# Statement of the U.S. Chamber of Commerce

**ON: Examining the Export-Import Bank's Request for Reauthorization and the Government's Role in Export Financing**

**TO: U.S. House of Representatives Committee on Financial Services**

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**DATE: June 3, 2015**

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The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee, my name is John Murphy, and I am Senior Vice President for International Policy at the U.S. Chamber of Commerce (Chamber). I am pleased to testify today on the importance of reauthorizing the Export-Import Bank of the United States (Ex-Im), the charter for which will lapse on June 30. The Chamber is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

Ex-Im is one of the most important tools at the disposal of U.S. companies to level the playing field for trade finance as they seek to increase exports and create jobs at home. The benefits of its programs to the U.S. economy are plain: In fiscal year 2014, Ex-Im provided financing or guarantees for $27.5 billion in U.S. exports, thereby supporting more than 164,000 American jobs.

Last year alone, the volume of exports supported by Ex-Im was more than all U.S. merchandise exports to Italy, India, or Australia. It was also more than the 2014 merchandise exports of Arkansas, Delaware, Maine, New Hampshire, New Mexico, and Oklahoma combined.

Ex-Im is especially important to U.S. small- and medium-sized businesses, which account for nearly 90% of Ex-Im's transactions. In addition to these direct beneficiaries, tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities.

Underscoring this broad support, the Chamber today joined with the National Association of Manufacturers to release a letter signed by more than 1,000 companies of every size, sector, and region, as well as state and local chambers of commerce and industry associations, urging Congress to reauthorize Ex-Im before June 30.

**Competitiveness at Stake**

Unilateral disarmament is rarely a good idea, but this is precisely what refusing to reauthorize Ex-Im would accomplish. The Organization for Economic Cooperation and Development (OECD) reports that the 79 official export credit agencies (ECAs) worldwide have extended more than $1 trillion in trade finance in recent years.

Every major trading nation has at least one official ECA. The ECAs of the world's other top trading nations provided 18 times more export credit assistance to their exporters than Ex-Im did to U.S. exporters last year, according to a recent report prepared by the National Association of Manufacturers with data and analysis from the Economist Intelligence Unit.

However, the competitive challenge is even more daunting in the developing world. ECAs in developing countries, which in most cases do not abide by the rules of the OECD Arrangement on Officially Supported Export Credits, provide far more export financing on much more generous terms than Ex-Im does.

This was especially pronounced during and immediately after the 2008-2009 financial crisis: In 2008, China's ECAs provided Chinese exporters seventeen times more export credit as a share of GDP than Ex-Im did for U.S. exporters. As late as 2010, Chinese and Brazilian ECAs provided ten times more financing to domestic exporters as a share of GDP than Ex-Im did. Even today, ECAs based in China, India, and Brazil far outpace Ex-Im in lending volumes.

Some critics contend that closing Ex-Im would set an example for others, or that negotiations could then induce other countries to close their ECAs. This is pure fantasy. In discussions at the OECD and in other fora, governments from Germany to China have shown zero interest in shuttering their ECAs.

Even the conservative government of Canada, which is widely recognized for its free-market, free-trade approach to economic policy, has shown no interest in placing new limits on its ECA. In fact, Canada's equivalent of Ex-Im (Export Development Canada) provided 30 times more export finance to its exporters than Ex-Im does to U.S. firms, relative to the size of its economy.

The fact that the Treasury has not been able to negotiate an agreement to wind down other countries' ECAs is not a valid reason to penalize U.S. exporters and the workers they employ. U.S. companies produce many of the world's best goods and services, but without Ex-Im they would often find themselves at an unfair disadvantage when competing with foreign enterprises backed by official export credit agencies. For the United States *not* to have an operating ECA would put U.S. exporters at an absolutely unique disadvantage.

**A Key Tool for Small Businesses**

These realities play out differently for various sectors and industries. The challenge is especially poignant for small businesses as commercial banks often refuse to accept foreign receivables as collateral for a loan without an Ex-Im guarantee.

For example, Bridge to Life Solutions in Columbia, South Carolina, provides state-of-the-art cold storage organ transplant solutions. As John Bruens, Chief Commercial and Business Development Officer for Bridge to Life, explains: "Without Ex-Im, I would have to tell my customers, 'prepay everything up front, or we can't do business.'" By purchasing credit insurance from Ex-Im for the firm's foreign receivables, Bridge to Life has been able to extend credit terms to its international customers.

Indeed, buyers overseas increasingly expect vendors to offer financing. Without Ex-Im's accounts receivables insurance and lines of credit, many U.S. small businesses would be unable to extend terms to foreign buyers and would have to ask for cash-in-advance. In such a case, the business will most likely go to a firm from another country that benefits from ECA support.

Similarly, Eagle Labs in Rancho Cucamonga, California, uses Ex-Im's credit insurance to insure orders for surgical equipment for cataract surgery. Michael De Camp, Vice President of International Sales for Eagle Labs, explains that despite receiving consistent payment from foreign customers, local banks would not extend credit to Eagle Labs based on uninsured accounts. Once Eagle Labs secured Ex-Im credit insurance, the firm was able to secure a line of credit from a private bank, bought the capital equipment it needed, doubled its sales, and doubled its workforce.

### Head to Head: Exports of Capital Goods

Looking beyond small and medium-sized businesses, it is par for the course for expensive capital goods such as Canadian planes, Chinese trains, and Russian nuclear reactors to be sold worldwide with unashamed backing from these firms' national ECAs. For example, South African railway Transnet last year put out a bid for 466 diesel electric locomotives at a total contract price of $750 million. As is common in such bids, one requirement was that the supplier must finance a significant portion of the transaction.

Backed by aggressive export financing provided by China's export credit agency, Chinese locomotive manufacturers won half the order. In March 2014, General Electric won the order for the other 233 locomotives—but only because Ex-Im support was available to level the financial playing field. Without Ex-Im, GE would have lost the entire order—with real world consequences for workers at its Erie, Pennsylvania plant.

This kind of story plays out time again with capital goods. Last month, Reuters reported on another $350 million deal to build locomotives for sale in Angola that would be lost if Ex-Im's charter is allowed to lapse, endangering 1,800 jobs.

Foreign infrastructure opportunities are another area where ECA support is included in bidding requirements. Closing Ex-Im would shut major American exporters out of huge business opportunities overseas because ECA support is often required for a company even to bid on overseas infrastructure projects. The *New York Times* reported last month that a $668 million drinking water project in Cameroon will go not to U.S. vendors but to their Chinese competitors if Ex-Im is not reauthorized.

### The Nuclear Power Sector: A Case in Point

Nuclear power is another sector where the fate of Ex-Im will have a major impact. According to the Nuclear Energy Institute, five nuclear power plants are under construction in the United States, but 61 new plants are under construction overseas. An additional 165 plants are in the licensing and advanced planning stages—nearly all abroad. NEI explains:

> Over the next decade, exports of up to 15 new nuclear plants could hinge on the availability of Ex-Im Bank products. At roughly $3 billion to $5 billion per plant, the projects represent a potential $45 billion to $75 billion in U.S. exports in need of Ex-Im Bank support. Four nuclear power projects—including up to seven plants—are already in Ex-Im Bank's project pipeline. These projects represent $21 billion to $35 billion in potential business that could become committed orders within the next 2-3 years…
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> *Export credit agency support is almost always a bidding requirement for international nuclear power plant tenders* [emphasis added]. Ex-Im Bank is therefore vital to the success of U.S. exports even in cases where the customer ultimately elects not to use Ex-Im financing. Without Ex-Im Bank, U.S. commercial nuclear suppliers would suffer a major competitive disadvantage or be excluded for failure to meet tender requirements…
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> U.S. suppliers of nuclear technology, equipment and services compete against a growing number of foreign firms—many of which are state-owned and benefit from various forms

of state support. All foreign nuclear energy competitors are backed by national export credit agencies or other state financing.

Refusing to reauthorize Ex-Im would put U.S. companies selling expensive capital goods such as aircraft, locomotives, turbines, and nuclear power plants at a unique competitive disadvantage because their foreign competitors all enjoy ample financing from their home-country export credit agencies—enough to easily knock U.S. companies out of the competition. For some industries, executives will face the question of whether to shift production to locations where ECA support is available.

Nor does Ex-Im force commercial banks out of the trade finance business. In a recent joint letter to congressional leaders expressing strong support for Ex-Im, the Bankers Association for Finance and Trade (BAFT) and the Financial Services Roundtable (FSR) explained that Ex-Im "cannot be replaced solely by the private sector." "Balance sheet constraints (arising from prudential capital and liquidity requirements, among other factors) along with institutional credit, country and counterparty limitations" are among the factors that limit the ability of commercial banks to provide export finance.

The associations added: "An Ex-Im Guarantee does not make a bad deal 'bankable' ... commercial banks share the risk on transactions with Ex-Im and so would not enter into arrangements where the risk trumps the viability of the deal."

**No Cost to the Taxpayer**

Ex-Im operates at no cost to the American taxpayer and has amassed a $4 billion loan-loss reserve that provides more than adequate protection against losses. The fact that Ex-Im loans are backed by the collateral of the goods being exported is the principal bulwark against losses. Ex-Im's overall active default rate in recent years has hovered below one-quarter of one percent and stood at 0.167% as of March 31, 2015.

Ex-Im charges fees for its services that have generated billions of dollars in revenue for the U.S. Treasury. In fact, Ex-Im has sent to the Treasury $7 billion more than it has received in appropriations since 1990. This figure comes from Ex-Im's annual report, which uses the accounting method required by law. Contrary to rumor, the Congressional Budget Office (CBO) has never denied that Ex-Im continues to generate a "negative subsidy," i.e., it is a net contributor of revenue to the Treasury.

Using an alternative "fair-value" accounting method, CBO last year produced an estimate that Ex-Im might impose costs on the Treasury over the next decade. However, this alternative accounting rests on questionable assumptions. For instance, this scenario assumed Ex-Im would extend loans at a level nearly 40% higher than it did last year, even though the Bank's lending has been declining steadily as the financial crisis of 2008-2009 recedes. Moreover, in 2012, CBO released a similar report in which it estimated that Ex-Im would generate a "negative subsidy" for taxpayers even under the fair-value methodology. It is unclear what changed in CBO's approach.

According to the Merriam-Webster Dictionary, a subsidy is "money that is paid usually by a government to keep the price of a product or service low." As noted, Ex-Im provides no such subsidy; on the contrary, the fees it charges have risen in recent years. In the aircraft sector, a new 2011 multilateral agreement doubled the fees for export credit financing, thereby addressing the concern that some export credit financing was below market rates.

Some critics charge that Ex-Im picks winners and losers, skewing the marketplace. On the contrary, Ex-Im extends loans and guarantees to all applicants that meet its strict lending requirements but does so only when commercial credit is unavailable or when it is necessary to counteract below-market credit from foreign ECAs. Ex-Im also acted to fill the void when the availability of private-sector trade finance fell by 40% during the 2008-2009 financial crisis.

At times Ex-Im's opponents have attempted to tie it to unsavory customers overseas. In the Chamber's view, this is an attempt to divert attention from the true beneficiaries of Ex-Im—the tens of thousands of American workers whose jobs depend on the Bank's support for their exports. Their voice must be heard in this debate.

**Conclusion**

The aforementioned letter signed by more than 1,000 companies of every size, sector, and region, as well as state and local chambers of commerce and industry associations, shows the breadth and depth of support for Ex-Im's reauthorization. With Americans overwhelmingly focused on the need to generate economic growth and good jobs, business owners are perplexed by the campaign against Ex-Im. In particular, the thousands of small businesses that depend on Ex-Im to be able to access foreign markets are stunned at the threat that Washington could let its charter lapse.

Ex-Im does not skew the playing field—it levels it for U.S. exporters facing head-to-head competition with foreign firms backed by their own ECAs. Ex-Im doesn't pick winners and losers—but refusing to reauthorize Ex-Im is picking foreign companies as winners and U.S. exporters as losers.

Ex-Im's critics need to take a broader look at the global economy and the serious threats to U.S. industrial competitiveness—including in many national security-sensitive sectors. America's modestly-scaled, properly limited Ex-Im Bank plays a vital role in this context.

The Chamber appreciates the opportunity to provide these comments to the committee. We are committed to working with Congress to secure Ex-Im's reauthorization before June 30.