for the annual G12 Export Credit Agency meeting. I made clear to my foreign counterparts, my commitment to boosting transparency, leveling the playing field, and reducing the reliance on financing by export agencies globally.

As an outcome, I secured support for the United States to host the 2020 G12 here in Washington so that we can make our case more directly, and we will be in a lot of discussions with our G12 colleagues between now and then.

We also held our first board meeting at EXIM in nearly 4 years and satisfied the outstanding 2015 reauthorization reforms, including approving a chief risk officer and a chief ethics officer, and I have begun discussions to strengthen our additionality and economic impact procedures.

I also value diverse external feedback and advice. As such, we are reestablishing and seeking nominations for our Advisory and our Sub-Saharan Africa Advisory Committees.

This is just a glimpse of all that has been happening. One of the major challenges facing our U.S. exporters will be highlighted in EXIM's soon-to-be-released *Competitiveness Report*, which exam-

ines how deeply and widely foreign export financing has changed over the past decade.

Competition is fierce. There are now, as you will see in the report that you will receive tomorrow, 112 export credit agencies in other countries, up from 95 when I testified before you in 2017.

Today China is the largest provider of official export credit, providing an estimated \$39 billion in medium- and long-term export credit financing, more than the next top three export credit agencies combined.

The Administration looks forward to working with this Committee and Congress to reauthorize EXIM so that the United States is fully able to act as a market-oriented counterweight to China and other Nations that use export and trade-related financing in increasingly strategic and predatory ways, with long-term consequences to U.S. economic and national security.

As I previously testified, the United States will not unilaterally disarm.

In closing, I again want to thank President Trump for his support. The President told me that the world needs to—and I quote—see more products stamped with those four beautiful words “Made in the U.S.A.”, close quote. America’s workers need Congress to reauthorize EXIM to help make this happen.

I look forward to your questions.

Chairman CRAPO. Thank you very much, Chairman Reed.

As we already both mentioned, we have heard a lot about China. We have heard from the President, members of his senior team, and from many in Congress about the opportunity to make better use of EXIM to combat actions by China that are preventing U.S. businesses from being able to compete on a level playing field.

Many see the reauthorization of the bank as an opportunity for Congress to strengthen EXIM’s role. You discussed some aspects of this in your testimony, and I just want you to further describe, if you will, how you see—what role you see EXIM being able to play in helping U.S. businesses level this playing field.

Ms. REED. Thank you.

It has been a very intense 49 days but a great 49 days, and I again want to thank this Committee for your vote in support of me and the full Senate.

We have had a lot of discussions internally, and I have had a lot of discussions externally. I spent time with 20 financial institutions, back-to-back half-hour meetings, where I heard over and over again, the U.S. is back in business, but the paradigm has changed. And that paradigm includes, as we know, China.

The world is looking for the U.S. to be part of what is happening with now, and so certainty through reauthorization is the number one key thing that we can do to ensure that we are having U.S. businesses of all sizes—and I know there are constituents in every single State who benefit from EXIM—so that they can make products and provide services that go everywhere in the world where there is a need. And, again, EXIM provides a very special tool in that tool box when there is a gap of financing. We want to see the world buying U.S. products not only for economic security but also for national security.

And China is there right now, and I know many of you have traveled all over there world. They are everywhere, and we do not want to fall behind anymore, so we need to be there.

Chairman CRAPO. Thank you.

Again, you touched on this as well in your full submitted testimony, but during your nomination process, you suggested to this Committee that your priorities included providing greater transparency and accountability as well as other reforms at the bank. Can you update us on your agenda in this area, including which matters you believe you can accomplish without further congressional direction and which agenda items Congress may need to first address in reauthorization before you are able to proceed?

Ms. REED. Absolutely. I am committed to transparency. As you know, I worked on Capitol Hill for 7 years doing oversight and reform of the Federal agencies, and so from day one, as Chairman now, I am meeting with staff and learning what we are doing. It is a lot of work to come up to speed very quickly, but I am constantly asking questions internally about what more we can be doing to be transparent and ensure that taxpayers are being protected.

So I have announced that we are going to be reviewing two key provisions—our economic impact analyses and other analyses that look at competition from around the world. We want to ensure that we are that addition; we fill that special gap when there is a need. And there are things we can do to help make some of these documents that we receive internally perhaps more public.

So, as a thoughtful process, I want to be smart about it, but we also want to protect the taxpayers. So I will be looking for input, and I will also work with you. And we will be coming back to you with more on that, but I know that those are key things.

I also want to say we are looking at what those 113 other export credit agencies are doing, and I want to point out a fine fellow here, Jim Cruse. He has been at the Export-Import Bank for 49 years. He started and is the godfather of *ECA Competitiveness Report* that you will be receiving tomorrow, and we are the only country that even begins to look at what is happening around the world through a report like this.

So while we want to be more transparent, we also do not want to hurt our U.S. businesses by revealing information that is proprietary. So, again, I look forward to working with you.

And our Chief Ethics Officer and our Chief Risk Officer are now confirmed, appointed, at the helm, and we are working with them.

Chairman CRAPO. All right. Thank you, and we look forward to input from you as we move forward in the reauthorization as to whatever you feel we may need to statutorily include in assisting in this process.

Senator Brown.

Senator BROWN. Thank you.

President Reed—I hesitate to say “President Reed” rather than “Chair Reed” because, if I do, Jack might show up at the Presidential debates tonight.

[Laughter.]

Senator BROWN. Madam Chair, nice to have—oh, the Chairman, he kind of likes that too, but anyway, I will stick to you, so thank you.

Mr. Cruse, thank you for your decades of service to our Country and to American jobs. Thank you so much.

You talked in your confirmation about your familiarity with small- and medium-sized businesses in places like your home State, West Virginia; mine, Ohio; bordering each other. If you were a small business owner who relies on EXIM financing or small businesses that sells components to a larger exporter who needs EXIM for the deal, what happens if Congress lets EXIM's charter lapse at the end of September? How immediately would small businesses be hurt, and how many small businesses would be harmed?

Ms. REED. I am committed to small business. One of my first meetings that I held at EXIM was a roundtable with small businesses from West Virginia, Maryland, and Pennsylvania, because I wanted to hear firsthand the value that we provided to them, and thousands of small businesses, not only directly through them, making widgets and providing services to foreign countries, but also through the supply chain benefit from EXIM.

Without a quorum, EXIM was able to approve the \$10-million-and-under deals. If EXIM expires, it is pencils down on September 30th for every business in our Country.

Senator BROWN. And that will have a very tangible impact if we do not do our jobs?

Ms. REED. Absolutely.

Senator BROWN. The House Financial Services Committee, as you know, is continuing to work on a 7-year reauthorization. The Administration has not made its own proposal, but does a longer reauthorization, 7 years, 10 years, is that a better climate? I mean, I understand there is more certainty. Is that a better climate for companies to effectively use EXIM financing?

Ms. REED. I heard loud and clear, the world is looking for certainty. So a long reauthorization would be a good thing.

Senator BROWN. OK, thanks.

The House is also looking at changes in the charter to allow for the U.S. Trade Rep, Secretary of the Treasury, and Secretary of Commerce to serve as temporary voting board members when the bank's board lacks a quorum. I would assume you do not want to comment on specific legislative proposals, but would you agree that if the bank had maintained that quorum for the past 4 years, EXIM could have supported an additional, up to, 130,000 jobs each year?

Ms. REED. I think a quorum is very important.

Senator BROWN. That was not my question. I know you think it is important.

Do you think if we had had that quorum for the last 4 years that we would have seen at least 130,000 jobs each of those years?

Ms. REED. I assume, given what is in the pipeline right now, that some of those transactions would have been approved and supporting U.S. jobs.

I also know that we lost \$20 billion in applications over the past 4 years in the workers associated with those because the bank has been not fully functional.

Senator BROWN. And if it was that number, that multiple billion dollars, it certainly would have been tens of thousands of jobs, correct?

Ms. REED. Yes, sir.

Senator BROWN. I am all for stopping Chinese State-owned enterprises. I made it clear dismantling them should be one of the Administration's primary objectives.

In the China talks, if we really want to get tough on Chinese State-owned enterprises, I would urge my colleagues and urge the Senate to look at my bill with Chairman Grassley, the Foreign Investment Review Act. That bill would screen foreign investment in the U.S., particularly Chinese State-owned enterprise investment to make sure it is good for our economy long term.

Do you have any thoughts, Madam Chair, about instances in which we should limit EXIM financing, depending on who the purchaser is?

Ms. REED. Thank you, sir.

I know that the House and the Senate are looking at legislation right now, and it can be contentious discussion. And so I am going to leave that to the legislative branch.

Senator BROWN. OK, fair enough.

Last question. What does EXIM need to do? What changes should Congress consider to ensure that EXIM is able to match financing offered by other export credit programs around the world?

Ms. REED. Right now, we have our charter that allows us to do that.

Senator BROWN. You do not need additional language?

Ms. REED. I believe that the charter allows for us to do that right now.

Senator BROWN [presiding]. OK, thank you.

Senator Toomey.

Senator TOOMEY. Thank you very much, and congratulations, Madam President. Thanks for coming by my office yesterday. I enjoyed our discussion. More importantly, I appreciate your continued public commitment to the reforms that we discussed and that you committed to in your confirmation hearings.

I fully recognize that given the very brief period that you have been in office thus far, you would not have had a chance to implement these yet, but I do want to underscore why I continue to believe that these are important and why I look forward to working with you on these reforms.

One of them that is in your testimony—and you alluded to it during your comments—is the fact that EXIM financing is not supposed to crowd out private financing and in fact is supposed to be the lender of last resort, and I think that is well established. That is the way it is supposed to work.

So, interestingly, we have a kind of controlled experiment, I think, in EXIM's role in whether or not it had been a lender of last resort and what the consequences might be for a lack of EXIM financing because we just went through several years when EXIM was not able to do large transactions.

Specifically, if you think about it, you would assume that EXIM's largest customers would presumably run into some headwinds in the sudden absence of EXIM financing.

In 2014, the last year for which EXIM was fully functional, Boeing accounted for about 40 percent of EXIM's book of business by dollar value, and as we all know, the next year, EXIM basically went out of business. The charter lapsed, and then even after it was reauthorized, EXIM lacked a quorum, so could not approve a single financing of an aircraft.

So it begs the question: What was the result? How badly did EXIM's largest customer suffer when it was no longer able to obtain any EXIM financing?

Well, the answer is, of course, they thrived. In September of 2018—but this is before the 737 MAX design flaws were discovered—the *Wall Street Journal* ran an article. The headline was "Boeing Factory Unfinished 737s Pile Up", end quote. What was the big problem that caused these jets to be piling up? The problem was suppliers could not keep up with the record pace at which Boeing was selling their planes, without a dime of EXIM financing for the buyers.

Or think about Boeing's January 2019 press release that announced that it had set a new annual record for deliveries in 2018, a year in which there was not a time of EXIM financing for buyers of Boeing jets.

And by the way, the 2018 record exceeded the previous record, which was 2017, another year in which there was not a dime available from EXIM financing.

So what it suggests to me and what I just want to underscore, Madam President, is it does not look to me like EXIM was actually the lender of last resort. It looks to me like they may have even been the lender of first resort, and in fact, when EXIM was not functioning in this marketplace, private creditors came along and financed the acquisition of Boeing jets all around the world, so much so that Boeing set all-time records in the volume of their sales.

So I would just ask you to keep that in mind when you think about the obligation for EXIM to serve only as a lender of last resort.

The other point I would make, as we all know, China does not have a competitor to Boeing. Really, Airbus is the only competitor to Boeing in the wide-bodied jet category, and so it seems to me that this could be a great moment to prioritize another obligation that is in statute with respect to EXIM. And that is to work toward a mutual and reciprocal phasing out of these credit export agencies that distort markets and risk taxpayer money.

Here we have only one other competitor. It is not China; it is Airbus. And their sales are strong. Boeing sales have been through the roof. It strikes me as a good moment to pursue a mutual reduction in reliance on export financing at least for wide-bodied jets, and I am just wondering if you have a reaction to that.

Ms. REED. It is a new day at Export-Import Bank under my leadership. As I mentioned, we are going to be taking a look at the economic impact and additionality tests.

I will also say, though, that I am not going to comment on specific companies, and those companies can comment for themselves.

My job is to support our mission, which is U.S. jobs, and do all we can to ensure that we have a level playing field and can compete all around the world.

Senator TOOMEY. If I could just—I am going to run out of time, so I want to make one other point. There is another element to reform that we have talked about, and that is to ensure that when we finance an overseas purchaser that we not unwittingly or unintentionally facilitate a competitor to a domestic industry.

So case in point, I believe that it was announced last year that EXIM may have been considering, may still be considering financing a very large natural gas liquefaction and export facility in Mozambique. All kinds of problems in Mozambique, financial, corruption, and otherwise, which I am sure you will consider.

But I would ask you to also consider the fact that we have become—Pennsylvania and the United States recently have become really significant natural gas exporters for the first time, and this is a new market for us. We are thriving in this market. We have virtually unlimited supply of natural gas, and I would hope that you would seriously consider the impact on this young, new, but tremendously—industry with tremendous potential as we consider whether to finance a competitor on a very large-scale project in Mozambique.

Ms. REED. Thank you.

Chairman CRAPO [presiding]. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman, and welcome, Chairman Reed. That has a nice ring to it, by the way. [Laughter.]

Senator REED. The topic has been broached a number of times; that is, we are in a major international competition with the Chinese, their Belt and Road projects.

I was in Djibouti. That is where they have their significant investments, an actual military post there, but also throughout the coast of Africa and other ports, and the question I think we have to come up with is how EXIM Bank will be part of an overall strategy to help U.S. companies compete not just in China, but with Chinese interests around the globe. And your comments would be appreciated.

Ms. REED. Absolutely. I have already had detailed conversations with my colleagues in the Administrations. We have two ex officio members of EXIM, USTR Representative Ambassador Lighthizer and Commerce Secretary Wilbur Ross. I have talked with them. I have talked with our Labor Secretary, Alex Acosta, and many others, including those in the White House.

EXIM is a special tool in that toolbox, and we want to be there and offer this tool when it is needed.

Ambassador Bolton, even before he began in this Administration, he wrote an op-ed in 2015 on the importance of EXIM and national security.

So we are there. We are going to make ourselves be more known. The world is excited that we are back open for business, and American workers are too.

Senator REED. I think one of your comments suggests—and let me hone in on it—is the need for a national strategy, not just an EXIM strategy, but a national strategy which gives alternatives to

these countries, particularly developing countries, to the Chinese, blandishments of easy loans under very vague terms.

Again, I think you are, but let me for the record—you are pursuing or helping pursue this national strategy, and who might be the lead element in the strategy?

Ms. REED. Absolutely. I went to Africa, to South Africa. The President asked me to head his Presidential delegation to the inauguration of President Ramaphosa, and on that delegation trip were representatives from USAID, NSC, NEC, and I cannot tell you how honored I was to be on stage with presidents of Africa and heads of State and then have a roundtable discussion with our embassy staff there, with businesses, not only from South Africa, but Sub-Saharan Africa.

And I have heard firsthand how important it is for us to get our products and services into Africa because China is there, and so we work with all of our Administration colleagues to make that happen. We will continue to do so. Economic security is national security.

Senator REED. I concur.

One issue—and it was raised by several comments, including Senator Toomey's comments—is we are really very much interested in small business thriving. As Senator Toomey pointed out, big enterprises, if they are denied this, usually have alternative ways. What are you going to do proactively to get the word out to small businesses throughout the country in conjunction with this strategy of trying to be a competitor to China in the world market? Do you have an active plan to do that?

Ms. REED. We absolutely do, Senator, and I am so delighted that my fellow board members, Judith Pryor and Spencer Bachus, are here with us today. Spencer has been charged with getting out on small businesses, and he has many stories to already tell you.

Judith used to work at OPIC, and she is so smart on interagency process and how we can be an effective tool in the world of development around the world.

Small business is my priority. I come from rural West Virginia, Buckhannon, West Virginia. I have the endorsement of the Community Bankers Association. We want to work with small businesses. We are doing workshops. We are doing webcasts.

I made a video that is going to be shared with the 3 million members internationally of the Chamber of Commerce.

We are getting the word out, and we will be doing more. I really want to come to your States, if you would have us there, to do workshops together.

Senator REED. You have an open invitation to come to Providence, and whatever you see, please buy it.

[Laughter.]

Ms. REED. And we will export.

Senator REED. Yeah, export.

And let me recognize my former colleague, Spencer Bachus. Thank you, Spencer.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Cotton.

Senator COTTON. Thank you, Ms. Reed, for your appearance this morning.

The EXIM Bank recently released a report on global export credit competition. That report said that since the financial crisis of the last decade that foreign versions, other countries' versions of the Export-Import Bank, other countries' export credit facilities are being weaponized—that was the term the report used—“weaponized” to support those Nations' strategic interests. Do you believe that to be true?

Ms. REED. I do.

Senator COTTON. Which countries are weaponizing their export credit facilities?

Ms. REED. China, many other countries. And I have met with a lot of my colleagues who head their export credit agencies around the world.

The first act I did after being sworn in was get on a plane and go to China and attend our annual G12 meeting.

You will receive tomorrow, as mandated by Congress, the update to that report. It is the 2019 *Competitiveness Report*, and you are going to see even more clearly what is going on in the world.

Senator COTTON. Thank you for that. I look forward to seeing it.

You said China twice and other countries twice as well. Is that because China's use of its export credit facilities dwarfs all other countries in this strategic global competition?

Ms. REED. Absolutely. China does more than the next three countries combined.

Senator COTTON. What are the next three countries combined?

Ms. REED. Italy, Germany, and Korea.

Senator COTTON. Well, they ought to do a little bit less, but they are all American allies. And one of them is a treaty ally—two of them are treaty allies as well.

What can we do to counter China's use of its versions of EXIM through our own EXIM?

Ms. REED. We have a very specific role, and that is to fill the gap where there are financing needs, and so we are letting the world know that we are back open for business.

The best thing we can do is reauthorize EXIM without a break, without a gap. I know that that happened during the 2015 reauthorization. That is the most important thing we can do. I have had everyone tell me. The world is looking at us. The paradigm has changed, and we need to be there. So that is the most important thing we can do.

Also, the U.S.A. makes the best goods in the world, and I would say that many countries prefer our goods over other goods. So let us be sure that our workers have a chance to compete in a level playing field with all the other workers and products around the world. I believe that U.S.A. will be number one when it comes to quality and everything else that we care about, especially national security.

We want our things: power, energy, satellites. We want the world buying U.S.A.

Senator COTTON. What is the dollar value of exports that EXIM underwrites into China, American exports into China?

Ms. REED. I do not have that number readily available, but I will tell you that our authorization is \$135 billion, and Congress is looking to increase that cap.

I also know that China is a very sensitive subject, and as we go through reauthorization, we will be pleased to work with you and the House of Representatives to find good solutions to what makes sense.

China is everywhere through its Belt and Road Initiative, and we need to be there as well.

Senator COTTON. Do you have any sense of scale of that \$135 billion cap, how much would be going into China? A lot? A little?

Ms. REED. Not a lot. But again—

Senator COTTON. Would the main thing be the sale of aircraft and airline like Air China?

Ms. REED. And energy things.

Senator COTTON. Energy things.

Ms. REED. And energy products.

But also, I want to say our mission at EXIM is U.S. goods. Our charter does not allow us to discriminate. We look at the application that comes in, and we have a very good underwriting staff that evaluates everything. And Congress has set out the charter of what we can do and cannot do.

There are only a very few reasons why we can deny applications right now. So we cannot pick winners and losers. We evaluate it on the merits, on the risk, and so if Congress wants to look at that again, we fully understand. I care about China, and I care about the United States.

Senator COTTON. Air China is a State-supported firm in China. The energy business we do in China, do you know if those are State-supported or even State-owned firms as well?

Ms. REED. Some are, yes.

Senator COTTON. OK.

Ms. REED. And again, this is a new day under my leadership.

Senator COTTON. I do understand it is a new day, and I appreciate that. I think the President has brought some needed clarity about the risk China poses to this Country. I think that maybe we should think about EXIM in the future and the role it plays in supporting Chinese State-owned or State-supported industries. We live in a world of Nations. There are not that many of them, 220 or so. We do not have to write abstract rules to try to apply to every single one of them. We can write rules that apply to individual Nations that are allies, like Korea. We do not have to try to write individualized rules for every single country when we have China that poses a unique threat, given their size, their community, their military capabilities, and their leader's Stated intention.

Thanks for your testimony this morning.

Chairman CRAPO. Thank you.

Senator Menendez.

Senator MENENDEZ. Thank you.

Madam President—I thought I was going to get to use that term more often, but in any event, I like to use it when I can. I was struck by some of the statistics in EXIM's 2017 *Competitiveness Report*.

As I think has been said here, China extended \$36.3 billion in medium- and long-term export financing, while the United States provided just \$0.2 billion. That is an enormous difference. And even smaller countries like Finland, Denmark, and Hungary provided several times more export financing than the EXIM Bank. As a matter of fact, I think we are listed 25th among all countries in this regard.

You touched on this in your testimony, but can you discuss in more details the trends you are seeing in export credit finance globally?

Ms. REED. As you will see in the report that is going to be delivered to you in the morning, other countries are starting to weaponize their export credit agencies and being very aggressive.

We have very rigorous tests, standards, unlike any other export credit agency in the world, and we look at a lot of things, such as U.S. content, U.S. flagships, things like that. Other countries pay no attention to things like this.

So in the report that you receive tomorrow, you will see that the world is going like this, and we are just now back in business. We want to be good to American workers. I want to see very worker in our country having an opportunity, not being denied to them because EXIM is not there, and look forward to working with you on the reauthorization.

Senator MENENDEZ. What effects have those trends had on U.S. exporters and EXIM's ability to stay competitive?

Ms. REED. I am not going to comment on specific companies, but I have heard that some multinational companies actually are taking some of their supply chain to other countries that provide export credit agency financing. And those are jobs that our workers are losing out on.

So, again, those companies can talk to you directly about hits, but that pains me.

And the thing that keeps me up the most at night is the September 30th expiration of EXIM, and the best thing we can do is to provide that certainty.

Senator MENENDEZ. Let me ask you this. As we consider reauthorizing the bank, which I strongly support, how important is it that we increase the bank's lending cap so it can try to go more competitively with the global context in which we are in?

Ms. REED. I believe a modest increase would be welcome.

Senator MENENDEZ. What is the definition of "modest"?

Ms. REED. I know that there are discussions in the House bill and here in the Senate, and those are appropriate.

Senator MENENDEZ. Have you had training at the State Department?

Ms. REED. No.

Senator MENENDEZ. Because that answer is very diplomatic.

[Laughter.]

Ms. REED. I just know that the legislative branch is very important.

Senator MENENDEZ. Well, sometimes those of us who are looking for expertise are looking for insight. So it would be helpful. Maybe we will do that offline.

Let me ask you this. You mentioned the challenge. I think sometimes people think about this as corporate largess, when in fact we create jobs here in America.

In my home State of New Jersey, dozens of New Jersey businesses export to new markets around the world. One of those success stories is Lund's Fisheries in Cape May, New Jersey. They worked with EXIM to develop an export strategy for their American-made seafood products and get export credit insurance to mitigate the risk of selling overseas. As a result, they have been able to grow their international sales very significantly. They hire more American workers in New Jersey to do that, and they continue to use EXIM services to expand its global business.

But everything they have just done to expand their global business and to create jobs in New Jersey is at risk if we fail to reauthorize the bank.

So what would the impact be on your efforts to communicate to U.S. exporters and foreign buyers that EXIM is now, after years of waiting for a quorum, at the board, fully operational and ready to move forward with larger transactions if the date comes and goes and there is not a reauthorization?

Ms. REED. So, as I mentioned, on September 30th, it will be pencils down, and we will send notification, as we have now that we are back in business. We sent notification to all of those in the pipeline, but we will send notification, very sadly, to those who are in the pipeline that we are closed.

Of course, if the lapse happens, we are going to do all we can to work with you. This is the priority of the President, and he has charged me with making sure we do not have a lapse. So I am going to be working with you, if there would be a lapse, to ensure that it is as short as possible.

Senator MENENDEZ. Well, I hope there is not a lapse because, at the end of the day, it is tough to generate an expectation, eliminate the expectation, generate the expectation again, and keep the competitive cycle together.

Chairman CRAPO. Senator McSally.

Senator MCSALLY. Thank you, Mr. Chairman.

Arizona's economy is dependent on trade. According to statistics from the International Trade Administration, Arizona exported \$20.9 billion worth of goods in 2017. Being a part of the border trade is our DNA, especially with Mexico, who is Arizona's largest trading partner. And the U.S. exports more goods and services to Mexico than any other country, other than Canada.

How does the bank assist U.S. companies export their goods and services to Mexico specifically?

Ms. REED. Again, our charter does not allow us to discriminate. We base each application on our mission, which is U.S. jobs, and the merits of those applications. So we provide services where there is a unique demand, and as the lender of last resort, we have done business with Mexico and many other countries. And I know that the Congress is looking at our legislation.

Again, our mission is U.S. jobs, so we want to be helpful and fill those gaps wherever we can because I want every worker to have the opportunity in our Country to create a good or a service that is acquired or purchased by a foreign purchaser.

Senator MCSALLY. Great. Thanks.

Like many of my colleagues, I am concerned about China and their multiple forms of cheating. Not only do they have a similar mechanism with their Government-owned bank, but they have—which is unlike ours, obviously, but they also have Government-owned companies and Government subsidies that really do not allow for a level playing field for American companies.

Particularly, I am interested if you have any perspective on how China is playing in Mexico and Central America, again, using their unfair practices in order to beat out American companies trading in those arenas.

Ms. REED. Absolutely. As I mentioned previously, we are sending the Congress our annual *Competitiveness Report* tomorrow. Because EXIM was not functional for the past few years at our full capacity, it actually does a look back of how the world of ECAs has changed over the past decade, and China is front and center in that report.

And we know that China is at our doorstep, and we want to be sure that we are at our doorstep with our goods and our services as well.

Senator MCSALLY. Great. Thanks.

According to the International Trade Administration, small- and medium-size businesses make up 87 percent of Arizona's goods that are exported but account for only 23 percent of the value of exported goods.

I have met many small businesses—often the people have a thought that these are all about larger businesses—many small businesses that benefit from the opportunity to compete using EXIM products. And so what is the bank doing to increase small- and medium-size businesses that can actually take advantage of this?

Ms. REED. Absolutely. My top priority is small business, and so we have a great team at EXIM who are very energized.

I know that we provided to Arizona between 2014 and 2018, \$2 billion in EXIM financing, and \$117 million of that was to small business.

In my prior life, I was the director of the Community Development Financial Institutions Fund at the Treasury Department, and I spent a lot of time in Arizona. I did roundtables. I met with your chamber of commerce, did a lot of things, and I know that you are very engaged in Arizona right now as well through those opportunities.

And so the best way that we can help our small businesses is to make them know about us but also make it easy for them, and so I hosted a roundtable at EXIM my first few days on the job, where we brought in small businesses and want to listen to them.

So we look forward to reporting back to you, all the good things that we are going to be doing. Community banks are also an important part of that equation.

Senator MCSALLY. Absolutely. I think there are two elements to it. One is ensuring small banks understand and have access to your financing, but the other is those who are already using it, are there any initiatives to be able to increase their value and increase their opportunities for exports?

Ms. REED. I think that the world is huge. It is really huge, and we need to just really be working together.

And that is why I also want to work with your offices and help equip offices as well as local governments. I am going to be making a video for the annual Conference of Mayors meeting to let them know about what we are doing as well.

We are also going to revamp our website and have more materials available that way, but I look forward to your input as well of what we could be doing, and our staff do as well.

Senator MCSALLY. I look forward to following up with you. Thanks.

Ms. REED. Thank you.

Senator MCSALLY. Thank you, Mr. Chairman.

Chairman CRAPO. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman and Ranking Member Brown.

I want to thank you for being here, Kimberly. I appreciate your enthusiasm for the job.

Let me just ask a few questions here. I do not have the answers, so I have got no political agenda behind them. I just need to know.

You touched on this, but is your confirmed leadership team in place, or are there more people to be confirmed?

Ms. REED. We have three of the five board members, including myself, Judith Pryor and Spencer Bachus. We are confirmed. We have two that are waiting for final Senate votes, Claudia Slacik and Paul Shmotolokha.

Senator TESTER. OK. How about within the office itself? You talked about a couple people that—

Ms. REED. We approved our Chief Ethics Officer and our Chief Risk Officer.

Senator TESTER. Anybody else that you need, or are you fully staffed up?

Ms. REED. Oh, I am having to staff up from day one. I have been on the job 49 days. We have had—

Senator TESTER. I got you. I am just trying to figure out where we are at. Are you half staffed, three-quarters staffed, 90 percent staffed?

Ms. REED. I am doing a full review of the organization. I have a brand-new Senior Advisor, brand-new Chief of Staff. My scheduler and my exec sec started this week.

Senator TESTER. I got you. You do not need to go down the list. Just tell me where you are at.

Ms. REED. Probably, as far as staffing, halfway there.

Senator TESTER. OK. When do you anticipate you will be fully staffed?

Ms. REED. The interview process is something that takes some time.

Senator TESTER. I got you. By the first of the year?

Ms. REED. Oh, absolutely.

Senator TESTER. OK. Maybe by the time that we vote on reauthorization?

Ms. REED. I am working hard.

Senator TESTER. OK, good.

You talked about the default rate being at half-a-percent over the last 10 years; is that correct?

Ms. REED. Yes, yes.

Senator TESTER. OK. And so is that about what it was for the last year?

Ms. REED. It increased slightly to half-a-percent over the past year, and the reason for that is a lot of small businesses, they are the more risky deals that we do.

Senator TESTER. OK. Look, unless you got a team that is beyond my imagination, you are going to have some default.

How much money is a half-a-percent? Is it a half percent of \$135 billion or half percent of what?

Ms. REED. Right now, our book is \$60 billion.

Senator TESTER. \$60 billion.

Can you tell me—because quite frankly, we have heard a lot about this, that this is being the bank for Boeing. Can you tell me how much does go to Boeing?

Ms. REED. So I know that a lot of Boeing financing that we have done over the years is rolling off our books.

Senator TESTER. Yeah.

Ms. REED. I am not going to speak to the exact numbers at this moment.

Senator TESTER. OK.

Ms. REED. We have staff that would be happy to give you those answers.

Senator TESTER. OK. I just think it is important for me to know from a transparency standpoint, which is one of your goals to achieve. We just need to know. I mean, that is all.

And I get it is their business, but it is our business too because, truthfully, this is taxpayer dollars.

You touched on it a little bit with Senator McSally, but do you have a plan to encourage more small businesses—and I will even take it a step further—more small businesses in rural America to be able to have access to you, or are you working on that plan?

Ms. REED. Absolutely. As I said in my testimony, we have announced applications are open for our Advisory Committee and our Sub-Saharan Africa Advisory Committee.

Senator TESTER. OK. That is good, but I will just point something out to you. We have this challenge with the VA hiring people in rural America, and they say, “We just put it up on the USDA website.” Nobody in Montana is going to look at a USDA website that wants to work there. So how are you approaching rural America?

Ms. REED. So I am from rural America. I am working with USDA because I care about our farmers and ranchers.

Senator TESTER. Sure, sure, sure. But how are you getting the word out? Because that is critical. I think you want to do it. I want to do it. The question is, How are we doing it?

Ms. REED. We are going to be doing it through our local chambers of commerce, through our local community banks, through working with your offices—

Senator TESTER. OK, good.

Ms. REED —and any other suggestions you have.

Senator TESTER. I would love to know how many folks you are looking for and if it is a regional split on where you are looking for folks and all that stuff because we can help you, hopefully, get some good people there.

Can I ask on ag exports? Because you mentioned that you are working on a project on ag exports.

Ms. REED. Yes.

Senator TESTER. Were those ag exports to China, or did I mishear you?

Ms. REED. So we are the backstop to USDA's Community Credit Corporation, where we fill those needed gaps, and so we are going to see—

Senator TESTER. Are you the backstop for the Commodity Credit Corporation?

Ms. REED. Yes.

So they are only allowed to lend up a certain amount, and then we come in to fill that very targeted gap.

Senator TESTER. So let us touch on that just for a second. If you go away, CCC potentially goes away?

Ms. REED. No, no. We come in, and we help them when we can, when they are not fulfilling their role.

Senator TESTER. OK. That is fine.

Look, I have got a bevy of other questions to ask you. I intend to vote for reauthorization.

I want to just touch—and I am going to go, but Senator Menendez did touch on something that I think is really important for us to know. We do not know what the demand is. I do not know what the demand is. You know what the demand is. If it is not \$135 billion, is it \$100 billion? Is it \$150 billion? Is it \$200 billion? And you are not going to get what you ask for probably, but we would like to know, OK?

Ms. REED. OK. Thank you.

Senator TESTER. Thank you much.

Ms. REED. Thank you.

Chairman CRAPO. Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman.

Thank you, President Reed.

I understand that 25 percent of your beneficiaries are supposed to be small businesses; is that right?

Ms. REED. That is a target that was set in the last reauthorization charter.

Senator KENNEDY. What is the smallest business EXIM has ever helped?

Ms. REED. Well, I have met a pet food company recently that was pretty small.

Senator KENNEDY. How small?

Ms. REED. I believe it had less than 15 employees.

Senator KENNEDY. OK. And you helped them?

Ms. REED. Before my time, we had been providing them financing, other types of companies as well. I know there are a lot of small businesses, and I want to be helping every single one export, either directly or through the supply chain.

Senator KENNEDY. OK. Do you have a formal definition at EXIM of a small business?

Ms. REED. We follow SBA's definition.

Senator KENNEDY. OK. I want to talk to you a second about LNG. As you know, the President wants us to become independent, energy independent. He is correct, of course. One way of doing that is through the shale revolution, which produces a lot of natural gas. We cannot use all of the natural gas, so we liquefy it and sell it to our friends across the world.

LNG plants are very expensive. To get the financing, you have got to generally sign contracts, take-or-pay contracts, up front with foreign buyers, and then take that to the bank to get financing. If you cannot get the contract, you are not going to get the financing, and the LNG plant will not be built.

Do you support the LNG industry in America?

Ms. REED. I support all industries and all workers in our country, yes.

Senator KENNEDY. OK. Well, you are helping companies to the detriment of Louisiana and American companies. I mean, you are financing at EXIM, I think, the export of parts and equipment to places like Mozambique that are building LNG plants that compete with ours. How does that help America?

Ms. REED. Our mission at EXIM is U.S. jobs. We are not allowed to discriminate on applications that come in to us.

So if an application comes in for U.S. workers to create U.S. equipment to be exported to a foreign country, we judge that on that application's merits.

We also have, though, some economic tests that we do, and I announced in my testimony that we are going to be taking a hard look at that additionality and economic impact, those tests.

I hear you loud and clear. I want to support every job that we can support in this country.

Senator KENNEDY. OK. I believe you do.

Between Fiscal Years 15 and 17, EXIM pretty much came to a halt, did it not?

Ms. REED. For everything except under \$10 million, yes.

Senator KENNEDY. Yeah. You did not have a quorum.

Do you think the EXIM Bank is essential to America's export system?

Ms. REED. I do, sir. I know—again, it is a new day for me, and I want to work to transform the agency. But over the past few years, we now have \$40 billion in applications, and again, this is to support U.S. jobs.

Senator KENNEDY. What do you think would happen to our exports if we did not have EXIM Bank?

Ms. REED. I have met with our competitor export creditor agencies around the world, and I had one tell me, "We love when you are not in business because we get your deals and your jobs," so—

Senator KENNEDY. So do you think our exports would tank?

Ms. REED. I think that EXIM fills a very specific role, and I want—

Senator KENNEDY. Do you think our exports would tank?

Ms. REED. I do not think that they would tank, but I want to be sure we are doing all we can.

Senator KENNEDY. Do you think they would go down substantially?

Ms. REED. Excuse me?

Senator KENNEDY. Do you think they would go down substantially?

Ms. REED. I think that EXIM has a very specific role to play, and I want to help every worker get a job through us.

Senator KENNEDY. Well, how come—I am sorry to cut you off, Madam President, but I have run out of time here. If it is so essential, how come between Fiscal years 15 and 17, when you were pretty much shut down, nobody noticed? I mean, exports just rocked right along. I cannot see an impact.

Ms. REED. I attended the annual Export–Import Bank conference 2 years as a guest because I was not confirmed yet, and I heard loud and clear, the jobs that we are losing or have lost because we were not functional—

Senator KENNEDY. Yes, ma'am. And that is anecdotal.

I am just asking you—you were not in operation from 17 to 18. So a fair-minded person would say, “OK. Let us go look and see what happened to exports.” Nothing happened to them, ergo you may not be essential.

Ms. REED. I have heard loud and clear from around the world that we are essential. We are a very specific tool, and the President has charged me with making sure that we have this available.

Again, we have received \$40 billion worth of desired applications.

Senator KENNEDY. Oh, I know you have got plenty of people that want the money. I get that.

Ms. REED. And that supports U.S. jobs and U.S. workers.

Senator KENNEDY. Right

OK. Thanks, Mr. Chairman.

Chairman CRAPO. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman, and to the Ranking Member Brown.

Madam President, thank you for being here.

And I do believe the EXIM Bank plays an important role, especially in certain sectors of manufacturing and job creation in the United States, and so I support those efforts.

As you probably know, yesterday the House Financial Services Committee postponed its markup of EXIM reauthorization because of concerns specifically with respect to China, and how EXIM could, if not properly structured, be used to subsidize some of China's State-owned enterprises.

Last year, in this Committee, we modernized CFIUS, and my question to you is, Will you work with us during this reauthorization process to make sure that any EXIM reauthorization effort addresses the need to protect American national security interests, protect American competitiveness, and comply with both CFIUS and FIRRMA?

Ms. REED. Absolutely.

Senator VAN HOLLEN. Thank you.

Now, there is one ongoing effort that I have great concern about with respect to civilian nuclear sales and the threat of nuclear proliferation, and that is specifically the current Administration's plans, their efforts to export civilian nuclear technology to Saudi

Arabia, which in addition to all the human rights issues and the murder of Khashoggi has also expressed an interest in obtaining a nuclear weapon and has not implemented or indicated that it will implement the gold-standard safeguards against nuclear proliferation.

Now, I know EXIM Bank does not have responsibility for negotiating the Section 123 Nuclear Cooperation Agreements, but my question to you is, has EXIM, to your knowledge, been involved in any discussions with U.S. Government agencies, officials, or U.S. companies or Saudi entities with respect to transferring U.S. nuclear technology or services to Saudi Arabia?

Ms. REED. I am 49 days on the job. So I am not aware of that.

Senator VAN HOLLEN. So you are not aware of any discussions that anyone at EXIM Bank has had with respect to such a deal?

Ms. REED. I am not aware of that, sir.

Senator VAN HOLLEN. If you could, Mr. Chairman, since you are new, but if you could talk to your team about it, and will you let me know what the answer to that question is?

Ms. REED. I would be happy to get back to you.

Senator VAN HOLLEN. I appreciate that because I think, at least speaking for myself, as we look at the EXIM authorization bill, I am going to want to make sure that the EXIM Bank is not used in a way that would undermine our nuclear nonproliferation goals, and as of right now, it looks like that is where we are headed with Saudi Arabia. So I am going to want to make sure we tighten that down very well. Will you work with us on that effort?

Ms. REED. Happy to work with you.

Senator VAN HOLLEN. All right.

There are also issues regarding the transactions with respect to Saudi Arabia that the House Oversight Committee has raised regarding particular entanglements between U.S. Government officials and U.S. nuclear companies. You have probably seen some mention of Jared Kushner's interest in some of these transactions.

So my question is what process does the bank go through when it reviews applications for credit to ensure that any export transaction is not—that your financing does not pose conflict of interest?

Ms. REED. So we have a very detailed review process. We have a brand-new approved Chief Ethics Officer and Chief Risk Officer. I look forward to working with the Congress to ensure that we have everything in place to relieve any concern that you may have on such a front, and I would not stand as the new Chairman of the Export-Import Bank conflict of interest.

Senator VAN HOLLEN. I appreciate that.

So just to be clear, if one of the U.S. nuclear companies cited in the House Oversight Whistleblower Report or Saudi Arabia applies for credit finance in the transfer of nuclear equipment or services to Saudi Arabia, you will work with us to make sure that there is due diligence and no violation of U.S. conflict-of-interest law?

Ms. REED. Absolutely.

Senator VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman.

Ms. Reed, thank you for being here.

I try to use the analogy of the work that I did when I was Speaker of the House in North Carolina in terms of why EXIM is an important part making global transactions work.

In my case, it is economic incentives, and actually, if you take a look at—I would love for there to be—in fact, it is not going to happen, but I would love for there to be Federal law that says no States can provide economic incentives. So then we simply compete on the basis of our regulatory policy, our tax policy, our quality of life, or universities. But the fact of the matter is most States are actively involved in putting together economic incentives to—at the end of the day, at the bottom line, it is either a transaction that works or not.

And I was actually hurt because I lost an economic incentive deal to Louisiana because the fine legislators in Louisiana are happy to put that in there to make the bottom line work for those transactions.

The fact of the matter is these export credit agencies across this world would love to see us get out of business in the same way I would love to see Louisiana get out of the economic incentives business because then we would own the film production industry in the Southeast. Get Georgia out of it too.

If we unilaterally disarm and not provide—there clearly has to be a “but for” test. Clearly, we need to do, I believe, reform within the EXIM Bank—I said this back in 2013, 14—so that we can be very clear that it is not one of the first choices for working on financing. It is the last choice that makes the deal work.

And I hope that you will commit to producing some—what I think some reforms that will stop making this the political football that it is, much like economic incentives are in State legislatures and Governors’ mansions across this country.

We need the EXIM Bank to be competitive. China would love for us to get out of business. Of course, we need reforms to make sure we have transparency to address the issues that Senator Van Hollen raised and that Senator Kennedy raised, but if we unilaterally disarm, there will be an impact.

One of the things you do need to do, though, is create a framework so you can give a crisp answer to Senator Kennedy’s questions about why is this a big deal if you were not functioning for a couple of years.

I think if you looked at the pipeline that may have gone through, it may not be that the run rate of exports dipped much. There are a lot of reasons for that because of tax reform and a number of other policies that were going on at the same time that obfuscated the impact that it may have had.

But I do believe if you look at the deal flow and maybe transactions that did move through, because we simply were not competitive, you could have answered to him this many employees in the Southeast would have been employed, these businesses would have been a part of the supply chain, this looks like Boeing transaction, but in fact, it is a transaction that involves the entire supply chain, which we know are a number of small businesses that are linked to it.

So I think if you focus on answering a lot of the fundamental questions, as Senator Kennedy asked, that we have all been asking

for, if you take a look at some of the reforms, we are suddenly going to get out of this mode of preventing a quorum, preventing you to operate, providing certainty on the part of our competitors that we cannot give the best possible deal in “but for” scenarios where you have to be involved in the financing of the underlying deal.

So I hope that we can actually get to those kinds of reforms. Then I believe that we will no longer be in this scenario of the cessation of this being an opportunity, and it will make us more competitive. And it will create a lot more American jobs. I know of a lot of jobs that are created in North Carolina because of these transactions.

So I would like your commitment, as you are ramping up your staff, to simply put a reform—not just “Yeah, we are going to tweak around the edges,” but think about a real reform initiative that will give us greater transparency, that will as a part of the process—you will be able to come back to Senator Kennedy and say, “In and around Louisiana, this flow of transactions had this economic impact.” And I believe if you do that, reasonable people on this Committee and in the Senate will support you, and we will keep it functioning. And it will make us more globally competitive.

Incidentally, I do not have a question. Thank you.

[Laughter.]

Ms. REED. Thank you, and we will do that.

Senator KENNEDY. You need to write that down.

[Laughter.]

Ms. REED. Thank you, sir.

Chairman CRAPO. Senator Sinema.

Senator SINEMA. Thank you, Mr. Chairman, and thank you to our witness for being here today.

The Export-Import Bank ensures Arizona businesses can compete and win in global markets by helping finance and ensure U.S. exports to international buyers. EXIM levels the playing field for our American businesses, including American manufacturing. It supports good jobs for hardworking families, and it strengthens our States’ economies.

In the past 5 years, EXIM green-lighted \$2 billion in Arizona exports, thousands of good Arizona jobs. As we all know, the bank’s authorization expires at the end of September, and one of my top priorities is to build a bipartisan coalition to provide for a long-term renewal of EXIM.

Recently, the U.S. Senate restored a quorum at the bank, ensuring that the bank can consider and approve bigger deals as well as implement the reforms that we passed in 2015 to modernize the bank’s operations and improve transparency and accountability to taxpayers.

Chairman Reed, congratulations, and thank you for being here today.

Ms. REED. Thank you.

Senator SINEMA. You got a lot of work ahead of you.

As you know, EXIM lacked a quorum for nearly 4 years. Do you know how much in U.S. exports, EXIM was unable to consider for financing insurance during that time?

Ms. REED. We have received \$40 billion in applications that are now in our pipeline. I also know that we lost \$20 billion in deals.

Senator SINEMA. Well, that is a large amount of money and a large amount of uncertainty for U.S. businesses, not to account the missed opportunities.

Whether it is a lack of a quorum at EXIM or a lapse in the authorization, is it fair to say that this type of business uncertainty gives foreign competitors like the Chinese an unfair advantage over our country?

Ms. REED. Yes.

Senator SINEMA. So we are not the only country that has EXIM. Do not China and all the biggest competitors globally also have their own version of EXIM?

Ms. REED. Absolutely. And you will receive a report tomorrow, our annual *Competitiveness Report*, that will show that there are now 113 foreign export credit agencies around the world.

When I testified at my very first confirmation hearing before this Committee in 2017, there were 95. So more and more countries are using it in weaponized ways, and more and more countries are creating them. And I have been told firsthand, "We love that EXIM was out of business because got your deals and your jobs."

Senator SINEMA. Considering China specifically, would you say that China's multiple export credit agencies constitute a larger or smaller footprint than the U.S.'s EXIM Bank?

Ms. REED. Much larger, larger than the next three export credit agencies combined, which are Italy an Korea and Germany.

Senator SINEMA. So that is important, I think, for members of the Senate to understand. Some critics of the EXIM Bank have said that export credit agencies distort markets, and that we should therefore unilaterally disarm ours.

I appreciate that we do not want to skew the market, but I am a practical person, as are Arizonans and Arizona businesses, because export credit agencies exist. Other countries have them. They are real, and in business, we should deal in reality. And the reality is that if we get rid of our Export-Import Bank and China keeps theirs, then U.S. businesses and workers will suffer the consequences and be at a disadvantage.

Do you have any reason to believe that if we got rid of EXIM today, the Chinese would then dissolve theirs or reduce the size of their EXIM?

Ms. REED. I do not believe so.

Senator SINEMA. I do not think so either.

Mr. Chairman and Ranking Member Brown, we cannot keep good American jobs, innovation, and economic opportunity captive to the whims of Government gridlock and this body's own dysfunction. We have got to renew EXIM and do it now.

I hear from Arizonans every single day who are sick of Congress that lurches from one manufacturer crisis to the next, because in our State, folks work hard. And they take care of business, and frankly, they wonder why Congress cannot do the same.

So I hope that we as a Committee and the Senate can work together to provide a long-term renewal of EXIM so that businesses in my State and all of our States can compete, win, and grow.

So, Mr. Chairman, thank you for this time.

Thank you, Director Reed.

And I yield back.

Chairman CRAPO. Thank you, Senator Sinema.

That concludes our questioning for today's hearing. Again, Chairman Reed, we appreciate you being here with us and the work that you are doing at the EXIM bank. We understand the importance of a timely reauthorization, and we are both committed—all of us are committed to assuring that that happens.

We certainly have some hurdles. The politics are still strong here in the Senate, but we understand the importance of this objective. And we appreciate your attention to it.

For Senators who wish to submit questions for the record, those questions are due to the Committee by Tuesday, July 9th. We ask that you respond as promptly as you can to those questions, Chairman, when you can, and again, we thank you for being here.

This Committee is adjourned.

[Whereupon, 11:20 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO

Today, the Committee turns its focus to the Export–Import (EXIM) Bank of the United States.

Just last month, the Senate confirmed Kimberly Reed to be President and Chairman of the Export–Import Bank, along with board members Spencer Bachus and Judith Pryor.

The nominations of Claudia Slacik and Paul Shmotolokha to be Board members have been approved by this Committee and are pending before the full Senate.

United States exporters are able to compete very effectively in international markets on the basis of price and quality.

However, when aggressive foreign Governments provide subsidies as a matter of policy or general practice to their exporters, U.S. exporters are placed at a competitive disadvantage purely because of such financing arrangements.

According to the 2017 EXIM Bank *Competitiveness Report*, Chinese export credit agencies provided more medium- and long-term investment support than the rest of the world combined.

As President Trump and other senior officials in his Administration have noted, a fully functioning Export–Import Bank has the ability to provide financing and level the playing field in response to Governments, like China, which can provide almost limitless subsidies from its Treasury, which places U.S. exporters at a disadvantage.

Director of the National Economic Council Larry Kudlow recently noted that the EXIM Bank is vitally necessary in the current trade environment in order for the United States to compete and succeed in international markets, calling it “a financial tool and a national security weapon.”

During her confirmation process, Chairman Reed committed to focusing on strong standards of conduct, increased transparency, sound risk management practices, and eliminating waste, fraud, and abuse at the Bank.

Now that she has been confirmed, I look forward to hearing about the work that has been done, and that which still needs to be done, to process the backlog of pending export deals, and how the reforms that Congress initiated in the 2015 reauthorization are being implemented.

In addition, we will begin the debate about what changes, if any, should be included in the reauthorization for the EXIM Bank’s charter, which is set to expire at the end of September.

We have been seeking feedback from stakeholders, our colleagues, and the Administration as part of the reauthorization process.

In the 2006 reauthorization, I worked on a number of provisions to make sure the small business community has an advocate to help address its needs and concerns.

However, the Bank historically has had trouble meeting its 20 percent small business mandate in terms of authorizations, as opposed to sheer number of transactions.

I look forward to discussing what changes should be considered to promote small- and medium-sized businesses, while continuing to ensure that any risk to the American taxpayer is minimized.

Despite only being on the job a short time, Chairman Reed’s perspective is very valuable to this process and she will be a critical partner throughout reauthorization.

PREPARED STATEMENT OF SENATOR SHERROD BROWN

Thank you, Mr. Chairman, for calling this important hearing to discuss the future of the Export–Import Bank.

I also want to thank the Chairman for his work to advance EXIM’s board nominees. We have restored EXIM’s board quorum, but the full Senate needs to consider the nominations of Paul Shmotolokha and Claudia Slacik so they can provide their expertise as the Bank resumes full operations.

Today we will hear from the Bank’s new President, Kimberly Reed, who has been at work for just 7 weeks, and has already hit the ground running, traveling the world promoting U.S. economic interests. I am grateful that the full Senate confirmed Ms. Reed last month by a vote of 79 to 17. Her fellow board members Spencer Bachus and Judith Pryor were confirmed by similar margins.

These overwhelming votes make it clear that we have strong bipartisan support for the Bank’s mission of helping American businesses and American workers compete across the globe.

Look around the world. There are now 109 export credit agencies and credit programs that support foreign, non-U.S. manufacturers.

Every other major Nation has been aggressively helping their companies win sales and the jobs that come with them—jobs that could be in the United States if EXIM had been functioning for the past 4 years.

China has multiple, massive export credit agencies, or E-C-As.

In 2017, China's two official export credit agencies provided one-third of the world's medium- and long-term export credit, and their broader medium- and long-term investment support for Chinese exports is greater than the rest of the world combined.

Chinese ECA activity is key to their plans to sell Chinese-made infrastructure throughout Asia, Africa, and Europe, under their Belt and Road Initiative. China has provided more than \$510 billion in insurance to “Belt and Road” projects since 2013.

And China is far from alone. The term “weaponization” is used to describe what European and Asian Nations are doing to make their export credit agencies more aggressive, more flexible, and more proactive.

If Congress is serious about ensuring American businesses and American workers stay competitive, we must have a robust export credit agency.

But we all know what happened here in Congress. In 2015, during the last debate on reauthorizing the Bank, a small group of opponents supported by far-right special interests tried to kill the bank altogether.

When that didn't work, they decided to block all nominees to the Bank's board and block all transactions greater than \$10 million dollars.

That had real consequences for American businesses and their workers—the amount of jobs EXIM supported dropped from 164,000 to just 34,000 while the Bank was hobbled.

That obstruction hurt Ohio manufacturers. Before the shutdown, Ohio companies exported more than \$400 million a year in products using EXIM credit assistance. Now that amount has been cut roughly in half.

We have the opportunity to turn the page. First, we need to provide the Bank a long-term reauthorization of 7 years or longer. American exporters, particularly small businesses, need a reliable partner.

EXIM steps in when private banks and insurers can't assist or complete a transaction. If Congress lets EXIM lapse again, the greatest pain will be felt by small businesses, including the small businesses that form the supply chain for large exporters.

Last year, EXIM initiated \$2.2 billion in authorizations that support small businesses, and 315 small business exporters used EXIM small business products for the first time.

Congress must also increase the Bank's authorization limit or exposure cap, which is currently set at \$135 billion. EXIM must be ready to assist new transactions.

Finally, a renewed Bank must be dedicated to transparency and accountability. EXIM has carefully managed risks associated with its transactions, as we can see from its extremely low default rate. The Bank must continue to be vigilant in monitoring risks and preventing fraud.

The Bank must also be vigorous in complying with requirements set out for the Bank to monitor and mitigate environmental and social impacts of projects that receive financing.

President Reed and the new Board have taken the long-overdue steps of finishing the implementation of reforms from the 2015 EXIM reauthorization. I look forward to hearing her plans moving forward.

If President Trump and Republicans in Congress are serious about helping American manufacturers after 4 years of obstruction, they need to work with us to reauthorize the Bank before September 30th.

I would urge my colleagues to visit some of the businesses in Ohio and around the country that use EXIM financing.

My colleagues have a choice—do they care about these businesses, and American manufacturing and American workers, or do they care more about extreme special interests.

I stand with our workers.

PREPARED STATEMENT OF KIMBERLY REED

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

JUNE 27, 2019

Chairman Crapo, Ranking Member Brown, and distinguished Members of the Committee, thank you for inviting me to testify before you today. It is an honor to be here again with you exactly 7 weeks after I was sworn in as President and Chairman of the Board of Directors of the Export-Import Bank of the United States (EXIM).

This is my third time to come before this Committee. In 2017 and 2018, I testified before you as an EXIM nominee. I thank you for your three favorable bipartisan votes in support of my nomination to be the first woman and first West Virginian to lead EXIM.

I also thank you for your leadership when I came before the full United States Senate on May 8, where I was confirmed by the United States Senate with an overwhelming bipartisan majority vote. I was especially struck by the gracious comments that several of you and other Senators made on the Senate floor. It has been a long 2½ year journey towards Senate confirmation and I am now honored to be leading EXIM.

My two fellow Board Members, Spencer Bachus and Judith Pryor, also thank the Chairman, the Ranking Member, and the other Members of this Committee for your support. We look forward to welcoming the President's final two Board nominees pending Senate action: First Vice President and Vice Chairman designee Paul Shmotolokha and Board Member designee Claudia Slacik.

The Chairman has specifically asked that I update the Committee on matters that have been awaiting the consideration of the Board, my priorities for EXIM going forward, the reforms that we have previously discussed, as well as my views relating to the Committee's consideration of EXIM's reauthorization. I am pleased to do just this.

Let me first set the stage by sharing with you the priorities that I shared with the nearly 400 talented and dedicated EXIM employees on my first day of work exactly 49 days ago: I am committed to fully reopening, reforming, and reauthorizing EXIM, thereby providing positive results for America's workers and businesses, while protecting America's taxpayers.

Restoring a Fully Functioning EXIM

EXIM is the official export credit agency (ECA) of the United States with the mission, as mandated by Congress, of promoting and supporting American jobs and growing the U.S. economy. EXIM provides competitive export credit to support U.S. exports and U.S. workers. EXIM achieves this primarily by providing financing for the purchase of U.S. exports, insuring U.S. exporters from the risk of nonpayment by foreign buyers, and extending working capital loan guarantees that enable U.S. businesses to fill export orders. All transactions are required to meet the statutory threshold of a reasonable assurance of repayment.

As mandated by Congress, EXIM offers financing at rates and on terms that are competitive with Government-backed export financing available from other countries. The goal of EXIM financing is to ensure U.S. exporters and workers can compete on the quality and price of their goods and services—and not lose business to foreign competitors because of their Government-backed financing.

When it is fully functioning with a board quorum, EXIM is self-sustaining because of the fees and interest it charges to foreign buyers for the use of its programs. Since 1992, when the Federal Credit Reform Act became effective, EXIM has generated \$9.6 billion in revenues above what the Bank has received after providing for all expenses, loan-loss reserves, and administrative costs.

In the last 10 years, EXIM has supported more than one-and-a-half million private-sector American jobs. As you might imagine, EXIM has a backlog of applications that need Board consideration. Today, EXIM has approximately \$40 billion worth of transactions at various stages in its pipeline for Board-level review that would support an estimated 230,000 U.S. jobs. EXIM staff is working diligently through the reviews of these applications with respect to EXIM policies and all applicable statutory requirements.

But as we fully reopen, EXIM is reemerging to a dramatically more competitive environment in officially supported export credit as compared to when it was last fully functional. There are now 113 foreign ECAs in other countries—up from 96 when I testified before you in 2017, and I know first-hand that more Nations are in the process of establishing their own ECAs.

Over the past 4 years, the U.S. exporting community has reported that while EXIM's foreign buyer financing programs remained essentially dormant, foreign ECAs have become more flexible, agile, and responsive as they seek to sell their own country's goods to support their workers, manufacturers, and economies. The Administration—including the President's National Economic Council Chairman Larry Kudlow—has underscored that economic security is national security, and that EXIM plays an important role in promoting U.S. exports.

One of my top priorities is ensuring that we are clearly communicating to U.S. exporters and foreign buyers that EXIM is fully operational and ready to begin moving board-level transactions forward. After nearly 4 years awaiting EXIM to be restored to full functionality, I am pleased to say that EXIM staff is working very hard with the applicants to finalize applications and conduct the necessary due diligence to bring these transactions before the EXIM Board.

Among the core requirements in EXIM's analysis of transactions is a review of the "Five C's" of credit: Character, Capacity, Capital, Collateral, and Conditions. EXIM must evaluate the trustworthiness and reliability of the parties to a transaction; the cash-flow, debt burden, and financial stability of those parties; the source of the downpayment; the quality of the collateral; and the limitations on the use of the requested financing. This analysis is critical to how EXIM conducts its determination that a transaction adheres to the statutory requirement of a reasonable assurance of repayment. Based on those reviews, EXIM considers what additional risk mitigants may be necessary to enhance the quality of the credit and to better protect the U.S. Government from the risk of default.

EXIM is mandated by its Charter to supplement and not compete with private capital in its transactions. As part of its review, EXIM looks at why the parties to a transaction are seeking EXIM financing, what limitations exist in the availability or terms of private capital, and the availability and terms of competing financing offered by a foreign export credit agency. All transactions are processed in accordance with EXIM policies, such as those on U.S. content, U.S. flag shipping requirements, and economic and environmental impacts.

EXIM's *Environmental and Social Due Diligence Procedures and Guidelines* require heightened reviews for certain transactions with the potential for adverse effects. EXIM reviews environmental and social impact assessments, analyses of alternatives, and proposed mitigation plans to determine their sufficiency and identify what additional steps may be necessary to address potential shortcomings. These assessments are readily available on EXIM's website for public review. Transactions are further reviewed for compliance with the Organization for Economic Cooperation and Development's (OECD) Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, and the Equator Principles, as well as guidelines based on the International Finance Corporation's Performance Standards and the Environmental, Health and Safety Guidelines of the World Bank Group.

Certain transactions further require EXIM to undertake more in-depth economic impact assessments, which involve both an interagency review process and a public comment period. All applications for financing that equal or exceed \$100 million also require congressional notifications and *Federal Register* postings before EXIM is able to make a final commitment.

Like any pipeline or deal funnel, not all transactions may come to fruition for reasons outside of EXIM's control. These are highly complex transactions and legal and commercial considerations are not always finalized at the time EXIM receives an application. New issues may arise that require further negotiation before a transaction is ready for Board consideration. In fact, U.S. exporters lost approximately \$13.3 billion of sales during the 4 years in which EXIM lacked a quorum.

At this point, EXIM staff estimate that transactions worth more than \$20 billion will be ready for consideration by the Board in the first year of full functionality. We expect the Board will vote on some of these applications this summer.

The plan is to work through the applications at a reasonable and prudent pace. Though we want to make our way through the pipeline, we take our obligation to protect the interests of U.S. taxpayers very seriously. EXIM has averaged a default rate of less than half-of-a-percent over the past decade because of the care and thoughtfulness that goes into the review and structuring of these transactions. EXIM also takes seriously its responsibility to ensure we're only supporting transactions that cannot obtain a volume or tenor of financing in the market sufficient to realize economic viability. While we are anxious to move transactions forward, we cannot rush through the necessary reviews. Moving through the applications in a responsible way will be a huge victory in our collective efforts to support American exporters, businesses, and workers. EXIM also expects an influx of new applications to support foreign purchases of U.S. goods and services. As I underscored at my two

confirmation hearings, EXIM can and must support businesses of all sizes that the private sector will not adequately finance, especially small- and medium-sized businesses, and I will comment more on small business later in my testimony. No matter the size or type of transaction, EXIM must be guided by the requirements of its Charter and ensure it is carrying out its Congressionally mandated mission in a thoughtful and responsible way.

Instituting Reforms and Other Priorities at EXIM

I am committed to working with this Committee and the Congress to transform EXIM, which is particularly important as we head into reauthorization.

During my July 19, 2018, confirmation hearing before this Committee, we discussed the future direction of EXIM. I was asked six specific questions:

- Will you work with me and other Members of this Committee and the Senate to increase transparency at the Bank to the greatest extent that is practicable without divulging confidential business information?
- Will you work with me and the Committee to strengthen taxpayer protections against losses from deals that go badly?
- Will you work with me and Members of the Committee to improve protection for domestic companies from economic harm that might arise from EXIM Bank financings with foreign competitors?
- Will you work with us to ensure that EXIM Bank is not crowding out private financing options that would otherwise be available but for EXIM Bank's involvement?
- Will you work with me and the Committee to crack down on bad actors, whether they are employees of the Bank or its customers who should not be dealing with the Bank?
- Will you work with all of us and the Administration to meet the statutory requirement that we work to reduce the reliance on ECAs globally?

I answered each of these questions in the affirmative and am following through on these commitments as we work to transform EXIM.

For example, immediately after being sworn in, I traveled to China to participate in the annual Group of 12 Member Nations (G12) Heads of Export Credit Agencies Meeting. I had the pleasure of meeting and engaging with my counterpart heads of foreign ECAs. I heard from the leaders of these organizations on what foreign ECAs having been doing while EXIM was not fully operational, including the strategic role that they are playing to further their countries' own national interests. I sought to revitalize U.S. leadership in negotiations, as Congress has specified in the EXIM Charter, to reduce subsidized export financing programs, enhance transparency, and level the playing field. While the Treasury Department leads these negotiations, under my leadership, EXIM will coordinate closely with Congress and Treasury through full and frank technical insights. As an outcome of the meeting, we secured the support of the G12 for the United States to host the 2020 G12 Meeting here in Washington, DC. I would like to thank my ECA counterparts again for their commitment to cooperation and collaboration.

Not long after I returned from China, President Trump designated me to lead the United States Presidential Delegation to South Africa to attend the inauguration of South Africa's President, Cyril Ramaphosa. While there, I was able to help advance another critical Congressional mandate with many sub-Saharan Government and business leaders. I made it clear that EXIM is fully functional and ready to facilitate greater support for trade with sub-Saharan Africa.

EXIM held its first board meeting just 3 weeks after the board quorum was confirmed by the U.S. Senate. This was the first time that the EXIM Board has met since July 2015. EXIM ex officio Board Member U.S. Secretary of Commerce Wilbur L. Ross, Jr., and Ambassador Jeffrey D. Gerrish, Deputy U.S. Trade Representative for Asia, Europe, the Middle East, and Industrial Competitiveness, also participated.

At this meeting, the Board satisfied the remaining legislative reforms outstanding from the Export-Import Bank Reform and Reauthorization Act of 2015 (P.L. 114-94) that could not be completed without a Board quorum. We confirmed the appointments of a Chief Risk Officer and a Chief Ethics Officer. These roles are critical to carrying out the reforms mandated under the 2015 reauthorization, by elevating EXIM's focus on managing risk and adhering to the highest ethical standards.

The Board enhanced EXIM's ability to efficiently and responsibly process transactions under \$25 million. Specifically, in accordance with the intent of Congress as set forth in 2015, the Board delegated authority for short- and medium-term transactions up to \$25 million to senior EXIM officers.

As we look at our EXIM programs and potential reforms, it is also important to receive input from diverse experts outside of Government. As such, we have just launched the process to reestablish the Congressionally mandated Advisory Committee and the Sub-Saharan Africa Advisory Committee. We are currently accepting nominations for members to be considered for both committees. Applications will be accepted until July 24, 2019, and more details can be found on the EXIM website or through the *Federal Register*. These committees are charged with providing feedback to EXIM and to Congress on how to ensure the design and operations of EXIM programs are meeting the needs of United States exporters for competitive financing.

EXIM also must supplement and enhance—not compete with—private sector financing. As I pledged to you in my 2018 testimony, I have now begun internal discussions to review and strengthen the adequacy of EXIM’s “additionality” criteria to ensure that EXIM is playing a complementary and necessary role in mobilizing private sector financing to assist U.S. companies operating in an increasingly competitive global marketplace.

I also am committed to improving EXIM’s transparency to the greatest extent that is practicable without divulging confidential business information. EXIM has made important progress in recent years in the area of transparency, but we always can do more. Greater transparency will increase the confidence of EXIM’s stakeholders that we are pursuing our mission appropriately while protecting taxpayers. As just one part of this commitment, I will seek to improve EXIM’s documentation of its additionality determinations and publish these determinations so that the bases for these decisions are available to all of our stakeholders.

Supporting small business is vital to EXIM’s mission and I am committed to doing even more. Twenty-five years ago, EXIM established its Small Business Division focused entirely on ensuring that small businesses have access to the trade finance tools they need to succeed in markets around the world. Since that time, the global market for U.S. exporters has changed dramatically. Throughout the global financial crisis and its aftermath, EXIM stood by small businesses, helping to fill the gap in private sector financing.

While the loss of a Board quorum affected businesses of all sizes, EXIM’s dedicated staff continued to work with small businesses, their lenders, and brokers, on how EXIM’s working capital loan guarantee and export credit insurance programs could help these companies grow their sales globally. Between Fiscal Years 2016 and 2018, EXIM approved more than 7,000 transactions in direct support of small businesses.

The first event I hosted at EXIM was a small business roundtable with business leaders from Pennsylvania, Maryland, and West Virginia who also are EXIM small business customers. Their concerns are top-of-mind for me and the other members of EXIM’s new Board. No transaction is too small. We know how important every sale is for businesses that operate on thin margins and how a single sale can affect an owner’s ability to make payroll or bring a new employee on board.

Still, I want to make it clear that we can and must revitalize EXIM’s commitment to small businesses. For that to happen, we must strengthen EXIM’s ability to meet U.S. small businesses that cannot access adequate commercial financing where they are with the tools they need.

Among our first priorities will be to dramatically strengthen our relationship with private sector lenders and brokers—as well as with Federal, State, and local government agencies that regularly communicate with U.S. businesses large and small—through a forward-leaning, proactive strategy focused on providing improved resources that will help them more effectively communicate to small businesses about how EXIM financing solutions can make a difference in boosting their sales while protecting their bottom line.

We will develop new opportunities to better track how EXIM works with individual small businesses, making sure that they are taking full advantage of their EXIM policies to maximize sales, and helping to answer any questions they have about how EXIM—or other Federal resources—can help them boost their competitiveness.

When small businesses look beyond our shores to reach new global markets that commercial lenders tend to avoid, EXIM can help reduce the risk of selling products in emerging and frontier markets. Yet, too many people today simply do not know what EXIM is or how our products can work for them. That is why I am committed to dedicating new resources to help EXIM reach more small businesses across various channels, whether it is through the internet, social media, trade associations, industry publications, chambers of commerce, or trade shows. We are currently developing outreach strategies that will improve EXIM’s outreach to small businesses

in underserved communities, rural and urban areas, tribal communities, and the territories.

Another key issue that I am focusing on is identifying new ways EXIM can support the agricultural sector. EXIM already provides enhanced coverage and payment terms for exports of bulk agricultural commodities under its export credit insurance policy. For the many farmers who may not directly export themselves, but instead sell their goods to a buyer who then serves as the exporter, EXIM's working capital program supports these indirect exporters to increase their access to credit.

I am committed to building on EXIM's outreach efforts to amplify our message to rural communities so that more farmers and ranchers can learn about how EXIM can work for them. We are also looking at better aligning our underwriting teams to enhance our industry expertise. This will help facilitate improved processing times that will benefit agricultural exporters.

As we continue our efforts to strengthen our programs for this important sector, I will work with my colleagues in the U.S. Department of Agriculture, including Secretary of Agriculture Sonny Perdue and Under Secretary for Trade Ted McKinney, to ensure that we are complementing, not duplicating, their efforts and delivering effective solutions for our farmers and ranchers.

In addition, I take seriously the statutory and overarching mandate of EXIM's Inspector General to improve the efficiency and effectiveness of EXIM's programs and operations while preventing and detecting fraud, waste, and abuse. The Inspector General accomplishes its mission through the conduct of audits, investigations, inspections, and evaluations. I believe a strong Inspector General is key to protecting the American taxpayers.

While EXIM's mission has always been helping to grow the U.S. economy and American jobs through exports, it is increasingly clear that EXIM has a role to play in supporting U.S. strategic interests and critical industries. My recent conversation with Iraq's Ambassador to the United States underscored yet again the importance of EXIM in advancing broader policy objectives. The Ambassador told me that increasing the involvement of the U.S. private sector in rebuilding Iraq through EXIM support would not only accelerate technological advancement, but also would improve security in Iraq and in the region.

This is just a glimpse of all that has been going on at EXIM in just the past 7 weeks. These developments would not be possible without our exceptional EXIM staff. In addition to seeing EXIM brought to full capacity, one of my immediate priorities is to improve the employee experience. To assist with developing a plan of action, I have brought on board an expert with many years of experience in employee engagement, change management, and organizational development to identify opportunities and address employee concerns. We are collaborating with several employee-driven task forces that convened over the last several years to analyze EXIM's annual Federal Employee Viewpoint Survey (FEVS) results. The FEVS survey that looks back over the past year was launched as I arrived and will serve as a benchmark for us to work from as we go forward to make EXIM one of the best places to work in the Federal Government.

Reauthorizing EXIM

As I previously testified before this Committee, I believe that free-market principles are the best way to foster economic opportunity for all Americans. Throughout my 23 year career, I have embraced these principles to make a positive difference for our Nation's businesses and workers while also protecting the American taxpayer. Still, there is room for improvement to keep America on this road to prosperity, and EXIM is no exception. The global competitive landscape facing our Nation's economy and U.S. exporters has changed dramatically since EXIM was first established, and our stakeholders have reported to us that competition has intensified during EXIM's 4 years of limited operations, but the critically important EXIM mission has not. EXIM still supports American jobs through exports.

The Administration looks forward to working with this Committee and the Congress to advance reauthorization legislation that ensures that EXIM is fully able to continue its vital mission, as a reliable partner to exporters' efforts to secure foreign customers. A robust and reformed EXIM can help the world to "Buy U.S.A.", preserve domestic manufacturing supply chains, combat what our stakeholders have reported as increasingly aggressive efforts by foreign Governments to undercut the competitiveness of U.S. exporters, further America's national and economic security objectives by facilitating U.S. exports to markets around the world, and protect the U.S. taxpayer.

Intensifying Global Competition

For decades, the United States has worked through the OECD to establish a level playing field, a framework—the OECD Arrangement on Officially Supported Export Credits (the Arrangement)—for the provision of official export credit, including risk-based pricing. The focus of the Arrangement has been to restrict foreign export credit subsidies and encourage global export competition based on the quality and price of goods and services exported, rather than predatory financing terms. The Arrangement is a living document. Over the years EXIM has contributed its technical expertise and experience to support the U.S. in establishing market-oriented rules based on best—not trade distorting—export credit practices. The Arrangement is also a “gentleman’s agreement,” and is only as good as the commitment of the Participants to its guidelines.

As required under its Charter, EXIM submits an annual *Competitiveness Report* to Congress by June 30 of each year. The report reviews the actions of EXIM in providing financing on terms and conditions “which are fully competitive” with those offered by other Governments, and the progress of efforts to minimize competition in Government-supported export financing. It also includes a survey of all other major export-financing facilities available from other Governments and Government-related agencies through which foreign exporters compete with the United States. For many years, this was largely done by looking at how EXIM’s programs compared with that of other Participants to the Arrangement and the extent to which the Arrangement was succeeding in achieving its goals of minimizing market distortions and fostering transparency.

EXIM’s soon-to-be released annual *Competitiveness Report* examines how deeply, widely, and fundamentally officially supported export financing has changed over the last 10 to 15 years. The most significant development has been the loss of a level playing field. Emerging markets now import fewer goods and services and instead have their own robust ECAs to promote their exports onto global markets. The ECAs of China, India, and other countries that do not participate in the OECD Arrangement operate without regard to the basic standards of transparency and fairness established among Arrangement Participants.

Today, China is the largest provider of official export credit, which it uses to increase the scale, technology, and market position of its manufacturers as global leaders. In 2018 alone, EXIM estimates China provided more than \$39 billion in medium- and long-term export credit financing—more than the next top three ECAs combined. While this number is very large, it is dwarfed by the \$481.4 billion of short-term export credit China provided in 2018.¹ This helps China penetrate the complex supply chains of global manufacturing.

Since 2012, the United States has been trying to work with China and other Governments through the International Working Group on Export Credits to establish a new international framework for a level playing field among all major providers of medium- and long-term official export finance.

While those discussions continue, OECD members are taking practical actions to address the very real threat that China poses to their overall industrial competitiveness. OECD ECAs have reported introducing and expanding programs and capabilities outside of the scope of the Arrangement that are focused on achieving strategic goals and forging business partnerships to establish a long-term footprint in key markets.

A growing number of ECAs and their Governments have chosen a proactive approach that puts export finance at the center of trade policy. No longer reactive or the lender of last resort, foreign ECAs have reported that they are increasingly seeking out transactions, putting financing packages in place, and identifying ways to maximize the number of domestic suppliers or exporters involved in the global supply chain of strategic sectors, often engaging in “match-making” efforts between their suppliers and foreign buyers. They report that they are using official export credit to support robust domestic supply chains, enhance efficient shipping and logistics, open the door to follow-on exports, deepen economic ties, and develop engineering and technological expertise in key sectors.

Consequently, financing provided under the terms of the Arrangement represented just 36 percent of total Government-backed export and trade-related financing in 2018, including development financing.²

China has been very explicit in its efforts to extend its economic influence through its export credit and investment support for the Belt and Road Initiative. More than 60 countries are discussing or developing projects with China now. Estimates show

¹ EXIM Report to the U.S. Congress on Global Export Credit Competition, June 2019.

² EXIM Report to the U.S. Congress on Global Export Credit Competition, June 2019.

China could spend as much as \$1.3 trillion by 2027 on investments throughout the Belt and Road Initiative region.³

At the same time, China has outlined its “Made in China 2025” strategy—a strategy designed to transform China into a manufacturing superpower and in which China’s ECAs play an important role⁴—to develop domestic industries in sectors of key strategic importance. By developing critical infrastructure expertise, China can establish footholds in strategic geographic regions, control power generation, the electrical grid, and telecommunications networks, and reshape its economic footprint to align with its global ambitions.

China is known to provide export and trade-related financing through at least three different entities to turn these aspirations into reality. China Export and Credit Insurance Corporation (also known as Sinosure), the Export–Import Bank of China, and the China Development Bank all provide export credits and, in doing so, have played central roles in helping Chinese companies gain international strength and move up global value supply chains. Through this whole-of-Government approach, these Chinese entities are boosting projects throughout Asia and Africa that primarily utilize Chinese technology, engineering, and services.

In addition to the rise in export credit products and providers, exporters have reported that, today, some foreign buyers include ECA financing as a condition of a bid in their requests for proposals (RFPs). Some RFPs not only clearly state a requirement or preference for ECA financing specifically, but also that the exporter’s financing proposal is equal in importance to the technical proposal.

In the face of these changes, the U.S. export community has strongly expressed the need for a fully functioning EXIM that is empowered to level the playing field for American companies in this increasingly competitive international marketplace. In fulfilling its mission and in accordance with Charter requirements, EXIM can ensure U.S. exporters have the opportunity to win export sales, including in strategically important projects in key markets around the world, while serving as a market-oriented counterweight to China. As President Trump often says, “economic security equals national security.”

Conclusion

Over the past 2 years, this Administration has ensured EXIM is adhering to its statutory mandates and has addressed and closed many recommendations from the Office of the Inspector General and the Government Accountability Office, elevated its deterrent efforts to stop third parties seeking to defraud the U.S. Government, and improved the data analytics and risk management of its portfolio.

EXIM has demonstrated responsible portfolio management, with an average default rate of less than half-of-a-percent over the past decade—a period of significant market turbulence, including the global financial crisis and the European debt crisis. As I previously underscored, since 1992, EXIM has generated \$9.6 billion after covering its administrative and program expenses and setting aside reserves.

EXIM has enabled thousands of businesses across the country to pursue new opportunities in reaching customers around the world. As we all know, 95 percent of potential customers are outside of the U.S. Yet, today, it is estimated that fewer than 1 percent of America’s 30 million small businesses export. Many of those exporters only export to one country.

To remain truly competitive in today’s global markets, we have to do better. EXIM must work with its partners at the Federal, State, and local levels to provide coordinated support for U.S. businesses that have the potential to tap new markets but cannot access adequate commercial financing. While the largest transactions may receive the most attention, EXIM cannot lose sight of the critical role that small- and medium-sized businesses play in communities across this country.

Over the course of the past 4 years, export credit agencies report that they are using the availability of export credit financing to entice U.S. businesses to shift their supply chains outside of the United States and increase the foreign content of their exports. These efforts might potentially negatively affect the largest U.S. exporters as well as the thousands of small- and medium-sized American businesses, as well as many American workers throughout our Nation, that make up their supply chains.

³ Chatzky, Andrew and James McBride. “China’s Massive Belt and Road Initiative”, Council on Foreign Relations, 21 February 2019, <https://www.cfr.org/background/chinas-massive-belt-and-road-initiative>.

⁴ For example, on its website, Sinosure says that it “has taken an active role in fulfilling the Made in China 2025 Initiative”, <http://www.sinosure.com.cn/en/Responsibility/smic/index.shtml>.

I look forward to working closely with Congress on how the U.S. can best combat the aggressive tactics of foreign ECAs, provide certainty to U.S. exporters and the thousands of companies that make up their supply chains, and help more businesses grow their global market share and support U.S. workers.

In closing, I again want to thank President Trump for his support of EXIM and me. On May 30, I was fortunate enough to have a ceremonial swearing-in at the Oval Office—and while I was there, the President asked me to “do great things.” He asked me to “fight to give American workers a level playing field and to expand foreign markets for American-made goods” and reinvigorate EXIM to “help create even more great-paying jobs.” That is exactly what I intend to do: transform EXIM to deliver results for America’s workers and businesses, while also protecting the United States taxpayer.

The President also said that the world needs to “see more products stamped with those four beautiful words: MADE IN THE U.S.A.”. Now, more than ever, our Nation and our workers need the United States Congress to reauthorize EXIM to help make this happen, and I stand ready to assist you in this process.

Thank you for this opportunity to testify and I look forward to your questions.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT
FROM KIMBERLY REED**

Q.1. There's no denying the Export–Import Bank's importance to the South Carolina economy. There's a reason that the Port of Charleston continues to be the fastest-growing major port in the United States. EXIM's lending supports high-paying jobs for thousands of South Carolinians and lets our businesses contend on a level playing field with international competitors. That said, the Bank isn't without its faults. But hopefully we are on a productive path to realizing many of the reforms that have been dormant since 2015.

Please answer the following with specificity:

The National Association of Manufacturers estimates that manufacturers have forfeited billions of dollars in sales in the 4 years (2015–2019) that the EXIM Bank was not fully functional, which they anticipate translated to approximately 80,000 fewer jobs in 2016 and 2017 and the loss of at least \$119 billion in output. At the same time, foreign Export Credit Agencies (ECAs) were ramping up activity. Is it fair to assume other countries with active and competitive ECAs saw export sales as a direct result of our decline?

A.1. Yes. As Chairman Reed described in her written testimony, among applications in EXIM's pipeline for consideration by the Board of Directors, approximately \$13.3 billion in U.S. exports were lost to foreign competition during the period when EXIM was not fully functional.

These transactions would have financed the sales of U.S. exports to the following regions:

REGION	LOST U.S. EXPORTS (\$ MILLIONS)
ASIA	2,348.50
EUROPE	2,946.00
LATIN AMERICA/CARIBBEAN	1,125.90
MIDDLE EAST/NORTH AFRICA	5,438.00
MULTIPLE REGIONS	125.00
SUB-SAHARAN AFRICA	1,356.60
TOTAL	13,340.00

Some of these export sales involved satellites, power, renewable energy, mining, oil and gas, civil works, and aircraft, among others.

There may well be additional potential lost exports in which buyers did not submit applications for financing since EXIM was not fully functional. For example, U.S. exporters reported they were put at a disadvantage when competing for export sales that required financing support from export credit agencies. As highlighted in the recently released EXIM *Competitiveness Report*, “Today, some importers are including [Export Credit Agency (ECA)] financing as a condition in their requests for proposals (RFPs).”¹

¹Report to the U.S. Congress on Global Export Credit Competition, Export–Import Bank of the United States, June 2019, p. 35.

At the same time, foreign export credit agencies reportedly used the availability of export finance to entice U.S. exporters to make long-term, strategic decisions to shift their supply chains overseas in order to facilitate their global sales.²

American businesses, U.S. supply chains, and the jobs supported by exports were all adversely affected through these lost transactions, missed opportunities, and strategic actions by foreign export credit agencies.

Q.2. Ms. Reed, in December of last year, the President launched his “Prosper Africa” initiative to advance American and African prosperity through trade and commercial ties. Unfortunately, we see our competitors, like China, voraciously investing in infrastructure and telecom throughout African countries, while our companies have been forced to compete on an unlevel playing field.

A.2. As reported in EXIM’s *Competitiveness Report*, foreign Governments have weaponized policy institutions to gain market share around the world, particularly in developing regions such as in Africa. As a key participant in the Prosper Africa initiative with a mission to support U.S. jobs by financing U.S. exports, EXIM is committed to expand financing for U.S. exports to African projects over the next few years. EXIM’s current pipeline of transactions involving projects in Africa is approximately \$12.5 billion.

Q.3. In April this year, EXIM Bank signed an MOU with Angola’s Ministry of Finance in accordance with the President’s initiative where Angola agreed to exchange information to further procurement of U.S. goods.³ I applaud the Administration and the Bank as this is a step in the right direction and I want to see this followed through with. How do you envision the Export–Import Bank working to create a similar sense of understanding between other African Nations and EXIM Bank/the U.S.?

A.3. EXIM is mandated by law to promote the expansion of its financial commitments across sub-Saharan Africa (12 U.S.C. §635(b)(9)). EXIM recognizes the commercial opportunities that an emergent Africa provides for U.S. exporters. In her first month at EXIM, Chairman Reed was tapped to head the U.S. Presidential Delegation to the inauguration of the president of South Africa. While in Pretoria, South Africa, she participated in several meetings and roundtables focused on EXIM and Africa. She will build upon this understanding at the upcoming United Nations General Assembly where she will participate in a U.S.–Africa business roundtable focused on expanding trade and investment between the U.S. and Africa. EXIM signs Memoranda of Understanding (MOUs) with various entities, including foreign finance ministries, multilateral financial institutions, and agencies (such as the Philippine Energy Department) to help advance U.S. business interests in a coordinated matter and provide a framework for ensuring the fair

²E.g.: Cameron, Doug. “Boeing Finds Alternative to Export–Import Bank”, *Marketwatch*, May 31, 2017, available at: <https://www.marketwatch.com/story/boeing-finds-alternative-to-export-import-bank-2017-05-31> and “GE Announces Plan To Build World Class Gas Engine Facility in Canada; Move Products From Wisconsin and Other Sites”, General Electric Reports. Press Release: Sept. 28, 2015, URL: <https://www.genewsroom.com/pressreleases/ge-announces-plan-build-world-class-gas-engine-facility-canada-move-products>.

³See Report to the U.S. Congress on Global Export Credit Competition, Export–Import Bank of the United States, June 2019.

consideration of U.S. exports. With Prosper Africa's efforts to improve U.S. Government coordination, EXIM will strategically leverage interagency resources in developing new commercial relationships, potentially including additional MOUs, in partner countries across the continent.

Section 54001 of P.L. 114-94⁴ reestablished EXIM's Sub-Saharan Africa Advisory Committee with representatives from trade finance, commerce, banking, and small business. The Committee, which held its first meeting on September 11, 2019, is advising the EXIM Board on how to facilitate greater engagement in Africa.

Q.4. As you mentioned in your testimony, China is now the largest provider of official export credit which it welds around the world, furthermore there are now 112 other foreign export credit agencies. How can EXIM bank be at the forefront and assist our businesses and other African Nations with the procurement of infrastructure, such as ports and telecom, as players like Huawei expand their influence?

A.4. U.S. exporters face aggressive competition from Government-backed export financing not only from China but also from other countries in Asia, Europe, and Latin America. In many African countries, financial markets are still underdeveloped and there is a greater need for officially supported export credit financing. In such areas, EXIM will be critical resource to facilitate the purchase of U.S. exports by African buyers. As part of the Government-wide Prosper Africa Initiative, EXIM will aim to: (1) undertake greater outreach to U.S. exporters and foreign buyers, (2) utilize MOUs to promote U.S. exporters, (3) identify commercial partners in Africa where commercial financing is not available to support U.S. exporters, and, (4) offer competitive financing when U.S. exporters are disadvantaged due to financing of foreign export credit agencies.

Q.5. A number of manufacturers who use EXIM have a robust supply chain that often contain several small businesses, many of which are integral to supporting our largest manufacturers in South Carolina. Can you tell us the economic benefit to those small business suppliers as well as how EXIM is working to grow their share of the pie?

A.5. When EXIM finances transactions that support exports from larger U.S. manufacturers, many small businesses in the manufacturer's supply chain also benefit. EXIM helps sustain the jobs in the supply chain because EXIM financing is directly tied to the value that is sourced from the United States.

As reported by stakeholders, EXIM's absence in the long-term financing sphere has disproportionately hurt smaller U.S. sub-suppliers that support the supply chains of larger manufacturers. These larger manufacturers are more readily able to shift production to foreign facilities, often with the help of foreign export credit agencies, and still make their sales. However, sub-suppliers and their workers often cannot relocate and are replaced by their foreign competitors in supply chains.

EXIM places a high priority on supporting exports from small businesses. This is done through extensive outreach and coordina-

⁴ 12 U.S.C. §635(b)(9)(B)

tion with Federal agencies, State and local governments, private sector lenders and insurance brokers, and trade associations. EXIM has developed a targeted financial solution to support small businesses in the supply chain. Using an EXIM Supply Chain Loan Guarantee, small businesses can increase their access to capital and liquidity when fulfilling orders that support U.S. exports.

Building on the success of its Supply Chain Loan Guarantee program, EXIM will continue to look at ways in which it can better support small businesses in domestic manufacturing supply chains.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SASSE
FROM KIMBERLY REED**

Q.1. Under the Export–Import Bank’s statute you are required to be a lender of last resort—how do you fulfill that obligation?

A.1. Historically, especially over the last 30-plus years, EXIM has been referred to as a “lender of last resort.” EXIM is, more specifically, the lender or guarantor U.S. exporters turn to when facing financing gaps within the private sector caused by regulatory factors, structural factors, or competition from foreign officially supported export credit for a competing foreign good or service. A core element of EXIM’s policies is that its activities promote the development or maintenance of U.S. jobs through the export of U.S. goods and services¹ in furtherance of its statutory mandate.² In extending financial support for a given transaction, EXIM is also charged under 12 U.S.C. §635(b)(1)(B) to “supplement and encourage, and not compete with, private capital.”

To achieve these ends, EXIM implements several steps:

Additionality

As required by law, EXIM conducts an annual review of the private market appetite for export financing and a case-by-case establishment of “additionality”³ (12 U.S.C. §635g, 12 U.S.C. §635g-1). EXIM focuses on financing transactions where the probability or likelihood of a transaction involving U.S. exports is unlikely to proceed without Bank support.⁴ In addressing additionality, EXIM considers the availability of competing private or other export credit agency financing for a transaction.⁵

Recently, the EXIM Office of Inspector General (OIG) conducted an evaluation of the EXIM’s additionality policies and procedures.⁶ The OIG recognized “EXIM generally conducted sufficient due diligence and adequately interpreted the need for additionality when

¹Evaluation of EXIM’s Additionality Policy and Procedures, Export–Import Bank of the United States, Office of the Inspector General, Nov. 27, 2018, p. 6, available at: <https://www.exim.gov/sites/default/files/oig/reports/Final%20Additionality%20Report%2011272018%20Redacted.pdf>.

²“The objects and purposes of the Bank shall be to aid in financing and facilitate exports, and in so doing contribute to the employment of United States workers.” 12 U.S.C. §635(a)(1).

³Id. at iv. “Additionality is defined as the likelihood that a transaction would not go forward without EXIM support. The typical factors that influence additionality are: (1) the existence of foreign officially supported export credit for a competing foreign good or service; and/or (2) the existence of financing gaps, where commercial financing is not available on economically viable terms, but EXIM can still find a reasonable assurance of repayment.”

⁴Id. at 6.

⁵Id.

⁶Id. at 16.

authorizing transactions [and] generally complied with its additionality policies and procedures.”⁷

Analysis of Gaps Resulting in Lack of Private Capital

EXIM engages in regular discussions with commercial banks and nonbank lenders about which transactions the private sector would be willing to fund, both with and without an EXIM guarantee, which supplements its annual review of the private market appetite. In aggregate, these discussions outline the capacity and risk appetite of the private sector export finance market.

Using this analysis, EXIM has generally found private sector lenders often seek an EXIM guarantee to proceed with transactions with below investment grade risks, or with a repayment term of more than 7 to 10 years, or with a value more than \$100 million. While the specifics of the need for EXIM may shift year to year based on market dynamics, the existence of a market gap is structural and has been consistent in the years since the 2008 global financial crisis.

Case-by-Case Review

EXIM also performs a case-by-case review of the need for EXIM in individual transactions by looking at the existence of foreign product competition, foreign Government financing support, and the offers available for private sector financing (and the consistency of these offers with the general pattern described above). The case-by-case review includes transaction details that affect the availability of financing—for example, the type of asset financed, the sector, and noncredit risks, such as country risk. By tailoring additionality analysis to specific transactions, EXIM is assured it is supplementing and not competing with private capital.

If loan officers and senior management have reason to believe there are sufficient financially viable alternatives in the private sector, they routinely work with the applicant to maximize private sector involvement. At times, EXIM’s willingness to finance a portion of a project may entice private sector lenders to play a larger role in a project or transaction. If applicants do not narrow the scope and amount of their financing request to meet EXIM’s requirement to not compete with private capital, staff may recommend the applicant withdraw the transaction.

Delegated Authority

EXIM has delegated authority to qualified private sector lenders to streamline the approval of loan guarantees for smaller transactions, generally transactions under \$25 million.

Any bank, provider of commercial credit, or other public or private lender may apply to participate as a delegated authority lender. Once approved, EXIM trains these lenders on how to comply with its policies and legal requirements. EXIM authorizes these lenders to commit EXIM’s guarantee up to a certain amount for an individual loan and an overall amount across all covered loans. With delegated authority, lenders can underwrite, structure, and issue loans backed by EXIM’s guarantee. EXIM collects fees for all

⁷Id.

its guarantees, reviews any claims for compliance with EXIM policies, and routinely evaluates the performance of delegated authority lenders in the program.

Currently, there are 74 private sector lenders participating in EXIM's delegated authority program for working capital loan guarantees and five financial institutions participating in EXIM's medium-term buyer financing program. EXIM works to strengthen its relationship with private sector lenders in many ways, including by reviewing and, as appropriate, increasing credit lines for existing lender partners to allow them to originate more—and larger—working capital loans backed by EXIM.

Since 2018, EXIM has increased the credit lines of nine lenders thereby allowing them to originate larger deals. EXIM increased the credit lines of these lenders after they have demonstrated the standard of care, due diligence, expertise, and skill to manage working capital loans under delegated authority. It is important to note that these lenders already have the capacity to finance international trade and are relying on EXIM to cover their foreign risk without which lenders would not finance any export working capital deal.

Ultimately, EXIM reviews its transactions to ensure compliance with all statutory mandates, including whether the transaction supports U.S. jobs, demonstrates a reasonable assurance of repayment, does not compete with private sector capital, and is competitive with financing available from foreign ECAs. Chairman Reed has committed to reviewing EXIM's additionality policies and procedures for medium- and long-term transactions and is seeking public comment and input as part of this process.⁸

Q.2. Under what circumstances do you believe it is appropriate for the Export–Import Bank to lend to a foreign credit agency or a nominally Government-backed company in China?

A.2. In accordance with the current law set out in EXIM's Charter (12 U.S.C. §635 et seq.), there are limited reasons for which EXIM can deny a transaction.

Transactions can be denied if there is no reasonable assurance of repayment,⁹ if EXIM financing would compete with private capital,¹⁰ if there would be adverse economic impact on U.S. businesses,¹¹ if there would be adverse environmental impact,¹² if there is substantial creditable evidence of fraud or corruption,¹³ or if there is a presidential determination that denial is in the national interest.¹⁴ Congress also has generally prohibited discrimination by sector or buyer unless Congress explicitly authorizes it.¹⁵ Chinese State-owned enterprises (SOEs) currently are not a category that would allow EXIM to deny associated transactions.

⁸ See "Export–Import Bank [Document Number: 2019-6019] Review of Proposed Guidelines for Assessing Additionality Related To Providing EXIM's Support for Medium and Long Term Export Transactions" <https://www.govinfo.gov/content/pkg/FR-2019-09-09/pdf/FR-2019-09-09.pdf>.

⁹ 12 U.S.C. §635(b)(1)(B)

¹⁰ 12 U.S.C. §635(b)(8)

¹¹ 12 U.S.C. §635(e)

¹² 12 U.S.C. §635i-5(a)(2)

¹³ 12 U.S.C. §635(f)

¹⁴ 12 U.S.C. §635(b)(1)(B)

¹⁵ 12 U.S.C. §635(k)

Congress has directed EXIM to provide financing to U.S. companies whose products compete with those of foreign businesses backed by financing from their export credit agencies.¹⁶ Over the past decade, many foreign countries have used their export credit agencies (ECAs) to promote exports as a driver of national growth.¹⁷ These foreign ECAs may offer financing terms not available through the commercial market. In general, when a U.S. company is competing for a sale with another company backed by a foreign export credit agency, EXIM's support is important for making sure the U.S. business can compete with the same financing terms, allowing the U.S. company and its U.S. workers to win the contract.

In a scenario in which a U.S. company is facing foreign export credit agency competition for a sale to a fully or partially owned SOE in China, blocking EXIM support would likely leave the U.S. company at a disadvantage. In most cases, prohibiting the U.S. company from competing for the sale will not affect the Chinese buyer's ability to get similar goods or services from other countries with ECAs. Moreover, in a scenario where a U.S. company is competing for a sale to a project outside China that is fully or partially owned by a SOE in China, prohibiting the U.S. company from competing for the sale would likely abandon the sale to competing foreign countries and their exporters and workers.

Given EXIM's responsibility to support exports and its responsibility to ensure American companies have access to competitive financing, the hypothetical described above could be an example of a time when it is appropriate to lend to a foreign export credit agency or a nominally backed company in or owned by China, provided that there were no reasons, pursuant to law, that EXIM could reasonably deny the transaction.

Q.3. On July 6th, the Chairwoman of China's Export-Import Bank called for "an acceleration of reforms to internationalize the Chinese currency".¹⁸ Could you discuss the potential impacts—if any—this would have on the Export-Import Bank of the United States' operations?

A.3. As the July 6, 2019, *Reuters* article notes (the full text included below for the record), the internationalization of China's renminbi (yuan) has been underway for years. In November 2015, the International Monetary Fund (IMF) decided to include it among the basket of currencies used to determine the value of the Special Drawing Right (SDR), an IMF accounting unit and international reserve asset that has been used to supplement IMF members' official reserves. The five currencies in the SDR basket—the U.S. dollar, Euro, British pound, Japanese yen, and Chinese yuan—are widely used to make payments for international transactions and are widely traded in the principal exchange markets.

However, designating the yuan as a major world currency does not have an impact on EXIM's operations.

¹⁶ 12 U.S.C. §635(b)(1)(A)

¹⁷ See Export-Import Bank of the United States, Report to the U.S. Congress on Global Export Credit Competition, June 2019. Available at: https://www.exim.gov/sites/default/files/reports/competitiveness_reports/2018/EXIM2019CompetitivenessReport.pdf.

¹⁸ <https://www.reuters.com/article/us-china-yuan-exim/citing-trade-risks-chinas-exim-bank-chief-urges-faster-yuan-globalization-idUSKCN1U1088.pdf>

CITING TRADE RISKS, CHINA'S EXIM BANK CHIEF URGES FASTER YUAN
GLOBALIZATION

REUTERS, *Business News*, July 6, 2019, 5:39 AM

By Yawen Chen and John Ruwitch; Editing by Shri Navaratnam

BEIJING (Reuters)—The chairwoman of China's Export-Import Bank on Saturday called for an acceleration of reforms to internationalize the Chinese currency, warning that external risks linked to rising global protectionism could harm the financial sector. Hu Xiaolian, speaking at a forum in Beijing, said some countries have been engaged in "constant" efforts to undermine globalization.

"Some barriers have been erected in terms of trade and investment, company cooperation, technological exchange, personnel exchanges and so on, which actually makes us worry whether the financial sector, as the 'blood' of the economy and an important support and guarantee for globalization, will also be impacted by this countercurrent," Hu said.

China is locked in a bruising trade war with the United States, which has led to retaliatory tariffs on hundreds of billions of dollars of each others' goods. The U.S. Administration has also stepped up scrutiny of Chinese firms, including telecommunications giant Huawei, which has been banned from accessing the U.S. market and effectively limited from purchasing U.S. technology.

Last week, the *Washington Post* reported that a U.S. judge has found three large Chinese banks in contempt for refusing to comply with subpoenas in a probe into North Korean sanctions violations, adding one of them could lose access to the U.S. financial system.

"Can international currencies, as the major global reserves for payment, settlement and investment, provide security for our global business activities and economic activities?" she asked.

Hu said a changing environment in trade and investment suggests the country needs to plan better for potential trouble.

"I think the internationalization of the yuan should move faster," Hu said.

The internationalization of the Chinese currency suffered a setback since 2016 due to more stringent Government controls to curb capital outflow as the yuan weakened.

Hu stressed the need to increase the overall competitiveness of China's financial sector as a pre-condition for a more international currency, including by boosting efforts to modernize its financial institutions, expand financial opening and innovation, and remove distortions in loan pricing.

Hu said she was encouraged that China's central bank is taking steps to make its interest rates more market-oriented.

"More efforts need to be made in interest rate liberalization, as only by reducing controls on loan pricing through both obvious and non-obvious ways can we better reflect real demand and risks," Hu said.

Ma Jun, a central bank adviser, said on Monday that he expects China will eventually abolish its benchmark lending rate, but did not give a clear timeline.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM KIMBERLY REED**

Q.1. As you know, the Export-Import Bank did not have a quorum on its Board of Directors from July 2015 to May 2019 and was unable to conduct many of its business functions, including many reforms mandated by the 2015 reauthorization.

How many Export-Import Bank employees left the agency during the timeframe that it lacked a quorum? How many were hired?

A.1. According to EXIM's internal records and the Federal Personnel and Payroll System, for the period from July 1, 2015, to May 31, 2019, 239 employees separated from the agency and 190 were hired.

Q.2. In the 2018 Best Places to Work in the Federal Government employee survey, the Export-Import Bank ranked last among all small Federal agencies in terms of employee satisfaction with their

job and their organization.¹ Some of this dissatisfaction is likely due to the inability of the agency to fulfill its mission absent a quorum. What steps have you taken to improve employee morale?

A.2. EXIM takes the Federal Employee Viewpoint Survey (FEVS) and its results very seriously. While bringing EXIM back to full capacity, one of Chairman Reed's immediate priorities is to improve the employee experience. Chairman Reed recently announced EXIM will be implementing a "Transformation Initiative" to address key staff concerns. This effort includes five separate tracks to outline a clear vision statement for EXIM's culture, implement best practices for organizational realignment, improve employee performance feedback and review process, enhance leadership effectiveness, and boost internal communications through a unified voice.

Q.3. How has any attrition and poor morale of Export-Import Bank staff in the timeframe the Board lacked a quorum affected the bank's functions and operations? Please provide specific details.

A.3. Since Fiscal Year 2018, EXIM has seen an elevated number of employees retire from the agency. After averaging eight employee retirements per year, in FY2018 EXIM had 16 employees retire and another eight employees retire in just the first quarter of FY2019. Collectively, these retirements resulted in several talented and experienced employees with decades of institutional knowledge leaving EXIM.

Nevertheless, EXIM is diligently working to ensure the next generation of agency leaders are trained and prepared should vacancies occur. EXIM has and will continue to fill gaps in its workforce to ensure it is able to fully support U.S. exporters and protect taxpayers.

Additionally, EXIM's revised strategic plan is emphasizing the importance of recruiting and retaining top talent and the "Transformation Initiative" will be a long-term strategy for increasing morale and employee engagement.

Q.4. In your written testimony, you wrote that "Like any pipeline or deal funnel, not all transactions may come to fruition for reasons outside of EXIM's control . . . In fact, U.S. exporters lost approximately \$13.3 billion of sales during the 4 years in which EXIM lacked a quorum."²

How many deals were left in the pipeline during the time the Board lacked a quorum?

A.4. The number of transactions in the pipeline that required action by EXIM's Board of Directors fluctuated over time. In July 2015, when EXIM's Board was no longer able to constitute a quorum, there were 37 transactions at various stages in the pipeline totaling approximately \$10 billion. At the time EXIM's new Board members were sworn in on May 9, 2019, EXIM had 35 Board-level transactions totaling approximately \$39.2 billion of financing in various stages of its pipeline.

¹ Partnership for Public Service, "Best Places To Work in the Federal Government: Small Agencies", 2018, <https://bestplacestowork.org/rankings/overall/small>.

² Written testimony of Kimberly Reed to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, June 27, 2019, <https://www.banking.senate.gov/imo/media/doc/Reed%20Testimony%206-27-19.pdf>.

Q.5. What deals, if any, have fallen through in the time that the Board lacked a quorum? How has this affected American exports? Please provide specific details.

A.5. The \$13.3 billion figure in Chairman Reed’s written testimony refers to the estimated value of U.S. exports that EXIM found were lost to foreign competition during the period when EXIM was not fully functional.³ There were at least 32 transactions that would have financed the sales of U.S. exports to the following regions:

REGION	LOST U.S. EXPORTS (\$ MILLIONS)
ASIA	2,348.50
EUROPE	2,946.00
LATIN AMERICA/CARIBBEAN	1,125.90
MIDDLE EAST/NORTH AFRICA	5,438.00
MULTIPLE REGIONS	125.00
SUB-SAHARAN AFRICA	1,356.60
TOTAL	13,340.00

These export sales involved satellites, power, renewable energy, mining, oil and gas, civil works, and aircraft, among others.

There could be additional potential lost exports in which prospective buyers were not able to submit applications for financing because EXIM was not fully functional. For example, U.S. exporters reported they were put at a disadvantage when competing for export sales that required financing support from export credit agencies. As highlighted in the recently released EXIM *Competitiveness Report*, “Today, some importers are including [Export Credit Agency (ECA)] financing as a condition in their requests for proposals (RFPs).”⁴

At the same time, foreign export credit agencies reportedly used the availability of export finance to entice U.S. exporters to make long-term, strategic decisions to shift their supply chains overseas in order to facilitate their global sales.⁵

American businesses, U.S. supply chains, and the jobs supported by exports were all adversely affected through these lost transactions and by the strategic actions of foreign export credit agencies.

Q.6. How many American jobs would those the deals have supported had they come to fruition?

A.6. If approved, EXIM estimates these transactions would have supported approximately 78,800 jobs.

³Information is based on transactions as of May 7, 2019, that were lost or withdrawn due to the lack of a quorum on EXIM’s Board of Directors. The export sales either shifted sourcing outside of the United States or were facilitated by foreign Government entities, including export credit agencies.

⁴Report to the U.S. Congress on Global Export Credit Competition, Export–Import Bank of the United States, June 2019, p. 35.

⁵E.g.: Cameron, Doug. “Boeing Finds Alternative to Export–Import Bank”, *Marketwatch*, May 31, 2017, available at: <https://www.marketwatch.com/story/boeing-finds-alternative-to-export-import-bank-2017-05-31> and “GE Announces Plan To Build World Class Gas Engine Facility in Canada; Move Products From Wisconsin and Other Sites”, General Electric Reports. Press Release: Sept. 28, 2015, URL: <https://www.genewsroom.com/pressreleases/ge-announces-plan-build-world-class-gas-engine-facility-canada-move-products>.

Q.7. Last year, the National Climate Assessment found that more frequent and intense extreme weather events are already damaging ecosystems, agriculture, infrastructure, property, and social systems while increasing harm to human health and loss of life. One of the biggest causes of the climate crisis is increasing greenhouse gas emissions, yet a recent report found that from 2013 to 2015, the bank provided an annual average of nearly \$6 billion, compared with about \$100 million for clean energy.⁶

Do you support renewed Export-Import Bank financing for fossil fuel projects given the findings of the National Climate Assessment on the increasing severity of the climate crisis? Please explain your reasoning.

A.7. EXIM takes its mandate to support environmentally beneficial and renewable energy exports seriously. In accordance with the law (12 U.S.C. §635 et seq.), EXIM has established procedures to consider both the beneficial and adverse environmental and social effects of goods and services for which support is requested. The law also authorizes the Board of Directors, in its judgement, to grant or withhold financing support after such consideration.⁷ In accordance with 12 USC §635(k), EXIM does not discriminate against applications based on industry, sector, or business.

Congress has directed EXIM to promote the export of goods and services related to renewable energy sources.⁸ EXIM offers the most generous terms allowed under the Organisation for Economic Cooperation and Development (OECD) Arrangement on Officially Supported Export Credits (the OECD Arrangement) to renewable energy, climate change mitigation, and climate change adaptation projects. Since 2001, EXIM has supported approximately \$9.1 billion in environmentally beneficial exports, including renewable energy exports.

All transactions are reviewed in accordance with EXIM's Board-approved *Environmental and Social Due Diligence Procedures and Guidelines* (ESPG). The ESGP requires alignment with the guidelines set forth in the International Finance Corporation's Performance Standards, including Performance Standard 3 (PS3): *Resource Efficiency and Pollution Prevention*. PS3 is used by foreign export credit agencies, development banks, and Equator Principle financial institutions⁹ when considering whether to provide export financing support. Through PS3, EXIM and its counterparts attempt to assure that projects avoid or minimize pollution from their activities and reduce project related greenhouse gas (GHG) emissions to the extent possible, by utilizing internationally disseminated technologies and practices.

With respect to individual transactions, EXIM posts an estimate of the annual GHG emissions of proposed fossil fuel and significant GHG emitting Category A project transactions on EXIM's website. During the underwriting process, if potentially adverse effects are

⁶ Oil Change International, Friends of the Earth U.S., Sierra Club, WWF European Policy Office, "Talk Is Cheap: How G20 Governments Are Financing Climate Disaster", July 2017, <http://priceofoil.org/content/uploads/2017/07/talk-is-cheap-G20-report-July2017.pdf>.

⁷ 12 U.S.C. §635i-5(a)(2)

⁸ 12 U.S.C. §635(b)(1)(K)

⁹ The Equator Principles were adopted by financial institutions and export credit agencies, including EXIM, and are a globally recognized benchmark for financial institutions to determine, assess, and manage the social and environmental risks of international project financing.

identified, EXIM requires the development of mitigation measures, as well as plans to monitor the implementation and ongoing effectiveness of those mitigation efforts.

Additionally, EXIM is a participant to the OECD Arrangement on Officially Supported Export Credits (the Arrangement) and the United States adheres to sector understandings within the Arrangement.

Overall, EXIM acts to maintain U.S. exporters' competitiveness in the global marketplace while accounting for the environmental effects of the projects it supports. Each transaction must be reviewed individually for its compliance with the requirements set forth in law, and EXIM's staff and Board of Directors will continue to do so.

Q.8. Some projects that have received Export-Import Bank funding, including ExxonMobil's Papua New Guinea Liquid Natural gas project, are reported to have led to severe human rights abuses.¹⁰

Under your tenure at the Export-Import Bank, what will the bank do to prevent financed projects from causing or contributing to human rights abuses and what actions will the bank take if human rights abuses are found to occur?

Please provide specific details.

A.8. EXIM carefully assesses the adverse as well as beneficial impacts of proposed projects on people, including project-related human rights impacts, and will continue to do so. Transactions are reviewed in accordance with EXIM's Board-approved *Environmental and Social Due Diligence Procedures and Guidelines* (ESPG), which incorporates the Organisation for Economic Cooperation and Development's (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, the International Finance Corporation's (IFC) Performance Standards on Social and Environmental Sustainability, and the Environmental Health and Safety Guidelines of the World Bank Group. The IFC Performance Standards requires an assessment and management of:

- Environmental and social risks and impacts;
- Labor and working conditions;
- Resource efficiency and pollution prevention;
- Community health, safety, and security;
- Land acquisition and involuntary resettlement;
- Biodiversity conservation and sustainable management of living resources;
- Indigenous peoples; and
- Cultural heritage.

Pursuant to the ESGP, EXIM requires projects to assess the risks and impacts in consultation with affected communities and develop robust management plans to avoid, minimize, and mitigate adverse impacts, and to monitor and report on the implementation and effectiveness of these plans. EXIM conducts its own on-site

¹⁰ *The Nation*, "ExxonMobil's New Guinea Nightmare", Ian T. Shearn, April 30, 2014, <https://www.thenation.com/article/exxonmobils-new-guinea-nightmare/>.

monitoring through site visits and, in many cases, with the assistance of independent consultants. Additionally, EXIM considers other sources of information, including from stakeholders, host country Government agencies, the media, and the U.S. Embassy and other U.S. Government agencies. EXIM staff documents the results of its due diligence review of project-related risks and impacts, and the effectiveness of management plans to avoid and mitigate adverse impacts on affected communities, which then are provided to the EXIM's Board of Directors to inform their decisions on proposed financing of U.S. exports.

As part of its due diligence, EXIM reviews both the host country's current social and human rights situation as a whole, and potential project-level concerns. EXIM's economists, who serve as the U.S. Government's Interagency Country Risk Assessment System (ICRAS)¹¹ analysts, assess the political and social challenges in a country, and works in concert with the U.S. Department of State, where appropriate, to examine overall human rights and other considerations in their assessment of the risks associated with transactions in specific countries. EXIM and the Department of State's Bureau for Democracy, Human Rights, and Labor have developed procedures for regular consultation on project-related human rights concerns on Board-level transactions. Any such concerns are raised to the Board of Directors for their review prior to the approval of a transaction, along with any relevant measures considered to mitigate such concerns.

Under 12 U.S.C. §635(b)(1)(B), the law provides for the issuance of a Presidential National Interest Determination related to human rights concerns and thus specific authority to EXIM upon issuance of such determination to deny transactions for either project-specific or countrywide human rights concerns. The President has delegated this authority to make such determinations to the Secretary of State, who must consult with the Secretary of Commerce and the heads of other interested Executive agencies.

When presented with a project with potential human rights concerns (such as the Papua New Guinea Liquefied Natural Gas Project,¹² which was considered before the current EXIM Board of Directors was confirmed), EXIM conducts a thorough environmental and social due diligence review of the project. This includes a review of the Environmental and Social Impact Assessment, and construction phase and operations phase environmental, social, health, safety, and security plans (so-called "ESMP") prepared by the project, including plans to avoid, minimize, and mitigate im-

¹¹"The credit ratings of EXIM include a detailed assessment of country risks—EXIM staffs the interagency process known as the Interagency Country Risk Assessment System (ICRAS) which includes agencies such as the Office of Management and Budget and the Department of Treasury. This rating system is used by all U.S. Government agencies and programs providing cross-border loans, guarantees, or insurance. . . ." See FY2020 Congressional Budget Justification, Export-Import Bank of the United States, p. 11, available at: <https://www.exim.gov/sites/default/files/congressional-resources/budet-justification/FY20-EXIM-CBJ-FINAL.pdf>.

¹²With respect to PNG LNG specifically, the environmental and social management plans, including those addressing social and human rights topics, are publicly available via the PNG LNG Project website which also includes a statement of commitment to respecting human rights. +PNG LNG, "Environmental and Social Management Plans" available at: <https://www.pnglng.com/Environment/Environmental-and-Social-Management-Plans>; PNG LNG, "Respecting Human Rights" available at: <https://www.pnglng.com/Community/Community/Respecting-Human-Rights> (citing consistency with United Nations' Guiding Principles on Business and Human Rights).

pacts on project-affected peoples. The ESMP includes a statement of the project's policies, such as a health policy, a human rights policy, security policy, and a commitment to use good international industry practice, and how they are implemented in this plan of action. The construction phase ESMP is required to include strategies for addressing project monitoring, biodiversity, resource management, pollution prevention, cultural heritage, land acquisition and resettlement, community impacts management, community engagement and support, and human resources. There should be a similar scope of plans covering the operations phase of the project.

The project company formally commits to implementing the approved ESMP, including monitoring and reporting, in the financial agreements it has with EXIM. These agreements include enforcement mechanisms, which EXIM can utilize if the project is found to be out of compliance with the agreed to ESMP commitments. EXIM, together with its independent environmental and social consultants, closely monitors the project's implementation of these management plans. When reports or complaints are received, EXIM investigates these allegations to ensure the transaction's approved ESMP is being followed and implemented. For example, PNG LNG provides support for the training of regional police forces in the requirements of the Voluntary Principles for Security and Human Rights, including guidance on the use of force.

EXIM takes project-related human rights concerns seriously and will continue to do so. EXIM's Environmental and Social Responsibility Committee (ESRC) meets regularly to discuss and address potential issues on a crossdivisional basis. Through the ESRC and periodic reviews of the ESPG, EXIM is committed to reducing the risk of severe human rights abuses connected to its financing of U.S. goods and services.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM KIMBERLY REED

Q.1. How does the Export-Import Bank reduce the risk of selling products in emerging markets?

A.1. The Export-Import Bank of the United States assumes credit and country risks that the private sector is unable or unwilling to accept, as is often the case in emerging markets, through its export credit insurance, direct loans, and loan guarantees. As an example, EXIM equips U.S. businesses with export credit insurance to protect against the risk of nonpayment due to buyer default or political risk. These specific risks tend to be more pronounced when shipping to emerging markets. In order to secure insurance coverage, the U.S. business pays a premium to cover their shipments to approved buyers. With insurance coverage, U.S. businesses are more comfortable offering flexible payment terms to their international customers. Without access to export credit insurance, U.S. businesses would have to choose between forgoing export sales to potentially riskier emerging markets or taking on greater risk that their international customer could default on payment. For smaller businesses operating on thin margins, such risks could significantly inhibit their willingness to grow their global sales.

EXIM can further reduce the risk for U.S. businesses exporting to emerging markets when financing the sales of exports. When underwriting the transaction, EXIM undertakes a detailed analysis of risks associated with the project. This includes an evaluation of the risk of industry, country, and management of the borrower, the project's operating performance, liquidity position, leverage, and ability to service its existing and prospective debt obligations. EXIM may require additional structuring enhancements, such as collateral, security deposits, or additional guarantors to further reduce the risk in the transaction.

Following the U.S. Senate's confirmation of the new EXIM Board of Directors on May 8, 2019, the Board formally approved EXIM's Chief Risk Officer, who reports to EXIM President and Chairman and is tasked to oversee all issues related to risk within EXIM, as directed by the 2015 reauthorization of EXIM and codified as 12 U.S.C. 635a(l) et seq. The 2015 law also authorized a pilot program for reinsurance which allows the agency to enter into contracts to share risks associated with guarantees, insurance, or credit to reduce the risk to U.S. taxpayers. In Fiscal Year 2018, EXIM entered into reinsurance structure to the Aircraft portfolio with an aggregate total of reinsurance of \$1.0 billion over a 2-year period.

Additionally, EXIM requires projects, in consultation with affected communities, to assess the risks and impacts to project-affected people, develop robust management plans to avoid, minimize and mitigate adverse impacts, and monitor and report on the implementation and effectiveness of these plans. EXIM conducts its own on-site monitoring through site visits and, in many cases, with the assistance of independent consultants. In its financing agreements with EXIM, the project agrees to include enforcement mechanisms that can be triggered if a project is found to be out of compliance with their environmental, social, health, safety, and security plans. Throughout the project lifecycle, EXIM, together with its independent environmental and social consultant, closely monitors the project's implementation of these management plans.

Through its careful attention to financial, political, environmental, and social risks associated with projects—particularly those in emerging markets, EXIM further reduces risk for U.S. businesses exporting their goods and services and protects U.S. taxpayers from losses arising from such risks.

Q.2. How is the Export–Import Bank strengthening its relationship with private sector lenders and brokers?

A.2. EXIM places a high degree of importance on supplementing private sector financial solutions. EXIM has developed its financial solutions in response to feedback from lenders and brokers about how to better partner with them in addressing the needs of U.S. exporters.

EXIM works directly with private sector lenders through guarantees of their loans and lines of credit that facilitate U.S. exports. Lenders may apply for EXIM to guarantee their working capital loans for U.S. exporters and their U.S. suppliers or to guarantee their loans to the international buyers of U.S. exports.

Additionally, EXIM has delegated authority to qualified private sector lenders to streamline the approval of loan guarantees for

smaller transactions, generally transactions under \$25 million. Any bank, provider of commercial credit, or other public or private lender may apply to participate as a delegated authority lender. Once approved, EXIM trains these lenders on how to comply with its policies and legal requirements. EXIM authorizes these lenders to commit EXIM's guarantee up to a certain amount for an individual loan and an overall amount across all covered loans. With delegated authority, lenders can underwrite, structure, and issue loans backed by EXIM's guarantee. EXIM collects fees for all its guarantees, reviews any claims for compliance with EXIM policies, and routinely evaluates the performance of delegated authority lenders in the program.

Currently, there are 74 private sector lenders participating in EXIM's delegated authority program for working capital loan guarantees and five financial institutions participating in EXIM's medium-term buyer financing program.

EXIM is strengthening relationships with private sector lenders by:

1. Increasing the number of new lending partners participating in its Working Capital Guarantee Program (WCGP). Once approved, these delegated authority lenders can originate conforming working capital loans with EXIM's guarantee. Since 2018, EXIM has added five new lending partners to its working capital program.
2. Reviewing and, as appropriate, increasing credit lines for existing lending partners to allow them to originate more—and larger—working capital loans backed by EXIM. Since 2016, EXIM has increased the credit lines of nine lenders thereby allowing them to originate larger deals;
3. Enhancing lender training opportunities. In addition to quarterly working capital training conducted in Washington, DC, EXIM has provided individual working capital training sessions at lenders' offices throughout the country. This allows EXIM to reduce the costs borne by lenders to comply with program requirements and enables a greater number of lender employees access to training;
4. Streamlining the WCGP application process. EXIM recently streamlined its working capital program requirements to make the program easier for lenders and borrowers to use; and
5. Assigning each lender an EXIM relationship manager, who is responsible for overseeing operational and credit issues. This single point-of-contact enhances the experience of lenders and ensures transparency and accountability.

With regard to EXIM's insurance products, nearly all EXIM export credit insurance policies are purchased through licensed insurance brokers. EXIM works closely with insurance brokers, particularly those who specialize in trade credit insurance. Partnering insurance brokers must be aware of the availability, terms, and conditions of EXIM's export credit insurance policies. EXIM has a dedicated broker relationship manager who is responsible for addressing the questions and concerns of insurance brokers. Today,

EXIM has registered 115 insurance brokerage firms that can help more U.S. businesses learn about and access EXIM's export credit insurance. EXIM has significantly expanded its outreach to brokers by:

1. Soliciting broker input on revisions to EXIM's underwriting standards, insurance policy wordings, and online platform functionality to promote user- and customer-friendly products and services;
2. Surveying brokers to get their views on EXIM's distribution strategy and understanding how EXIM can better meet the needs of U.S. exporters. This survey is part of a more comprehensive review of EXIM's overall distribution strategy to better align EXIM's outreach and engagement efforts with its external partners;
3. Publishing a quarterly newsletter, hosting quarterly webinars, and regularly providing ad hoc communications that keep brokers updated on relevant developments; and
4. Developing new training tools and expanding existing training programs to enhance education about EXIM products and processes.

Additionally, pursuant to Section 51008 of the Export-Import Bank Reform and Reauthorization Act of 2015, P.L. 114-94 (the "Act"), in 2017-18, EXIM explored, research, negotiated, and executed a return to the Private Reinsurance Market. The goal was to establish a pilot program under which EXIM would share risks associated with the provision of guarantees, insurance, or credit with the private sector. On March 23, 2018, EXIM entered into a Portfolio Facultative Reinsurance Contract, working with the AON Insurance company as broker, with ten (10) private sector re-insurance companies. The arrangement shares the risk and provides an additional \$1 billion in loss coverage for a significant portion of EXIM's existing portfolio of large commercial aircraft financing transactions. The program is the largest public-private risk-sharing arrangement for a U.S. Government agency included within the Federal Credit Reform Act (FCRA). Following the successful implementation of this program, EXIM is considering an expansion of this type of arrangement to other parts of its portfolio in order to reduce the risks of taxpayer liabilities for possible losses.

EXIM works closely with the lender and broker community to ensure a strong and collaborative relationship that will ultimately lead to better customer service.

Q.3. In your written testimony, you mention new outreach strategies for tribal communities. What are you planning?

A.3. It is important that tribal communities are aware of and have access to EXIM's products and financial assistance. Since being confirmed on May 8, 2019, and taking steps to fully reopen the agency, the EXIM Board Members and staff have been focused on increased rural outreach and rethinking EXIM's strategic plan to better include underserved communities, including tribal communities and the financial institutions, veteran-owned businesses, and often organizations that are the first step for new potential exporters.

EXIM's Office of Minority and Women-Owned Businesses (MWOB) is playing a lead role in reaching this underserved business community through awareness, education, and collaboration. Through its MWOB Office, EXIM works closely with other Government agencies and business development associations that have a minority trade focus to help spread the word about EXIM financing. EXIM regularly engages with various tribal business organizations throughout the country to create opportunities for export-ready businesses in the United States.

Over the last decade, EXIM has connected with business owners, tribal leaders, and advocates for change at the annual Reservation Economic Summit (RES), which brings together Members of Congress, Federal agency representatives, and State and local officials to build bridges of opportunity for these businesses and to further economic development within the tribal community.

Recently, EXIM participated in the 4th Annual Navajo Nation Economic Summit for the first time in 2019. In mid-September 2019, EXIM attended the 21st Annual American Indian Tourism Conference as a part of its ongoing efforts to strengthen key partnerships and opportunities within the Native American Business Community. Additionally, on September 23, 2019, Chairman Reed and EXIM staff met with representatives from rural and tribal community banks in Washington, DC, to engage in dialogue as well as raise awareness of EXIM products available to U.S. exporters and local banking partners. Moving forward, EXIM plans to continue expanding activities with Native American business owners. For example, EXIM has plans to work with the American Indian Procurement Technical Assistance Center (PTAC) through further participation in events, webinars, and symposiums. EXIM looks forward to working closely with PTAC to help increase global business opportunities for tribal communities.

Q.4. Some have recommended prohibiting Export–Import Bank financing for any U.S. firm selling to a company owned by the Chinese Government. What would the impact of such a prohibition be on U.S. companies and on China?

A.4. When it comes to export credit financing, China is the most aggressive. The Export–Import Bank of the United States (EXIM) Report to the U.S. Congress on Global Export Credit Competition (*Competitiveness Report*), which was issued in June 2019 and covers global official export credit activities during the calendar year 2018, finds that, over the last 10 to 15 years, China's export credit system has caused the export credit agencies (ECAs) of other countries to change the way they do business—or risk their exporters losing access to large swaths of key markets. Chinese MLT export credit activity has risen almost eightfold, a figure about one-tenth of Group of Seven (G7) activity in 2008 to a level equaling the entire G7 in 2018. To further underscore this point, China provided more export credit financing in 2018 than the next three largest ECAs combined—Italy, Germany, and Korea. On September 23, 2019, the newly constituted EXIM Advisory Committee reported to the U.S. Congress that “[c]ountries including China have reshaped

the worldwide export market and effectively limited U.S. opportunities for major trade and procurement around the globe.”¹

Chinese State-owned enterprises (SOEs) play a large role in the Chinese economy and its export promotion efforts. While there are several well-known Chinese SOEs, sometimes ownership of Chinese entities is opaque at best, meaning that there may be more Chinese SOEs than are immediately and publicly identifiable. Given this information, a prohibition on EXIM financing in support of U.S. goods and services involving Chinese SOEs potentially could be challenging to implement, inhibit the sale of U.S. goods and services, and reduce the creation and support of jobs for U.S. workers.

The exact effects of such a prohibition are difficult to estimate with specificity and would, in part, be determined by the Congressional legislative language of the prohibition. For the purposes of this response, EXIM is providing information that reflects the full range of its financing for U.S. exports to China.

If the prohibition were expanded to cover not only exports to China, but also exports to companies outside of China, but owned fully or partially by the Chinese Government, there could be a dramatic increase in adverse effects on U.S. exporters, while conferring substantial economic and strategic benefit on the Chinese economy. For example, by purchasing minority stakes in projects of interest in countries throughout that participate in China’s Belt and Road Initiative, China could effectively block U.S. exporters from participating in those markets and preserve these projects for Chinese exporters and workers. Not only would this scenario have detrimental economic consequences in terms of lost business opportunities for U.S. companies and thus potential job losses for U.S. workers, but it also presents long-term strategic and national security issues for the U.S. when China extends its economic and strategic reach around the globe where EXIM is prohibited from participating.

From Fiscal Year 2009 through Fiscal Year 2018, EXIM authorized a total of 31,937 export credit insurance policies, loan guarantees, and direct loans that provided \$186.0 billion in financing to support U.S. exports around the world and U.S. jobs for workers. Of the above total amount, 268 authorizations for direct loans, loan guarantees, and single-buyer export credit insurance policies provided an estimated \$6.7 billion of financing (or 3.6 percent of total financing) that directly supported U.S. exports to China. In conducting due diligence to ensure a reasonable assurance of repayment, EXIM evaluates the primary source of repayment (PSOR) in each of its transactions. As part of this process, EXIM identifies whether the PSOR is a sovereign (backed by the full faith and credit of the national Government), public non-sovereign (e.g., State-owned enterprises), or private entity based on the information available regarding the entity, including its ownership structure. This informs EXIM’s analysis of whether there is a reasonable assurance of repayment. In many instances, the PSOR is the buyer of U.S. exports. However, another entity such as a financial institu-

¹ Available at: <https://www.exim.gov/sites/default/files/reports/competitiveness-reports/2018/EXIM-2018-CompetitivenessReport-508-committees-statements.pdf>.

tion or governmental entity may agree to serve as the PSOR on behalf of the buyer in order to enhance the buyer's credit and facilitate the export sale.

Of the estimated \$6.7 billion of financing authorized to support exports to China, the Chinese Government served as the PSOR for \$0.4 billion, Chinese State-owned enterprises were the PSOR for \$4.9 billion, and Chinese private entities were the PSOR for \$1.4 billion.

Additionally, some of EXIM's financial products are designed in a way to provide greater flexibility to U.S. exporters and are not limited to exports to one buyer. Under its multibuyer insurance policies, EXIM authorizes a total outstanding amount of an exporter's shipments that EXIM insures for all covered buyers. After authorization, EXIM then works with the exporter to set limits for individual buyers under the overall authorized policy.

Exporters using EXIM's export credit insurance policies report their covered shipments to EXIM. From FY2009 through FY2018, EXIM insured a total of \$35.7 billion of U.S. exports under its multibuyer insurance program. Of this total, EXIM insured \$2.6 billion of U.S. exports to Chinese buyers (7.3 percent of total multibuyer insured shipments). Chinese State-owned enterprises were the PSORs for \$0.4 billion in insured shipments under the multibuyer program, while Chinese private entities were the PSORs for the remaining \$2.2 billion of these insured shipments.

Accordingly, a complete prohibition on EXIM financing involving Chinese SOEs would have an effect on EXIM's ability to support the sale of U.S. exports to China. Additionally, a prohibition could have an indirect impact of discouraging U.S. companies from exporting to non-SOE Chinese businesses. For example, some U.S. companies might have concerns about future claims being denied if a buyer is later determined to be a previously unidentified Chinese SOE.

A prohibition on EXIM financing for transactions involving Chinese SOEs may have a limited effect, or no effect, on China. There are now 113 ECAs around the world. Chinese firms would continue to have access to suppliers from other Nations and may be able to secure financing from foreign ECAs for those purchases. Moreover, there would not be a substantial difference in the cost of financing for Chinese firms if they secure financing from another participating country's ECA since EXIM financing is offered on terms consistent with the Arrangement on Officially Supported Export Credits.

Foreign competitors could fill the gap and win contracts using foreign Government-backed financing that EXIM would be prohibited from matching. The consequence may not only be the loss of an individual sale or contract, but also lost opportunities for follow-on exports such as repairs and maintenance, or supplemental goods and services. These lost sales for the U.S. exporter could also adversely affect demand for goods and services from the U.S. businesses in the company's supply chain. In some instances, the decision to purchase goods or services from a foreign competitor can affect the standards used in certain sectors (e.g., telecommunications, power, transportation) that could create long-term barriers to U.S. competitiveness in those markets.

Furthermore, in some instances, foreign ECAs have demonstrated that they are willing to provide financing to support sales from U.S. exporters in order to increase their respective country's share of the supply chain.

Additionally, U.S. companies operating in partnership on specific projects with firms in China could be affected depending on the nature of the prohibition. For example, large projects in developing markets (whether power, energy, or mining) often have multiple sponsors involved as owners. Depending on the structure of the prohibition, should one of those owners be a Chinese SOE, U.S. companies could be placed at a disadvantage in selling their products overseas to companies which happen to work with Chinese SOEs on a specific, discrete project.

EXIM looks forward to continuing to work with Congress as it explores this and other issues.

Q.5. Seventy-five environmental activists sent a letter recommending that the EXIM Bank should fully comply with the requirements of the Endangered Species Act (ESA). We have heard from scientists across the world that one million species around the world face extinction in the coming decades due to climate change and other human activities.

Should the Export-Import Bank avoid funding projects that could hasten the extinction of the 650 endangered and threatened foreign plants and wildlife?

A.5. EXIM carefully considers the impacts of transactions requesting U.S. export financing support on endangered species and their habitats. In accordance with its Charter (12 U.S.C. §635 et seq.), EXIM has established procedures to consider both the beneficial and adverse environmental and social effects of goods and services for which support is requested. Additionally, the EXIM Charter as codified also authorizes the Board of Directors, in its judgement, to grant or withhold financing support after such consideration.²

Like all other Federal agencies, EXIM is required to abide by the Endangered Species Act³ (ESA), as well as the National Environmental Policy Act, National Historic Preservation Act, and other applicable U.S. environmental laws. EXIM implements its ESA requirements through its Board-approved *Environmental and Social Due Diligence Procedures and Guidelines* (ESPG).⁴ The ESPG is periodically reviewed to ensure that it remains effective in addressing the environmental effects of agency-supported projects including adherence to all current, applicable U.S. environmental law.

When it is determined a potential project has a possible ESA implications, EXIM engages as early as possible with the appropriate Federal agencies, including the National Marine Fisheries Service and the U.S. Fish and Wildlife Service, to determine the proper course of action under the ESA. When it is determined that a consultative process should be conducted, EXIM works closely with the appropriate agency in an ongoing process to identify listed species that may be affected and require additional analysis. EXIM also

² 12 U.S.C. §635i-5(a)(2)

³ 16 U.S.C. §1531(c)

⁴ See: Export-Import Bank of the United States, *Environmental and Social Due Diligence Procedures and Guidelines* (Dec. 2013), available at: <https://www.exim.gov/policies/ex-im-bank-and-the-environment/environmental-and-social-due-diligence-procedures-and-guidelines>.

conducts a robust assessment of project impacts on internationally listed endangered and critically endangered species, and their critical habitat, including project plans to avoid, minimize, mitigate, and offset impacts.

Additionally, EXIM's ESPG requires alignment with international guidelines including the Equator Principles, Organisation for Economic Cooperation and Development's (OECD) Common Approaches, International Finance Corporation's Performance Standards (including their Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources), and the World Bank Group's Environmental, Health, and Safety Guidelines.

The ESPG provides for additional assessment of project transactions over \$10 million that may have potential adverse environment and social impacts, and an evaluation of the environmental and social impacts is presented to the EXIM Board of Directors for their consideration prior to voting on a given proposed transaction. An environmental and social screening also is conducted for transactions below that threshold as prescribed by the OECD's Common Approaches. Accordingly, a detailed Environmental and Social review is conducted for identified project-related transactions over \$10 million, as well as rare, special cases where a potential for environmental and social issues is identified during the underwriting process. Meanwhile, short-term programs, which include insurance or working capital guarantees for goods and services with a tenor of less than 2 years, are not subject to environmental and social screening, given the nature of the products and negligible risk posed.

Meanwhile, short-term programs, which include insurance or working capital guarantees for goods and services with a tenor of less than 2 years, are not subject to environmental and social screening, given the nature of the products and negligible risk posed. These short-term products, which number in the thousands of export shipments per year and typically require speedy approval to be effective. Both, the OECD's Common Approaches and the Equator Principles each independently and directly exclude short term transactions (those less than 2 years) from environmental and social screenings.

Q.6. What can the Export–Import Bank do to reduce the negative impact of climate change?

How can the EXIM avoid financing projects that could lead to more frequent and extreme weather events that cause tens of billions of dollars in damage to ecosystems, agriculture, infrastructure, and personal property?

A.6. In accordance with its Charter (12 U.S.C. §635 et seq.), EXIM has established procedures to consider both the beneficial and adverse environmental and social effects of goods and services for which support is requested. The law also authorizes the EXIM Board of Directors to grant or withhold financing support after such consideration.⁵ EXIM acts to maintain U.S. exporters' competitiveness in the global marketplace while addressing the envi-

⁵ 12 U.S.C. §635i-5(a)(2)

ronmental effects of the projects developed with EXIM-financed exports.

All transactions are reviewed in accordance with EXIM's Board-approved *Environmental and Social Due Diligence Procedures and Guidelines* (ESPG). The ESGP requires alignment with the guidelines set forth in the International Finance Corporation's Environmental and Social Performance Standards, including Performance Standard 3 (PS3): Resource Efficiency and Pollution Prevention. PS3 is used by foreign export credit agencies, development banks, and Equator Principle financial institutions when considering whether to provide export financing support.⁶ Through PS3, EXIM assures that projects avoid or minimize pollution from their activities. PS3 also guides EXIM's efforts to reduce project-related greenhouse gas (GHG) emissions, to the extent possible, through the use of internationally disseminated technologies and practices.

For most major projects, EXIM is typically one of multiple financing entities and its financing is directly tied to the use of U.S. exports. Regardless of the amount of its financing involved, EXIM posts an estimate of the total annual GHG emissions of proposed fossil fuel and significant GHG-emitting Environmental Category A⁷ projects on its website.⁸ During the underwriting process, if potentially adverse environmental or social effects are identified, EXIM requires the development of mitigation measures, as well as plans to monitor the implementation and ongoing effectiveness of those mitigation efforts.

EXIM is a Participant to the Organisation for Economic Cooperation and Development (OECD) Arrangement on Officially Supported Export Credits (the Arrangement), and the United States adheres to sector understandings within the Arrangement. In accordance with 12 U.S.C. §635(k), EXIM does not discriminate against applications based on industry, sector, or business. Since January 2014, Congress has suspended enforcement of EXIM's Supplemental Guidelines for High Carbon Intensity Projects for coal-fired power plants in the 77 International Development Association eligible countries annually, which has been maintained in subsequent appropriations laws (most recently as Sec. 7062 of P.L. 116-6). However, all other environmental reviews, guidelines, and requirements remain in place.

Q.7. Despite the mandate to devote at least 10 percent of EXIM's aggregate financing to renewable energy exports, the Bank has consistently fallen short of this target. Do you think the Bank can meet this target? How?

A.7. Congress has directed EXIM to promote and support the export of goods and services related to renewable energy sources (12 U.S.C. §635(b)(1)(K)), as well as U.S. exports of goods and services

⁶The Equator Principles were adopted by financial institutions and export credit agencies, including EXIM, and are a globally recognized benchmark for financial institutions to determine, assess, and manage the social and environmental risks of international project financing. For more information, see <https://equator-principles.com/>.

⁷Generally defined as "large greenfield projects or projects located in, or impacting a sensitive site." For a more complete listing of established guidelines and definitions, see www.exim.gov/policies/ex-im-bank-and-the-environment/environmental-and-social-due-diligence-procedures-and-guidelines.

⁸See specifically www.exim.gov/policies/ex-im-bank-and-the-environment/pending-transactions; See generally www.exim.gov/policies/carbon.

that have beneficial effects on the environment or mitigate potential adverse environmental effects (12 U.S.C. §635i-5(b)). Regardless of the good or service benefitting from EXIM financing, a transaction must meet the requirements laid out in statute. As required by 12 U.S.C. §635(b)(1)(C), EXIM has staff dedicated to increasing awareness among U.S. companies of EXIM financing, including small businesses, and the incentives it offers for renewable energy projects and environmentally beneficial exports.

In Fiscal Year 2016, Congress removed the explicit percentage target for EXIM financing for renewable energy exports, but the statutory mandate to promote those exports remains.⁹ From FY2009 to FY2018, EXIM has authorized \$3.734 billion in environmentally beneficial exports, including renewable energy exports.

Some American companies may face challenges in accessing needed export credit financing for various reasons, including regulatory constraints, limitations in the export finance market, or competition from foreign sellers backed by official export credit. Consistent with its mandate to supplement and not compete with private capital, EXIM is a demand-driven institution and responds to the financing needs associated with U.S. exports.

Demand for EXIM financing varies year-to-year based on global capital market dynamics, the relative competitiveness of U.S. exports, changes to political risk in export markets, and other variables. These external factors can make specific targets for annual EXIM support challenging to meet. In order to increase the percentage or volume of authorizations for a specific sector, EXIM would have to receive a greater number of applications in that sector. Increases in applications are driven primarily by increased foreign demand for certain U.S. goods and services, coupled with a lack of supply in private sector financing to support those export sales.

According to data published by the United States International Trade Administration, global clean energy investment totaled more than \$329 billion in 2015 and the demand for renewable energy exports was expected to continue to rise. However, U.S. exporters were found to be ill-positioned to benefit from that increasing demand.¹⁰ Much of the U.S. renewable energy technology export sales are destined for countries that do not usually require EXIM financing (e.g., Canada, the United Kingdom, Germany). EXIM also requires that companies receiving EXIM financing contain minimum amounts of U.S. content. Currently, much of the U.S. manufacturing of renewables has moved overseas, making associated products ineligible for EXIM support due to a lack of U.S. content. Therefore, despite EXIM's focus on supporting renewable energy exports, without greater foreign demand for U.S.-manufactured re-

⁹Division J, Title VI of the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) includes the following language: "Provided further, That not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this act should be used for renewable energy technologies or energy efficiency technologies[.]" Similar language was removed from the Consolidated Appropriations Act, 2016 (P.L. 114-113) and was not included in subsequent appropriations laws.

¹⁰International Trade Administration, "2016 Top Markets Report Renewable Energy: A Market Assessment Tool for U.S. Exporters", April 2016 <https://www.trade.gov/topmarkets/pdf/Renewable-Energy-Top-Markets-Report.pdf>.

newable energy products, EXIM financing will naturally be constrained.

EXIM takes seriously its mandate to support the export of renewable energy and environmentally beneficial exports and stands ready to provide financing when necessary. EXIM will continue to conduct outreach to U.S. companies seeking to export these products and ensure U.S. businesses, including those providing environmentally beneficial goods and services, are able to secure the financing needed to compete and win foreign sales.

Q.8. The Export–Import Bank requires projects have an independent contractor monitor the development during and after construction. The EXIM Bank also operates an online portal for complaints. Some advocates say that the online portal lacks an independent accountability mechanism. They say it does not have a dispute resolution function that brings the parties together to find a mutually agreeable solution to the community’s grievances.

Do you think a more effective complaints mechanism is needed? If so, what would it entail?

A.8. EXIM takes project environmental and social due diligence and monitoring extremely seriously. EXIM allocates significant resources to assessing the environmental and social impacts of projects for which EXIM financing has been requested and EXIM staff are engaged (typically including in-person site visits) with the project during all phases of project development, construction, operation, and decommissioning. To supplement EXIM’s own environmental and social due diligence and monitoring, EXIM also uses independent expert consultants. EXIM has long been a leader among ECAs in transparency and accessibility by stakeholders and has continued to strengthen that position over time. In response to a recommendation from EXIM’s Office of the Inspector General (OIG), EXIM established a formal process for receiving and responding to complaints about a project’s environmental and social performance.¹¹

Since that time, EXIM has led its global export credit agency counterparts with the development of this complaint mechanism. EXIM consulted with stakeholders throughout the process of creating the Environmental and Social Project Information and Concerns (ESPIC) website portal and incorporated substantial feedback with the aim of providing a predictable, accessible, legitimate, objective, and transparent mechanism to register complaints. Over the course of designing the ESPIC portal and many discussions with stakeholders, EXIM included several specific suggestions, such as:

- Clearly displaying links to the ESPIC portal in multiple places on EXIM’s website;
- Providing specific contact information for the person responding to portal submissions;
- Accepting anonymous submissions;
- Adding a Google plug-in so the page is accessible to project-affected peoples who may not know English; and

¹¹ See: OIG-INS-15-02, Recommendations 3A and 3B.

- Providing ample description of the process that takes place after a complaint is submitted, including a clear timeframe.

After reviewing the ESPIC portal and associated processes, EXIM's OIG closed the recommendation as implemented in September 2016.

Additionally, in 2016, EXIM established the Environmental and Social Review Committee (ESRC). The ESRC is chaired by EXIM's Chief Risk Officer, a position that reports directly to EXIM's Chairman. The ESRC consists of staff from the Engineering and Environment Division, the Office of the General Counsel, the Office of Policy and International Relations, and other relevant divisions within EXIM. The ESRC provides a forum for the review of policies, procedures, and project-specific issues of interdivisional interest related to environmental and social issues. The Committee meets regularly to share information and review and respond to ESPIC submissions, and has been an effective tool to enhance collaboration, coordination, and transparency among divisions to promptly and effectively address inquiries and complaints as they arise. The ESRC maintains a registry of received environmental and social complaints and concerns, as well as action taken by EXIM to respond to those submissions, on EXIM's website.

All transactions are reviewed in accordance with EXIM's Board-approved *Environmental and Social Due Diligence Procedures and Guidelines* (ESPG). The ESPG requires alignment with the guidelines set forth in the International Finance Corporation's Environmental and Social Performance Standards. The Performance Standards include a requirement that projects establish and maintain appropriate grievance mechanisms to ensure resolution of disputes. Projects retain this responsibility given their proximity to any issue that may arise, but EXIM assesses and monitors the strength and capacity of the project-operated grievance mechanism throughout the life of the project, requiring it to be a robust system throughout all phases of the project. In instances where project-affected persons feel underserved by a project's grievance mechanism, they are encouraged to raise issues with the project and contact EXIM through various channels, including through the ESPIC portal. EXIM's leadership in identifying, mitigating, and monitoring projects for potentially adverse environmental and social effects ensures that the concerns of local communities are being addressed throughout the lifecycle of a project.

Q.9. What role could you add to the Bank's complaint mechanism for the Office of Inspector General?

A.9. As someone who has focused on oversight and reform and has worked with Inspectors Generals for her entire career, Chairman Reed believes it is very important to set the tone from the top. As such, EXIM has a zero-tolerance policy for fraud, waste, and abuse and anyone with a complaint or concern is urged to raise it with the Office of the Inspector (OIG). It is also important to have open lines of communication and a culture of responsiveness when it comes to any issues raised by the OIG. As such, Chairman Reed regularly meets with the Inspector General and is creating a culture at EXIM that put taxpayers and transparency first. Yet, these things must be done while respecting the independence of the OIG.

As an independent entity, the OIG receives complaints or concerns regarding specific projects or EXIM processes and determines whether to investigate those issues independently. If the OIG determines further review is needed, they have that ability given their independence. EXIM respectfully recommends that the OIG be consulted directly if there is a desire to explore improving the OIG complaint mechanism process. EXIM stands ready to follow up on any recommendations that may come from this process.

EXIM takes seriously its responsibility to review and respond to submissions made through the Environmental and Social Project Information and Concerns portal. As described in the response to QFR8A, EXIM has a robust internal process established for reviewing and addressing environmental and social concerns.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD
**STATEMENT OF THE BANKERS ASSOCIATION FOR FINANCE AND
 TRADE**



Statement for the Record
 Of the
BAFT (Bankers Association for Finance and Trade)
 Before the
Committee on Banking, Housing, and Urban Affairs
 Of the
United States Senate
 On
June 27, 2019

Chairman Crapo, Ranking Member Brown, and Members of the Committee:

BAFT (Bankers Association for Finance and Trade) is grateful for the opportunity to provide a statement for the record for the Committee's hearing on the "Oversight and Reauthorization of the Export-Import Bank of the United States."

BAFT is an international financial services industry association whose membership includes nearly 300 financial institutions and solution providers throughout the global community. Our members are active in trade finance and many of them work with the Export-Import Bank (EXIM) on a daily basis. Trade finance programs offered and supported by EXIM are crucial to international commerce and the growth of the U.S. economy. Support for a competitive and efficient EXIM is also vital to the financing of international trade.

EXIM is a necessary tool to support U.S. jobs and helps American companies compete globally. Passing a long-term reauthorization will provide market certainty and ensure that U.S. businesses can maintain their competitiveness in the global marketplace. As the committee considers EXIM's reauthorization, we urge you seize this moment not just to renew its operating charter, but to both find efficiencies and remove unnecessary obstacles to this vital agency that strengthens U.S. competitiveness.

BAFT applauded the Senate's action last month to confirm three nominees to the EXIM Board and is pleased that EXIM is now fully operational for the first time since it was reauthorized in 2015. In the nearly four years that the EXIM Board quorum lapsed, U.S. exporters were at a significant disadvantage to competitors around the world that have government-backed export credit agencies (ECAs) supporting their sales. An estimated \$40 billion worth of transactions could not be completed. These lost sales negatively affected the exporting companies, and

hundreds of other companies in their supply chain that provide inputs and services to them. At a time of increasing global competition, the U.S. cannot afford another quorum lapse and thus we would urge the committee to find a permanent solution.

The private sector trade finance lending community provides significant support to U.S. exporters. Banks turn to EXIM to add credit capacity to existing limits, mitigate geopolitical and credit risks in an effort to better enable their corporate clients to compete with foreign companies for export trade opportunities. Smaller financial institutions are even more limited in their ability and capacity to take on foreign risk. EXIM helps alleviate these internal and external limitations on commercial loan portfolios by filling gaps in private sector credit capacity. They also provide risk mitigation tools to help facilitate liquidity, act as the “Lender of Last Resort” when commercial financing is unavailable, or when U.S. exporters need ECA support to avoid being disadvantaged against foreign ECA-supported competition. Without access to all of the various EXIM programs, private-sector lenders cannot provide the required financing or acceptable financing terms, resulting in lost sales for their clients.

Small and medium sized (SME) businesses typically rely on trade finance to a greater extent than larger corporates to get their product or service to market. Given that 98 percent of America’s exporters are small businesses, the importance of having access to trade finance cannot be underestimated, and we support enhanced efforts by EXIM to serve this constituency. Many SMEs are also dependent on sales to large U.S. exporters that rely on financing from EXIM. Limitations on large U.S. exporters have had a cascading negative impact on the small businesses that supply parts, services and intermediate products as part of their exports.

Since the last EXIM reauthorization, Foreign ECAs have continued to grow and expand the scope of their work. Today, EXIM is one of more than 100 ECAs around the world that each help their home-country exporters compete in the global markets. China remains the world’s largest provider of official export credit, with more medium to long-term export credit, than the rest of the world combined. EXIM must also have the capacity to support the growth of U.S. businesses to compete over time as foreign ECAs have afforded to foreign exporters.

As Congress makes progress to ensure greater economic growth and to improve the competitiveness of the U.S. business community, corresponding steps to enhance EXIM’s global competitiveness will have a marked positive impact. With that in mind, BAFT urges the committee to move swiftly to pass a long-term reauthorization, prevent unnecessary disruptions to its activities by permanently resolving the quorum issue; increase EXIM’s statutory lending authority to align with market demands, and avoid unnecessary administrative roadblocks that will negatively affect the competitiveness of U.S. companies.

Thank you again for the privilege of providing the Committee with our views.

STATEMENT OF THE REINSURANCE ASSOCIATION OF AMERICA



STATEMENT

REINSURANCE ASSOCIATION OF AMERICA

STATEMENT FOR THE RECORD

UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRSHEARING ON
"OVERSIGHT AND REAUTHORIZATION OF
THE EXPORT-IMPORT BANK OF THE
UNITED STATES"

JUNE 27, 2019

The Reinsurance Association of America (RAA) appreciates the Committee's interest in the U.S. property casualty (re)insurance industry. Thank you for holding today's hearing on "Oversight and Reauthorization of the Export-Import Bank of the United States." The RAA supports reauthorization of the Export-Import Bank of the United States (EXIM) in advance of its September 30, 2019, expiration. The RAA requests that you include language to make permanent EXIM's risk transfer program authority in EXIM reauthorization and reform legislation.

The RAA is the leading trade association of property and casualty reinsurers doing business in the United States. Our membership includes reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA represents its members before state, federal, and international bodies.

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Risk transfer can help both government agencies and private businesses analyze and manage risk by providing financing stability and reducing the impact of future losses. The reinsurance market has the capacity and interest to assist Federal government programs to appropriately manage risk. Opportunities exist for the Federal government to benefit from competitive market risk management services and risk transfer capabilities to deleverage Federal program balance sheets and simultaneously increase financial protections for U.S. taxpayers. The RAA is poised to work with Congress and the Administration to maximize utilization of the private market to the extent the industry can write credit, disaster, and political risks.

The RAA supported the EXIM reinsurance pilot program authorized by Congress in December 2015 as part of the Fixing America's Surface Transportation Act (FAST Act). The legislation specifically authorized EXIM to establish a pilot program for reinsurance "to share risks associated with the provision of guarantees, insurance, or credit, or the participation in the extension of credit, by the Bank...." In March 2018, EXIM announced its reinsurance pilot program, which provided for \$1 billion in loss coverage for a significant portion of EXIM's existing portfolio of large commercial aircraft financing transactions. EXIM stated that it was the largest public-private risk-sharing arrangement for a U.S. government credit agency and minimized EXIM and U.S. taxpayers' liability for potential future losses without requiring additional funding.

The RAA looks forward to working with the Chairman, Ranking Member, and other Committee members on EXIM reauthorization and reform legislation.

Thank you for the opportunity to submit the RAA's statement for today's hearing record and for your consideration of our request.