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Testimony

of Linda Menghetti Dempsey
Vice President, International Economic Affairs
National Association of Manufacturers

For the Hearing of the House Committee on Financial Services
on “Promoting American Jobs: Reauthorization of the U.S. Export-Import Bank”

June 4, 2019



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Chairwoman Waters, Ranking Member McHenry and members of the committee, thank you for the opportunity to testify today. On behalf of the National Association of Manufacturers, I appreciate the chance to highlight the importance of reauthorizing the Export-Import Bank of the United States to revitalize U.S. competitiveness in the global economy in ways that will enable manufacturers to support and sustain well-paying manufacturing jobs across the country.

The NAM is the largest manufacturing association in the United States, representing 14,000 manufacturers, small and large, in every industrial sector and in all 50 states. Manufacturing employs more than 12.8 million women and men across the country and produced a record \$2.38 trillion in output to the U.S. economy in 2018.

Manufacturers and their workers across America increasingly depend on global commerce to grow U.S. production, provide innovative and high-value products to consumers at home and abroad and create well-paying jobs within U.S. communities. Indeed, manufacturers in the United States export nearly half of U.S. manufacturing output, supporting 6 million American manufacturing jobs.

With the world’s most productive manufacturing sector but a domestic market that represents only 10 percent of global consumption, manufacturers in the United States need increased access to the billions of foreign consumers and 90 percent of global consumption outside of our country to spur additional growth of the manufacturing industry and well-paying jobs across this country. Given the substantial growth of foreign export credit agencies, it is vital for Congress to move forward quickly to reauthorize, revitalize and strengthen the Ex-Im Bank.

The Ex-Im Bank Plays an Important Role in Growing U.S. Exports and Jobs

As the official ECA of the United States, the Ex-Im Bank supports small and medium-sized business exports, long-term financing for large projects, sales to emerging markets and sales to foreign state-owned entities for the benefit of tens of thousands of U.S. exporters that are unable to obtain export financing or related export-related financial services from commercial banks. While the Ex-Im Bank is not involved in most U.S. exports, it is absolutely critical where it is involved; it enables U.S. exporters to win sales that support the manufacturing industry and jobs across the country.

The Ex-Im Bank has a proven record of providing export credit assistance and other tools to all eligible exporters that apply. Year after year, the vast majority of Ex-Im transactions directly benefit small businesses. In the past 18 years, the Ex-Im Bank supported more than 50,000 transactions by small and medium-sized exporters. In addition, Ex-Im transactions with large U.S. exporters also aid thousands of small businesses in their supply chains. Since 2000, 2.5 million American jobs have been supported by the exports that Ex-Im loans and export tools have made possible.

In FY2014, the last year that the Ex-Im Bank operated at full strength for an entire fiscal year, the Ex-Im Bank enabled more than \$27 billion in exports, supporting 164,000 American jobs. Nearly 90 percent of those transactions directly supported small businesses, with an estimated \$5 billion in support for small-business exporters. Furthermore, the Ex-Im Bank has maintained its incredibly low default rate through the recession and through several years of record growth. At the end of FY2014, the Ex-Im Bank's default rate was less than 0.2 percent. Notably, the Ex-Im Bank's activities are already targeted and, by law, must not compete with private-sector lending activity.

By contrast, in FY2018, when the Ex-Im Bank lacked a quorum and was unable to consider transactions greater than \$10 million, including exports of capital equipment by small businesses across the country, the Ex-Im Bank enabled only \$6.8 billion in exports, supporting about 33,000 American jobs. More than 90 percent of those transactions directly supported small businesses, with an estimated \$2.2 billion in support for small business exporters. The default rate remained low at 0.447 percent, well below the 2 percent maximum established by the 2015 reauthorization.

Ex-Im activity is focused by law and in practice as a lender of last resort, filling gaps where commercial banks will not provide loans or other export tools. Notably, manufacturers across the country continue to identify several areas where Ex-Im activity is most important: namely, for small and medium-sized business exporters, long-term financing for large projects, sales to emerging markets and sales to foreign state-owned entities.

- *Small and Medium-Sized Business Exporters*. The Ex-Im Bank is vital to many small and medium-sized businesses to enable them to start to export overseas. Small businesses, both those that are direct exporters and those that supply domestically to larger U.S. exporters, will be harmed if Congress fails to reauthorize the Ex-Im Bank. Companies that utilize Ex-Im insurance programs to enable working capital will be faced almost immediately with a dilemma about how to pay their workers and make the mortgage payments on their facilities, let alone consider growing and hiring. Suppliers whose U.S. customers lose out on large infrastructure, aerospace and energy projects overseas because they cannot bid without access to the Ex-Im Bank will also see their orders shrink.
- *Long-Term Project Finance*. The Ex-Im Bank also plays an important role in financing long-term projects. U.S. regulatory guidelines that favor domestic receivables over foreign sales,¹ implementation of Basel III rules² and other factors have limited the ability and appetite of banks to participate in long-term export

¹ Office of the Comptroller of the Currency, Treasury Department, Comptroller's Handbook, at 17-18, accessed at <http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-asset-based-lending.pdf>.

² Basel Committee on Banking Supervision, "Basel III: A global regulatory framework for more resilient banks and banking systems," December 2010, accessed at <http://www.bis.org/publ/bcbs189.pdf>.

financing projects at competitive rates, particularly for high-volume funding (tenures longer than 10 years and more than a few hundred million dollars). As a result, ECAs are increasingly a driving force for large-scale, long-term projects, particularly projects in the infrastructure, energy and aerospace sectors.

- *Emerging Markets*. Many U.S.-based lenders also turn to the Ex-Im Bank to mitigate geopolitical and collateral risk in an effort to provide viable trade financing solutions for exporters. Without the Ex-Im Bank, many private lenders have limited options: opt not to finance otherwise viable export activity in emerging markets, charge rates that are uncompetitive globally or place limits on the overall amount of financing to particular emerging markets. The Ex-Im Bank, for example, offers medium and long-term guarantees that provide flexible lender financing options for buyers of U.S. capital goods and services. The Ex-Im Bank also supports commercial banks through letter of credit confirmations that reduce a bank's risks, offering private-sector lenders greater flexibility in working with their client base.
- *Government and State-Owned Enterprise Transactions*. U.S. exporters from a broad number of sectors increasingly are selling to foreign governments and state-owned entities. Be it medical equipment sales to foreign state-owned hospitals, power generation equipment to foreign state-owned utilities or communications satellites to foreign governments for national mobile satellite systems, such sales support greater exports and jobs in the United States but are difficult to win. In some cases, the foreign purchaser favors suppliers with a government entity on the other side of the table. In other cases, such as certain energy projects, an ECA lending option is a requirement to participate in the initial bidding phase, even if the customer ultimately opts for another financing option. While the governments of most of the United States' major trading partners are willing to oblige, the Ex-Im Bank is the only government entity able to play such a role for U.S. exporters. Without the Ex-Im Bank's presence, U.S. exporters simply would not be eligible to compete for many of these substantial foreign sales.

In short, while the Ex-Im Bank's role is relatively small compared to the overall size of U.S. exports, it plays an outsized and highly important role in opening the door to U.S. exports for certain types of transactions where U.S. exporters continue to see substantial growth opportunities. With more than 100 foreign ECAs across the world, the role of the Ex-Im Bank has never been more important as manufacturers in the United States compete for international contracts.

The Ex-Im Bank Has Undertaken Substantial Reforms

As part of the Export-Import Bank Reform and Reauthorization Act of 2015,³ Congress mandated several substantial reforms to the Ex-Im Bank's operations to address concerns related to the agency's activity to promote small business exporters, risk management, ethics, discriminatory treatment and keeping Congress better informed of its activities. The Ex-Im Bank implemented many of these reforms shortly after the approval of the 2015 Reauthorization Act. Several reforms, however, were delayed by the lack of a quorum, but were implemented at the first Ex-Im board meeting held on May 30, 2019.

Among the key reforms that have now been implemented include the following:

³ Pub. L. 114-94 (Dec. 2015).

- *Appointment of a Chief Risk Officer and Formation of Risk Management Committee.* On May 30, the Ex-Im Board approved the appointment of Kenneth M. Tinsley as the chief risk officer to ensure that the Ex-Im Bank maintains appropriate risk control measures. As required by the 2015 reauthorization, the Ex-Im Bank also replaced its Audit Committee with the new Risk Management Committee, which is mandated to oversee stress testing and a comprehensive review of the risk exposure of the Ex-Im's portfolio. The Ex-Im Board confirmed this change through the adoption of its revised bylaws. The Ex-Im Bank's default rate is well below the 2 percent maximum mandated by law. The Inspector General also completed its required audit, which was submitted to Congress in December 2016.
- *Appointment of a Chief Ethics Officer and GAO Review of Fraud Controls.* On May 30, the Ex-Im Board approved the appointment of Lisa V. Terry as chief ethics officer to oversee all ethics issues within the Ex-Im Bank and serve as the agency's designated ethics official. The Government Accountability Office also initiated its mandated four-year review of Ex-Im fraud controls. Both of these measures are important to ensure that the Ex-Im Bank maintains the strong ethical standards in all areas of its official conduct.
- *Updates to Exposure Limits, Risk Sharing and Loan-Loss Reserves.* The Ex-Im Bank also was required to lower its aggregate exposure for outstanding loans, guarantees and insurance to \$135 billion, develop a pilot project on reinsurance to improve risk-sharing with the private sector and increase its loan-loss reserves to reduce overall risk.
- *Improvements to Enhance Small Business Usage.* As required by the 2015 reauthorization, the Ex-Im Bank has engaged in numerous activities to expand Ex-Im usage by small businesses, including the following:
 - Expanding efforts to educate small businesses and other stakeholders, hiring new staff in field offices to work directly with small businesses and implementing new systems to improve customer services, as well as other actions to meet the increased small business lending target of 25 percent.
 - Developing guidelines to implement the expanded medium-term program important for many small and medium-sized businesses to finance and insure transactions of up to \$25 million (an increase from \$10 million). The Ex-Im Board confirmed this increase in the medium-term cap through the adoption of its revised bylaws.
 - Cutting unnecessary red tape by authorizing acceptance of electronic documents and payments for all transactions (with narrow exceptions for hard-copy documents required by certain foreign legal systems).
 - Developing procedures to authorize staff approval of applications up to \$25 million in export financing for small business working capital and insurance products. The Ex-Im Board confirmed this increase in the medium-term cap through the adoption of its revised bylaws.
- *Prohibitions on Discriminatory Treatment.* The Ex-Im Bank revised its Loan, Guarantee and Insurance Manual and webpages to include explicit guidance prohibiting the Ex-Im Bank from denying financing on the sole basis of industry, sector or business. The Ex-Im Bank also undertook mandatory staff trainings to reinforce prohibitions on discriminatory practices related on the basis of industry, sectors or businesses.

- *Improvements in Information Sharing with Congress*. As required by the 2015 reauthorization:
 - The Treasury Department submitted to Congress a strategy to enhance negotiations with foreign governments to reduce financing provided by ECAs and has continued to issue reports to Congress on the progress of any negotiations with countries that are not members of the Organisation for Economic Co-operation and Development.
 - The Ex-Im Bank also submitted a report to Congress in June 2016 regarding export financing for information and communications technology goods and provided details on its programs for small and medium-sized businesses (with less than \$250 billion in revenue) as part of its 2017 Annual Report.

Many of those reforms awaited the installation of the new quorum and their impact is only just starting to be felt.

Global ECA Activity Poses a Major Challenge to the United States

America, its manufacturers and workers are facing substantial unprecedented challenges in the global economy spurred in significant part by more than 100 ECAs around the world working to support their own domestic industries and workers—at the expense of ours. From China, Russia and Brazil to France, Germany and Canada, other governments have recognized the value of exports to supporting and growing manufacturing and well-paying jobs, as well as to growing their economies and their footprint across the globe. Without quick action by Congress to approve a long-term and robust Ex-Im reauthorization, workers, manufacturers and the American economy will increasingly be left behind, and broader U.S. interests will be put at risk.

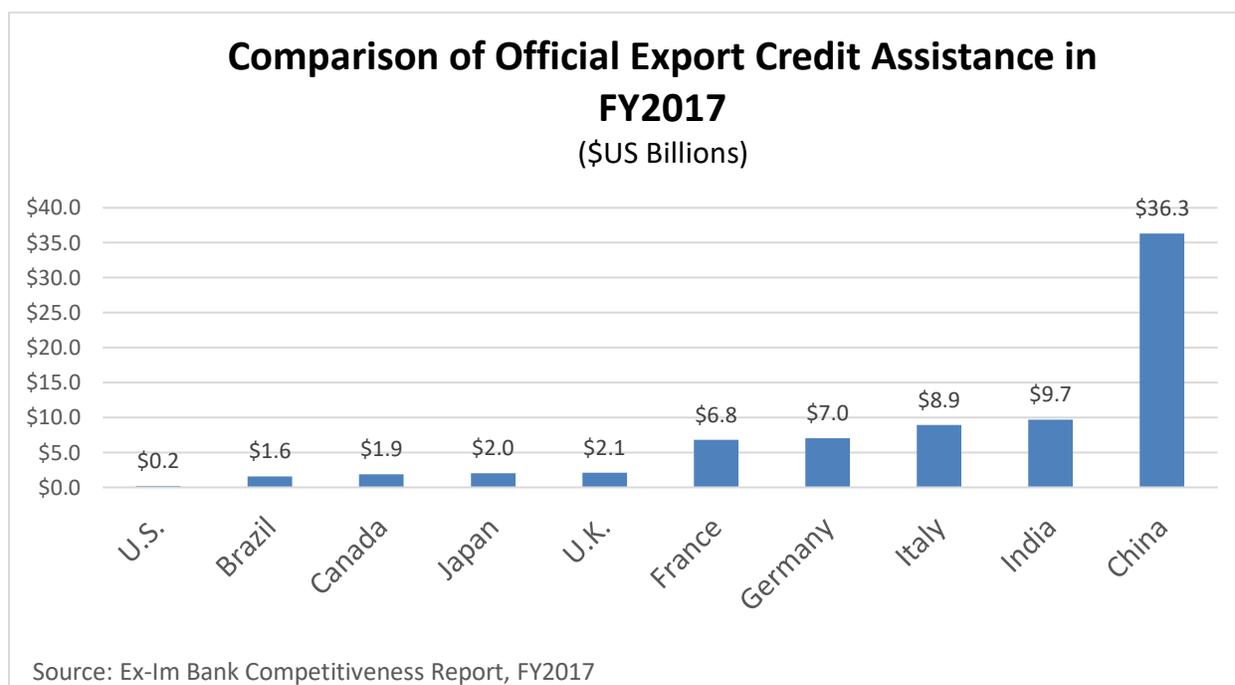
Foreign ECAs have continued to grow, while the Ex-Im Bank was limited severely for much of the current authorization period because it lacked a quorum. Manufacturers applauded the Senate’s action last month to confirm three nominees to the Ex-Im Board and are pleased that the Ex-Im Bank is now fully functioning for the first time since it was reauthorized in 2015. During the period that the Ex-Im Bank lost the ability to operate fully nearly four years ago, the NAM estimates that manufacturers lost at least \$119 billion in manufacturing output, translating into 80,000 fewer manufacturing jobs in 2016 and 2017 alone. These losses are particularly hard for small- and medium-sized businesses and the broader U.S. industrial base.

By contrast, countries such as China, India, Korea and others are growing substantially their ability to use export credit, both for commercial and broader national interests. Based on the information that is available publicly, China’s two formal ECAs provided more than \$36 billion in medium and long-term export financing support in FY2017 for projects around the world—accounting for about one-third of all total medium and long-term ECA financing. China’s total medium- and long-term investment support is larger than the rest of the world combined.

Countries are also using ECAs to advance not just their economic interests, but also their geopolitical interests around the world. Nowhere is that more apparent than with China. China’s ECA Sinosure has provided more than \$510 billion in insurance to its Belt and Road Initiative projects since 2013. Its massive loans have been used to expand China’s strategic goals, including to win foreign government approval of the establishment of a Chinese military base adjacent to America’s only permanent military installation in Africa. China’s seamless

integration of its ECAs into its political and economic agenda causes more than just missed opportunities for American exporters and workers; it significantly undermines broader U.S. national interests.

This issue is, however, much larger than just China. India's ECA provided \$9.7 billion, Italy's provided \$8.9 billion and Korea's provided \$7.9 billion in medium and long-term financing in FY2017, while the United States provided less than \$2.8 million in comparable direct loans. When the Ex-Im Bank was last fully functioning in FY2014, it provided financing for nearly \$2 billion in direct loans. In the face of this sizeable and, in many cases, growing competition, it is critical to get the Ex-Im Bank back to full strength and provide certainty that it will stay fully operational.



In addition to the larger size, greater flexibility and broader strategic focus of foreign ECAs, manufacturers in the United States also must contend with the fact that their competitors overseas often enjoy subsidized financing. The United States has worked intensively to negotiate strong rules to eliminate market distortions and subsidies that oftentimes characterize foreign ECAs, leading efforts to bring developed country members of the OECD⁴ and non-OECD countries to the negotiating table. Largely as a result of U.S. leadership over several decades, most of the OECD's industrialized countries have agreed to uniform standards for fair and commercially based ECA lending.⁵ Sector-specific arrangements have also been negotiated

⁴ Members include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. OECD, "Members and Partners," accessed at <http://www.oecd.org/about/membersandpartners/>.

⁵ Most prominently, OECD members developed the "Arrangement on Officially Supported Export Credits" (ECA Arrangement) that sets out financial disciplines for standard export credits and for export credits for certain sectors that reduce and eliminate potential market distortions. In particular, the ECA Arrangement – which has been agreed to by Australia, Canada, the European Union, Japan, New Zealand, Norway, South Korea, Switzerland and the United States, emphasizes that OECD ECAs should be competing "on quality and price of goods and services

to provide even stricter disciplines on ECA financing related to ships, nuclear power, aircraft, renewable energy, climate change mitigation and water projects.⁶ Work with non-OECD countries has been more difficult, and that is where the greatest concern about subsidized ECA financing lies. The United States has worked intensively to undertake negotiations with key developing countries to agree to operate their ECAs based only on commercial considerations. As a result of U.S. efforts, 18 major providers of export credits⁷ are participating in the International Working Group on Export Credits. China, India, Brazil and others have shown little interest thus far, particularly while the United States lacked a fully reauthorized or fully functioning Ex-Im Bank.

Manufacturers Seek a Timely, Robust and Long-Term Ex-Im Reauthorization

This committee's consideration of Ex-Im reauthorization comes at a timely moment not just to extend Ex-Im's term, but to make improvements and updates to strengthen U.S. competitiveness and reverse the deterioration of U.S. economic influence across the globe. To do so effectively, manufacturers urge the committee to move quickly to:

- Reauthorize the Ex-Im Bank for a significant term and prevent unnecessary disruptions to its activities by fixing the quorum issue permanently;
- Revitalize its mission and capabilities to help the United States counter the growing challenge of state-directed export financing; and
- Continue to ensure that the Ex-Im Bank promotes exports by all eligible industries and firms, including small and medium-sized businesses, without hampering its flexibility to help manufacturers of all sizes and types compete in the global marketplace.

Failure to move forward in a timely manner with a robust and long-term reauthorization will harm manufacturers and workers across the United States.

- If the Ex-Im Bank is not reauthorized, tens of billions of dollars in U.S. exports will be put at risk annually. Manufacturers overseas will increasingly win foreign sales that manufacturers in the United States could have won. The loss of U.S.-manufactured exports will be at the expense of thousands of manufacturers in the United States and hundreds of thousands of American workers who rely on Ex-Im services to boost their export sales.
- Weakening America's export competitiveness will be particularly damaging in the face of intense and growing global competition that has already resulted in a substantial decline in America's share of the global manufacturing market.
- Even greater manufacturing export opportunities will be lost on an annual basis as trade expands and U.S. exporters effectively cede foreign sales. The loss of new export opportunities will be particularly severe for small and medium-sized businesses and for exports to emerging markets and infrastructure sectors where growth is expected to be strongest.

exported rather than on the most favourable officially supported terms." OECD, "Official Export Credit Agencies," accessed at <http://www.oecd.org/tad/xcred/eca.htm>; see also OECD, "Official Export Credit Agencies," accessed at <http://www.oecd.org/tad/xcred/eca.htm>.

⁶ OECD, "Official Export Credit Agencies," accessed at <http://www.oecd.org/tad/xcred/eca.htm>.

⁷ The 18 participants are nine in the OECD Arrangement (Australia, Canada, the European Union, Japan, New Zealand, Norway, South Korea, Switzerland and the United States) and nine non-OECD members (Brazil, China, India, Indonesia, Israel, Malaysia, Russian Federation, South Africa and Turkey).

Time is of the essence. The NAM, our nation's manufacturers and the more than 12.8 million women and men who make things in America are urging Congress to act.

Conclusion

Thank you, Chairwoman Waters and Ranking Member McHenry for holding this hearing and for providing me the opportunity to testify before you. We urge you to move forward quickly on a robust and long-term reauthorization of the Ex-Im Bank to enable the agency to fulfill its principal mission of supporting American jobs through exports, while revitalizing it to be a more effective counterweight to the growing challenge facing our nation through foreign ECAs.