OVERSIGHT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES

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OVERSIGHT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

Thursday, May 6, 2004

U.S. House of Representatives,
Subcommittee on Domestic and International Monetary,
Policy, Trade and Technology
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2128, Rayburn House Office Building, Hon. Peter King [chairman of the subcommittee] presiding.

Present: Representatives King, Biggert, Paul, Manzullo, Barrett, Maloney, Sanders, Watt and Velazquez.

Chairman King. [Presiding.] The subcommittee will come to order. The subcommittee meets today to conduct general oversight of the Export-Import Bank of the United States. This is the first oversight hearing since the 2002 Reauthorization Act and we are pleased to have the Honorable Philip Merrill, President and Chairman of the Export-Import Bank testifying before us today.

Chairman Merrill brings a broad range of experience in both the public and private sector, having served in six previous Administrations in various capacities. We are fortunate to have such a distinguished witness before the subcommittee today, especially since he spent his formative years in New York City. He was, as local legend has it, one of the most prominent street hockey players in the history of New York City, but not quite as good at stick ball as he was at street hockey, but there is still time. And also, coming from Queens, I never had that much respect for the street athletes of upper Manhattan, but they were still pretty good. You and Colin Powell were.

[Laughter.]

As the chief U.S. government agency tasked with financing American exports, Ex-Im Bank provides American exporters the assistance needed to compete with their foreign competitors and often serves as a lender of last resort. The need for this agency stems from political or commercial uncertainties in foreign markets and competing governments subsidizing their export financing, thus creating an unfair playing field in the marketplace. This is achieved by offering credit insurance, working capital, and loan guarantees to U.S. exporters.

Obviously, the overall goal of the Bank is to use its authority and resources to create and sustain American jobs. Over the last 5 years, 311 New York companies received assistance from Ex-Im. In my district on Long Island, 13 small businesses have benefited from the programs offered by the Bank and I hope this number will increase in the future.

The Bank is not without its problems, however, and was made aware of them during the 2002 reauthorization. It has been 2 years since President Bush signed into law legislation reauthorizing Ex-Im Bank and I am interested in the Chairman's comments on how the Bank has utilized its new authority to assist small businesses, while creating and sustaining American jobs.

It is my understanding the Bank reached 19.7 percent of its 20 percent goal for financing small business exporters. I am interested in hearing the Chairman's comments on whether he views this 20 percent figure as a floor or a ceiling, and if more can be done to increase this level of financing for small businesses.

Lastly, I am concerned over the lack of an inspector general for Export-Import Bank. As you know, the 2002 reauthorization act established a presidentially appointed inspector general for the Bank, yet 2 years have passed and it does not appear as if this provision of the law has been fulfilled. I am not sure if it is an appropriate issue or priority issue, but I would like to hear your comments on this matter as well.

Again, thanks for taking the time out of your schedule to testify today. I certainly look forward to working with you as the Bank celebrates its 70th anniversary.

With that, I yield to my distinguished colleague, the Ranking Member, Mrs. Maloney.

[The prepared statement of Hon. Peter T. King can be found on page 24 in the appendix.]

Mrs. MALONEY. Thank you. I thank my distinguished colleague, Chairman King, from the great State of New York, for holding this oversight hearing on the Export-Import Bank.

Good morning, Chairman Merrill. I thank you for joining the subcommittee. It is a pleasure to see you again. I enjoyed our meeting in my office last year following your appointment.

I think today's hearing is especially appropriate given the importance of the Ex-Im Bank's mission of support of U.S. exports abroad. My good friend John LaFalce, the former Ranking Member of this committee, always reminded this committee on this topic that the Bank is actually improperly named, as its sole mission is to support U.S. exports which keep jobs here at home. The Bank does not play a role in encouraging additional imports to the United States. Your mission is so important today because our country is handicapped by a massive trade deficit. In the era of half-billion dollar trade deficits and outsourcing of information-based jobs, I believe support for Ex-Im Bank is more important than ever. I am pleased to have played a role in the Bank's latest reauthorization.

In the authorization in 2002, we included some very important mandates that I believe will make the Bank stronger. Specifically, Congress dictated that 20 percent of bank support must go to small business. I see my good colleague, Nydia Velazquez, who was one of the leaders in achieving this goal. I am pleased that the Bank has come close to this goal, hitting 19.7 percent in 2003.

I do look forward to the Chairman's comments on why the Bank has not yet fully implemented its automation program for small business that will make it easier for them to access the Bank. Talking to my constituents, I have been informed that the Bank may be attempting to shift more risk for small business lending onto private banks within the working capital program. I would like very much to hear from Chairman Merrill on this issue.

I am also pleased that the authorization included a new commitment to the Bank's existing mandate to support exports to Africa and imposition of new safeguards on transactions that may fall under existing countervailing duty, antidumping, or section 201 ruling. The authorization also included an amendment I offered in the Financial Services Committee giving the Bank explicit authority to turn down an application for Ex-Im Bank support for companies that have a history of engaging in fraudulent business practices. Unbelievably, in a prior time with a prior Chairman, they insisted on giving a loan to such a company, even though they had all kinds of allegations against them, because they said they were required by law to do so. So I am glad that this was included. I am interested to see if this is being used.

Finally, I am very pleased that the Bank decided against supporting the controversial Camisea project in Peru. More generally, I am also interested in the role that Ex-Im is playing on OECD environmental standards. One of the main reasons that I believe the Bank is important to the U.S. is that it levels the playing field with foreign export credit agencies, so-called ECAs, such as those in Japan, Germany, France, Canada and other countries. In 2000, the ECA support from OECD nations totaled $58 billion in long-term export credits.

In today's increasingly interconnected global economy, the U.S. must not fall behind the international competitors. In my own district, the Bank has supported over $2 billion in exports from October 1994 to April 2004. I thank the Bank for its support of New York City, and I look forward to working on keeping this relationship strong.

I thank the Chairman for being here today. I look forward to your comments. I yield back the balance of my time.

[The prepared statement of Hon. Carolyn B. Maloney can be found on page 33 in the appendix.]

Chairman KING. I thank the Ranking Member.

Ms. Velazquez?

Ms. VELAZQUEZ. I ask unanimous consent to include my opening statement in the record. Thank you.

Chairman KING. Without objection.

The gentleman from Vermont?

Mr. SANDERS. Thank you, Mr. Chairman. Thank you for holding what is a very important hearing on a very important subject.

I thank Mr. Merrill for being with us today.

Mr. Chairman, I think nobody believes that the Export-Import Bank is a huge colossus agency upon whose success or failure the American economy will depend upon. But I think what we have got to look at is the fact that in the United States today we are seeing a collapse of manufacturing; that in the last 3 years we have lost 2.8 million good-paying manufacturing jobs, which has resulted in the decline in the standard of living of millions of American workers. We have got to appreciate that in the United States today we have, the last that I have seen, is a trade deficit of some $500 billion, including I believe a trade deficit with China alone of over $120 billion, and if my memory is correct, the National Association of Manufacturers projects that that deficit will go up and up and up in the next number of years.

Given the fact that the function of the Export-Import Bank as I understand it is to create good-paying jobs in America based on exports, while I am not here to blame the Export-Import Bank alone for all of these issues, I think, Mr. Chairman, what is obvious to anybody who looked for 3 seconds at the issue is they are irrelevant in the process; that we have to re-think our entire approach toward manufacturing in America, and understand why we are failing so abysmally, and that the Export-Import Bank is irrelevant in terms of the entire process.

Mr. Chairman, what particularly upsets me about the Export-Import Bank, without blaming them for all of the problems, I do not mean to do that, is that year after year the Export-Import Bank provides billions of dollars in corporate welfare, taxpayer money for the largest corporations in America. You know what those corporations say, Mr. Merrill? They say, thanks America; thanks, taxpayers, for your money; we are off to China; we will send you a postcard from China.

I would like Mr. Merrill when he does his response to tell me how he feels about corporation after corporation, which is very public, these guys do not hide it, who are saying, America, good-bye; we are going to China; we are hiring people for 30 cents an hour. I would like Mr. Merrill to tell me specifically how he feels about the head of General Electric, the CEO of GE, a gentleman named Jeff Immelt, who says a year ago in speaking to GE investors, this is what he says: "When I am talking to GE managers, I talk China, China, China, China, China. You need to be there. You need to change the way people talk about it and how they get there. I am a nut on China. Outsourcing from China is going to grow to $5 billion."

And yet, guess what, taxpayers of America? Export-Import Bank funds General Electric. They fund Motorola. They fund corporation after corporation that treats the American worker with contempt and goes abroad. This is absurd.

So I think, Mr. Chairman, that if we are serious, and I am again not here to blame Export-Import for all of these problems. They are a small part of the problem. But we have to say, enough is enough. You cannot continue to give out corporate welfare to corporations who treat American workers with contempt. It is not good enough to say, oh, we have saved 12 jobs over here, when the largest corporations in America that receive your funding are laying off hundreds and hundreds of thousands of workers.

I hope that is an issue, Mr. Chairman, that we will begin to discuss.

[The prepared statement of Hon. Bernard Sanders can be found on page 37 in the appendix.]

Chairman KING. The gentleman's time has expired.

Mr. Merrill, it is a privilege to have you here today. We have a copy of your full opening statement. If you could possibly keep your opening remarks to 5 or 10 minutes, we would appreciate it. Without objection, your full statement will be made part of the record.

Mr. Merrill, thank you.

STATEMENT OF HON. PHILIP MERRILL, PRESIDENT AND CHAIRMAN, THE EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. MERRILL. Thank you for all those kind words about me, and even the moderate words from Congressman Sanders about the Bank.

Chairman KING. That is as good as you are going to ever get from Mr. Sanders.

[Laughter.]

Mr. MERRILL. Thanks. Maybe we can engage him later in a discussion about stickball, wall ball, slug, roller hockey and four corners, but otherwise let me proceed.

Congressman Maloney, Members of the Subcommitte, I am pleased to be here today to report on the progress the Export-Import Bank of the United States has made in achieving our mission as set forth in our Charter. I want to especially acknowledge the role of this subcommittee, as well as the full Committee on Financial Services in our 2002 reauthorization.

The Act reaffirmed the Bank's basic roles and responsibilities in financing and facilitating exports of goods and services and in so doing contributing to the employment of U.S. workers, and establishing a reasonable assurance of repayment before approving a transaction, and in supporting all businesses, large and small, in their efforts to create jobs through exports.

We are focusing on three key priorities: putting customers first, improving cycle time and transaction time, and expanding support for knowledge-based and services exports. President Bush has set forth three guiding principles for government, namely that it should be citizen-centered, results-oriented, and market-driven. Those are the right principles to follow.

The Bank supported $12.95 billion in exports in fiscal year 2002; $14.3 billion in fiscal year 2003; and we estimate $15.6 billion for fiscal year 2004, this year; and $16.3 billion in fiscal year 2005, also an estimate. As you know, Ex-Im Bank provides insurance, guarantees and direct finance on behalf of U.S. exports and exporters. Our purpose is to create and maintain American jobs. Indeed, our motto is jobs through exports; and our mantra, of course, is jobs, jobs, jobs.

We require a reasonable assurance of repayment. We only go to markets where the private sector will not go alone, and are accordingly demand-driven. We do business in 90 countries and are open in 150. We also seek to level the playing field for American exporters who have to compete with 28 other OECD developed countries that have export credit agencies supporting their exporters.

Let me review some of the matters raised in our reauthorization and a number of the matters that you raised in your comments already provided. First, Mr. Chairman, small business is a major central concern for the Bank. In fiscal year 2003, the last full year we have numbers, the Bank authorized 2,258 transactions directly supporting small business, a figure representing over 80 percent of the Bank's financings, actually 83 percent, and accounting for 19.7 percent of the total dollar volume value of Ex-Im Bank's business. That is very close to the 20 percent target in our Charter.

Also, Ex-Im Bank announced at its recently concluded annual conference, the signing of a co-guarantee agreement with the Small Business Administration. This enables the financing of transactions of up to $2 million with one single set of documents, so customer-friendly. I might add, no double counting. They take the first $500,000; we take the second $1.5 million up to $2 million, or whatever is appropriate.

[Subsequently Mr. Merill provided the following information]

> They take the first $1.5 million or up to their statutory limit, and we take the remaining amount minus the lender's risk on any transaction up to $2 million.

Second, technology improvements. The Bank is developing its business automation project in order to process applications more quickly. We are working away on it. We also participate in the Trade Promotion Coordinating Committee's one-stop/one-form registration system, an Internet-based system enabling small businesses to apply electronically for all government export programs, including ours.

Third, Africa. In fiscal year 2003, Ex-Im Bank authorized 152 transactions, supporting nearly $700 million in U.S. exports to 20 sub-Saharan African countries. Just 5 years earlier in fiscal year 1998, the Bank authorized 91 transactions that supported only $61 million in exports; $61 million to $700 million in U.S. exports to sub-Saharan Africa. Over the last 6 fiscal years, Ex-Im Bank has authorized transactions supporting nearly $2 billion in U.S. exports to sub-Saharan Africa. We have also made a special effort to reach African buyers through our ongoing Short-Term Africa Pilot Program. This program offers Ex-Im Bank support in an additional 16 African countries in which the Bank would otherwise not be open for business, raising the total number of sub-Saharan Africa countries eligible for Ex-Im Bank financing to 39.

Fourth, Ex-Im Bank has continued its outreach to woman-owned and minority-owned businesses through participation in a wide range of trade shows, seminars, and conferences focused on this important area.

Fifth, economic impact. Ex-Im Bank's charter requires the Bank to assess whether extending its finance support is likely to yield a net adverse economic impact on U.S. production and employment, or would result in the production of substantially the same product that is the subject of specified trade measures.

If a transaction is deemed by Ex-Im Bank to meet the legislatively specified standards, then economic impact can be the basis for denial of bank support. I want you to know that we are very much aware of this responsibility and we are scrupulously applying these procedures.

In conclusion, Mr. Chairman, we take seriously the goals Congress set before us. We have made real progress toward meeting the changes to our Charter enacted in 2002 and fulfilling the purposes for which the Bank was created 70 years ago. We have done so through the diligent efforts of exporters and the hard work of the dedicated staff at Ex-Im Bank.

I would now be happy to respond to any questions you may have. I wrote down four or five, some of which were covered in my remarks. I will proceed in any manner you feel comfortable with.

[The prepared statement of Hon. Philip Merrill can be found on page 39 in the appendix.]

Chairman KING. Thank you, Chairman Merrill. I appreciate your statement. As I said, the full text of your statement will be made part of the record.

Mr. MERRILL. Thank you.

Chairman KING. I just have several questions. One, I mentioned in my statement and you mentioned in yours, that is the targeted number of 20 percent to be allocated toward small business. Do you look upon that 20 percent as a floor or a ceiling? Right now, you are at 19.7 percent, so obviously you are on-target, but do you anticipate going beyond that target or staying at 20 percent?

Mr. MERRILL. As a practical matter, it is about the right number. It is a good question, floor or ceiling. The answer is neither. It is, rather, the right place to be. If you incorporate the small businesses that are subcontractors for companies like GE or Bechtel or Caterpillar and so forth, 83 percent are small business. It is hard for me to see how we can go a lot further upwards without one single contract utterly distorting the 20 percent number. In other words, suppose we went to 99 percent, what would happen if one energy plant, one airline deal would substantially distort the numbers? So I think we are about right.

Chairman KING. In the 2002 Reauthorization Act, a major provision was calling for a presidentially appointed inspector general. That has not happened yet. Could you explain why? Is that an appropriation matter? Have you requested it?

Mr. MERRILL. It is in the President's budget. It is in our submission. That is a White House issue. We do not make the appointment.

Chairman KING. Are you pushing for it?

Mr. MERRILL. We are neither pushing or not-pushing. We put it in our budget request. We are not against it. The committee directed us to do it. The President has it in his budget request.

Chairman KING. Okay. From your dialogue with the Administration, do you expect it to happen?

Mr. MERRILL. I do not know. I do not have a good feeling for that. I think this is really more a Congressional issue than a Bank issue. I think it is fair to say that last year, the appropriators sought places to cut. We got cut. We got cut in several places and one of those was that, or so I am told.

Chairman KING. Okay.

Mr. MERRILL. I do not know whether that was the Senate or the House that did it. It is between the two.

Chairman KING. There is probably enough blame to go around.

I just have one final question. The Reauthorization Act allows the Bank to consider the extent to which a nation has been helpful in combating terrorism when you take action. Can you tell me if you have looked into that at all?

Mr. MERRILL. I am sorry. I did not hear the first part of the question.

Chairman KING. The reauthorization act allows the Bank to consider the extent to which a nation has been helpful in eradicating terrorism.

Mr. MERRILL. The extent to which a what, a nation?

Chairman KING. A nation has been helpful in eradicating terrorism, when you offer your services. I am just wondering, have you set up any way of looking into whether or not countries you have been dealing with——

Mr. MERRILL. We deal with the State Department on those issues. In a general sense, State, Commerce, USTR, OMB, Treasury generally attend our Board meetings and a couple of them are ex officio members of our Board. With respect to the issue you raised, we have a regular representative from the State Department. We deal through him with the relevant agencies, in this case the Human Relations Assistant Secretary in the State Department.

Frankly, I have several years in the State Department, as you know, but when I was there they had five assistant secretaries. Now, they have 26, and I cannot keep all their names straight. But we do deal with the State Department on such issues.

Chairman KING. Okay. So basically, you have been dealing through the State Department when it comes to this.

Mr. MERRILL. We take their lead. We do consult them. We are very interested in what they have to say about that, what they have to say about bad people what they have to say about doing business in countries that either have helped us or hurt us.

Chairman KING. Okay. Thank you.

Mrs. Maloney?

Mrs. MALONEY. Thank you, Chairman Merrill.

As part of our reauthorization in 2002, we put a great deal of emphasis on increasing Ex-Im support of small businesses. I am glad to see that you have almost met the binding minimum target. I hope that you will be giving us assurances that the Bank's efforts in this area are serious and sustained.

Part of this, a critical component of Ex-Im's efforts to assist small business exporters are the private banks that play the role of "delegated authority lenders." These particular lenders are granted special discretionary authority by Ex-Im to grant credit following Ex-Im guidelines. Under this agreement, transactions can be approved more quickly, with less bureaucracy. My understanding is that these delegated lenders currently account for 90 percent of lending through the working capital program, the core program for small business exporters.

Unfortunately, some of these lenders have grown concerned about Ex-Im's efforts to change the nature of the relationship so that more of the risk for these transactions will be borne by the delegated lenders themselves. My understanding is that these lenders are so concerned about this shift in attitude and potentially in practice that they are now contemplating a termination of their relationship with the Ex-Im Bank. Given the strong role that they played in small business finance for Ex-Im, the loss of these lenders would obviously hurt Ex-Im's small business export programs.

Could you comment on these concerns of these lenders? What are you doing to address them?

Mr. MERRILL. Yes, I can. Of course, in the context here, it is an anonymous set of concerns so I cannot address an anonymous thing specifically, but let me make this point. First, the culture of this Bank or this institution is really totally committed to serving the small business person. I was once a small business person myself so I understand small business problems.

More importantly, it is the totality of the culture of the Bank. That is, serve the customer, the small business person. So this is not a thing that is just directed by this Committee. This thing is woof and warp of how our people think. So we are singing the same song to one another with respect to attitude and culture.

With respect to the concerns you are reflecting, my guess is that this is about the fast-track program that we have put in to increase the lending authority, delegated authority to nine principal banks where we delegate authority. I call your attention here that there are 240,000 exporters in the United States and slightly more than 400 employees of this bank. If we were to call on every one of them, we would not get there in this century, that is, the 21st century. The Board approved expanded lending authority at a greater level to a number of banks which were qualified.

Mrs. MALONEY. What is the level it expanded it to?

Mr. MERRILL. It went from $10 million to $25 million, under the authority of the board.

Among the Banks, that is, among them there were different interpretations of some of the criteria that incorporated going from $10 million to $25 million. These are within weeks not months, 1 or 2, 3, whatever, short term, of being worked out. They are very minor things. They are things like, would an audit be quarterly or semiannually. That would be the kind of issue that remains to be worked out.

Mrs. MALONEY. Could you tell us where things stand? I am interested in knowing how close the program is to being up and running.

Mr. MERRILL. Weeks.

Mrs. MALONEY. Weeks? So it will be in operation——

Mr. MERRILL. We have to come back to the board with it.

Mrs. MALONEY. Okay.

Mr. MERRILL. The differences were between the Banks, not between the Banks and us. There are different issues within the Banks and between the banks on getting consistency.

Mrs. MALONEY. My colleague, for whom I have the greatest respect, Mr. Sanders, really raised some very important issues, the collapse of manufacturing in America; the outsourcing of jobs; a trade deficit that is not beneficial to our country. I would like you to respond to that.

It is my understanding that the whole reason for the Export-Import Bank is to help manufacturing in America. We do not help manufacturing abroad. We only give loans to manufacturing to jobs that are here in America, and part of the agreement, if I understand it correctly, is that we save or create American jobs.

Mr. MERRILL. That is exactly right.

Mrs. MALONEY. And that none of this goes to a foreign country, but it stays in America, trying to help us get those jobs and keep those jobs.

I also understand that part of the criteria is that you do not give a loan if they can get it from a private source, so this possibly would be a job that we may lose in America. Could you elaborate more on this, that possibly this will be helping us maintain American jobs? Could you comment?

Mr. MERRILL. Yes, Congresswoman. Yes, I will. First, we are in the business very simply, I repeat it again, of creating American jobs. The issues that Congressman Sanders raises are legitimate issues, and indeed they are issues in the campaign being carried on right now, but these are issues in which our government, the Treasury Department and other government agencies are responsible for dealing with.

We are not in the business of outsourcing any jobs. We are only in the business of supporting jobs here. I think a quick but perhaps aphoristic answer would be this. We just financed a deal for a large American corporation, the one that Congressman Sanders mentioned; $700 million worth of locomotives from the Erie plant of General Electric to Kazakhstan.

[Subsequently Mr. Merill corrected the figure from $700 million to 33.1 million]

There was a reasonable assurance to repay. I personally worked my way through every minister literally without exception of the Kazakhstan government, about 12 of them, all of whom were market-oriented, Western-oriented and interested in doing business with us.

That represented approximately 700 locomotive kits at $1 million apiece, I am rounding the number, from the GE plant in Erie, Pennsylvania.

[Subsequently Mr. Merrill corrected that figure from 700 to 54 locomotive kits at $600,000 instead of $1 million.]

GE also operates in New York. I have been through that plant. In its high year, it produced 400 locomotives; here at 700 locomotives. I fail to see how the outsourcing issue which is a legitimate political issue playing in the national arena helps or hurts, if you will, the workers at the Erie plant. The choice is very simple. We can finance GE in Kazakhstan or the French or the Russians, who also build locomotives, will finance their exporters in the same place. That is a lot of jobs in Erie. It is a hell of a plant. So I think that what we do is appropriate for the circumstances.

Mrs. MALONEY. Mr. Merrill, my time is up, but since you mentioned a New York company, I would like more specifics on it and how many jobs it created in New York. New York is very economically devastated upstate, and I would like more information on the jobs that it created in New York State.

Thank you.

Chairman KING. The gentlelady from Illinois?

Mr. MERRILL. We will get back to you. I cannot answer that right here, but we will get back to you.

Mrs. MALONEY. My time is up. Thank you.

Mr. MERRILL. I understand.

[Subsequently Mr. Merrill provided the following information.]

General Electric estimates that the locomotive exports financed with this Ex-Im Bank supported financing helped to sustain 130 jobs during 2003 and is projected to sustain 168 jobs during 2004.

Chairman KING. Mrs. Biggert?

Mrs. BIGGERT. Thank you, Mr. Chairman.

Chairman Merrill, I understand that the Ex-Im Bank has an advisory committee that provided recommendations for improvements in 2002 and 2003. Could you tell us a little bit about this committee and what their recommendations were?

Mr. MERRILL. There is a general advisory committee made up of a cross-section of businessmen, 16 people on it, that has been really very helpful to us. They have been chaired the last 2 years by the Chairman of the Houston Port, Ed Manto. It has had a series of suggestions for how we could be doing what we are doing, that is, be more customer-friendly; support more exporters. We found them very useful. They are actually all very able people. With their help, we identified three states where we ran a test program to see what we could do for the local banks in those states. The three states happen to be, we wanted states not like New York and California, which are so complex, but Maryland, Colorado and Arizona, in which we tried to look at how we could reach more exporters.

We took Colorado as an example. There are five major banks; substantial exports. All five banks were doing business for their exporters with banks in Seattle, with such banks as the Southwest Bank of Texas. So as a result, we identified roughly of the 14,00 banks in the United States, the 175 that do some trade finance, applied it back to state levels, and we are working with city-state partners and so forth, all of this as a result of the work of the advisory committee.

[Subsequently Mr. Merrill provided the following information]

There is a general advisory committee made up of a cross-section of businesspeople, 16 people on it, that has been really very helpful to us. It has been chaired over the last 2 years by Edward Monto, Director of Metrobank, in 2003, and in 2004 by H. Thomas Kornegay, Executive Director of the Houston Port Authority. It has had a series of suggestions for how we could be doing what we are doing, that is, be more customer-friendly; support more exporters. We found them very useful. They are actually all very able people.

With their help, we identified two States where we ran what might be called a test program to see what we could do for the local banks in those States to reach mor exporters. The two States happen to be Maryland and Colorado.

Take Colorado as an example. There are five major banks; substantial exports. All five banks were doing business for their exporters with correspondent banks such as Southwest Bank of Texas.

Of the approximately 14,000 banks in the United States, 175 of them do some trade finance. In addition to the banks, we are working with City/State Partners.

Mrs. BIGGERT. So that was your implementation of their recommendations.

Mr. MERRILL. Yes, exactly.

Mrs. BIGGERT. Do you think that you could provide us with copies of the advisory committee's report?

Mr. MERRILL. Sure.

[The following information can be found on pages 54 and 116 in the appendix.]

Mrs. BIGGERT. Okay. And can you give an itemized list of the recommendations?

Mr. MERRILL. I do not know whether there is an itemized list, but we will give you whatever we have.

Mrs. BIGGERT. Okay. And just the steps that you used to implement?

Mr. MERRILL. Advice is advice. Some things are doable. Some things are advice that they would like to have. For example, they would like to have a change in the MARAD requirements, PR 17. That is Greek to anybody here, but it is the requirement to ship certain exports on American bottoms. We understand the requirement. I personally served in the Merchant Marine. I shipped out when I was 16, so I understand the U.S. Merchant Marine. But we would like to get some waivers on an easier basis on these. Again, just to stick with GE, when they ship a turbine and it takes a special ship to ship it, it may not be available in the time sequence and so forth, so making waivers easier was one of the recommendations and we would like to do that. But implementing it is not within our control, so a lot of the recommendations we agree with, but do not have total control. It is things we have to push on other people for. I will stop there.

Mrs. BIGGERT. Would you consider doing that? Let's say, you need statutory change or regulation change. Is this something you look at then and then proceed to either come to the Congress or the regulatory body?

Mr. MERRILL. Yes.

Mrs. BIGGERT. Okay. Thank you, if you would do that.

You talked about the 19.7 percent, or almost reaching the mark figure for assessing the amount of small business support pursuant to the last authorization legislation. Is this the same methodology that was used prior to 2002?

Mr. MERRILL. Yes, it is exactly the same methodology, with one minor exception, not an exception, but the sample is larger just to be certain that it is accurate, but nothing was changed in the methodology, just a larger sample.

Mrs. BIGGERT. Are you planning to make changes in the future to the methodology?

Mr. MERRILL. No, not that I know. Nobody has consulted me on that, but I do not see why we would. Just as a private businessman, I do not like to change methodologies lightly because I like the comparisons from year to year.

Mrs. BIGGERT. Then how will you account for transactions that originated under the memorandum of understanding with the SBA?

Mr. MERRILL. We would account for them, assuming a $2 million transaction, the first $500,000 would be credited to SBA; the second $1.5 million would be credited to us. It would not be double-counted.

[Subsequently Mr. Merrill provided the following information.]

We would account for them, assuming a $2 million transaction, the first $1.5 million or their statuary limitation would be credited to the SBA and the remanining amount minus the lender's portion of the risk would be credited to us. It would not be double-counted.

Mrs. BIGGERT. So there is no change there. Okay. Thank you very much.

I yield back.

Chairman KING. The gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

In your exchange or answering the question to Carolyn Maloney, you said that you are in the business, Ex-Im Bank is in the business of supporting jobs.

Mr. MERRILL. Yes, ma'am.

Ms. VELAZQUEZ. We all know that small businesses produce 75 percent of all new jobs. Small businesses account for 50 percent of all sales in this country. Small businesses employ nearly 53 percent of the American workforce. In the last recession, small business fast-growth companies created nearly 3.8 million jobs, compared to 3.3 million jobs created by big companies.

So if you are in the business of creating jobs, how could you come here and say that you so proud about the 19.7 percent financing achieved by Ex-Im Bank, and then to say that the 20 percent is neither the ceiling nor the floor? But if we are facing a jobless recovery in this country, don't you think that then you should focus or reassess what your institution is doing in providing more financing for small companies?

Mr. MERRILL. Madam Congresswoman, the committee's dictate or mandate or instruction was to target 20 percent.

Ms. VELAZQUEZ. At least 20 percent.

Mr. MERRILL. Not including, not counting the subcontractors.

Ms. VELAZQUEZ. Look, sir.

Mr. MERRILL. Look, subcontractors are small businesses.

Ms. VELAZQUEZ. The 20 percent is regarding prime contractors, not subcontractors. You know that.

Mr. MERRILL. By definition——

Ms. VELAZQUEZ. Your definition.

Mr. MERRILL. Well, anybody's definition. It is not likely that a small business is going to be a prime contractor. You are not going to build a power plant——

Ms. VELAZQUEZ. What I am saying to you, sir, is that 20 percent, the law, the reauthorization of 2002, says 20 percent, at least 20 percent. It is just common sense that what we need in this country is to create jobs.

Mr. MERRILL. I agree.

Ms. VELAZQUEZ. You should amend what you are doing and reassess, and make sure that we have more financing for small business.

Mr. MERRILL. We are doing everything. I do not know how I can change and improve the culture of this Bank beyond its focus on small business because we are totally focused on increasing small business. We agree with you. We are almost totally focused.

Ms. VELAZQUEZ. Are you prepared, based on the reality of the economy, to reassess the 20 percent, instead of being the ceiling, instead of being the floor?

Mr. MERRILL. The problem is that we are the lender of last resort. They have to come to us.

Ms. VELAZQUEZ. Okay, sir. In light of the fact that the face of small business in America is changing, that we have more, that women are the fastest-growing sector in terms of small businesses in our economy; there are more women, more Latinos, more Blacks. Do you have any data as to how much money from the 19.7 percent of finance has gone to minority contractors?

Mr. MERRILL. Yes, ma'am, I do. I would actually like to read it to you. We have the measurement for the whole Bank. We do not have a measurement on the 19.7 percent.

Ms. VELAZQUEZ. Okay. Would you be prepared to send us, this subcommittee, data?

Mr. MERRILL. Yes, ma'am. I would also like to answer the question.

Ms. VELAZQUEZ. But you said that you do not have the data?

Mr. MERRILL. Not on the basis of the 20 percent, but on the basis of the whole Bank.

Ms. VELAZQUEZ. No. I am referring to the 20 percent.

Mr. MERRILL. In that case, I will have to get back to you.

Ms. VELAZQUEZ. Would you please submit to this committee in writing?

[Subsequently Mr. Merrill provided the following information.]

In terms of number of transactions, minority and woman-owned businesses accounted for 219 of the 2,258 small business transactions or 9.7 percent. In FY 2003, Ex-Im Bank provided $2.1 billion in small business support. Of the $2.1 billion, minority and woman-owned businesses accounted for $135,808,144, or 6.54 percent of Ex-Im Bank's small business support.

Mr. MERRILL. I will have to get back to you with that. I would like to say that among the larger corporations, that is the Fortune 500 crowd, if you will, the GEs of the world, GE has 11 percent minority contracting. It is 30 percent for Case New Holland. The Bank's administrative contracting awards to small business are 57 percent, and the awards to African American businesses are 18 percent. That is out of the total of the Bank, not out of the 20 percent. I will have to get back to you on the 20 percent.

Ms. VELAZQUEZ. Thank you.

If I may, Mr. Chairman, this is a very important question because of the arrangement between SBA and Ex-Im Bank. You know that the Administration's fiscal year 2005 budget drastically cuts the 7(A) guarantee loan program, out of which the small exporters obtain funding such as export working capital. Now that less funding is going to be available for small exporters through the SBA export working capital, is the Ex-Im Bank going to start handling smaller loan requests?

Mr. MERRILL. Yes, ma'am. We will handle them. Last year, we financed $67,000 worth of used clothing to Ghana. We will finance any small business at any level from any State.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman KING. The gentleman from South Carolina?

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. Merrill, thank you for coming today. I appreciate it.

One of my constituents asked a question the other day. I did not know the answer and it was very timely. Does the Ex-Im Bank offer standby letters of credit to foreign purchasers of U.S. goods?

Mr. MERRILL. To foreign purchasers of U.S. goods?

Mr. BARRETT. Yes.

Mr. MERRILL. Yes, we would do that. It is a technical arm, but in a general sense certainly we would lend to a Russian company or Kazakh company or a Vietnamese company, Vietnam Airlines, that was going to purchase something from the United States. Certainly. We will finance 85 percent of an export, whoever buys it. And we will finance 100 percent of working capital for an export. But it has to be the export of goods or services from the United States that creates American jobs. Who the buyer is, the buyer is either sovereign governments or private businesses or banks in 90 foreign countries.

Mr. BARRETT. How does that work? What do you think about that policy?

Mr. MERRILL. It is the basic business of the Bank.

Mr. BARRETT. We had a gentleman, a Mr. Taylor from Avondale Mills, that had a proposal that was very similar to this. I think he had some twists in it or was asking a couple of different things. We faxed that proposal to your office.

Mr. MERRILL. I see a head nodding behind me here. We did 2,707 transactions.

Mr. BARRETT. I understand that. But what I would like for you guys to do, just since it is a practice that you all are doing, if you would take a serious look at that proposal and get me back something in writing on it, I would greatly appreciate that.

Mr. MERRILL. I have a note here that says we will. I will just read it to you.

[The following information can be found on page 179 in the appendix.]

Mr. BARRETT. Okay. Great.

Mr. MERRILL. This is information, not secrecy.

Mr. BARRETT. Absolutely.

Mr. MERRILL. We insure LCs. We do not issue them. A letter of credit would be from a foreign bank. We would insure it.

Mr. BARRETT. Okay.

Mr. MERRILL. The staff is reviewing it. This proposal is under review. The case you referenced is obviously known to our General Counsel and our Chief Financial Officer.

Mr. BARRETT. And you guys have been extremely helpful, your whole staff. Mr. Chairman, I want to thank you. But if you all could, as quickly as possible, get that to me and my staff, I would greatly appreciate it.

Mr. MERRILL. Let's see what we can do. When you raise something here, I will put a searchlight on it.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. MERRILL. Thank you.

Chairman KING. Mr. Sanders?

Mr. SANDERS. Thank you, Mr. Chairman.

Let me just read for the record something and let the American people determine how successful the Export-Import Bank has been in creating jobs, jobs, jobs. Is that your motto?

Mr. MERRILL. Yes.

Mr. SANDERS. Okay, here we go. Jobs, jobs, jobs.

Mr. MERRILL. Jobs through exports is the motto.

Mr. SANDERS. Since 1975, General Electric has eliminated more than 260,000 American jobs, while receiving $2.5 billion in loans and guarantees from the Export-Import Bank. It does not sound too successful to me. Boeing is, I believe, the largest recipient of Export-Import taxpayer subsidies and grants. Since 1990, Boeing had laid off 135,000 American workers, increasingly outsourcing design work to China, Russia and Japan, while receiving $18 billion in direct loans and loan guarantees. Now, maybe the loss of 135,000 jobs does not concern Export-Import, but some of us worry a little bit about that. Motorola has laid off close to 43,000 workers since 2001, and received $190 million in direct loans and loan guarantees from the U.S. Export-Import Bank.

Jobs, jobs, jobs. You are right. We are losing jobs, jobs, jobs big time. Now, General Motors since 2001, 3 years ago, GM has laid off 37,500 workers, while receiving over $500 million from the U.S. Export-Import Bank, and in fact, as you know, they are now going to be manufacturing a lot of auto supplies in China, so we expect job loss to go way down.

So the first question, and I am going to ask you several questions, the first question is, why do taxpayers in this country provide billions of dollars in loans and loan guarantees and subsidies to companies that are throwing hundreds and hundreds of thousands of American workers out on the street?

Mr. Chairman, I used to be the Mayor of a city. We dealt with the business community. The fallacy of the Export-Import Bank is that Mr. Merrill will come and say, look what we did in Erie, Pennsylvania; we created 700 jobs. But they are not looking at what General Electric did in its entirety. The way sensible government works is you say to the business community, we are prepared to help you. What are you going to do for workers in America? How are you going to grow jobs? Don't tell us you are growing jobs in Erie, New York, when you are laying off hundreds of thousands of people elsewhere, because we do not pay attention to that. We are just looking project by project. That is an absurd philosophy.

I think Ms. Velazquez was right a moment ago in saying job creation is taking place among small businesses, medium-size businesses. What about telling the large corporations that if they are not interested in growing jobs in the United States of America, you are not going to support them; that if they want money from the taxpayers of this country, we will help them when they tell us and promise us they are going to start growing jobs in America, not one project while they are laying off hundreds of thousands of people elsewhere.

Now, to add insult to injury, I gather with a straight face, Mr. Merrill, you are telling us that the Export-Import Bank, did I hear you correctly, is the agency of last resort for loans?

Mr. MERRILL. Yes.

Mr. SANDERS. Okay. You are telling the American people.

Mr. MERRILL. We are the lender of last resort.

Mr. SANDERS. Excuse me. I heard what you said. You are going to tell me with a straight face that General Electric, which itself is one of the largest financial institutions in America, cannot get loans anyplace else but from the taxpayers and the workers of America, many of whom have lost their jobs from General Electric?

Are you going to tell me that with a straight face that GE is a struggling small business, a minority business in the barrio of New York, and they just cannot find financing, look as hard as they can. Poor GE. You are going to tell me that and the American people with a straight face?

Last question that I would have for you, okay. This is such an absurd argument that only in Washington, D.C. would anyone regard this as a vaguely rational argument. I would hope and appreciate your giving me a list of the top 10 recipients of Export-Import funding and tell me how many hundreds of thousands of jobs those companies have lost, laid off; how many hundreds of thousands of American workers they have laid off.

[The following information can be found on page 180 in the appendix.]

Mr. Chairman, I want you to respond. Mr. Chairman, I think it is time to end this joke of the Export-Import Bank. What we need is serious help for small-and medium-size businesses in this country who want to grow decent-paying jobs in America, who are proud of American workers, not companies like GE who are announcing to the world that they are going to China; they are going all over the world; and they are going to lay off American workers.

Mr. Merrill, tell me why the American taxpayer should be supporting a company like GE who has laid off hundreds of thousands of workers and whose CEO announces to the world he is going to China. Tell me why.

Chairman KING. The gentleman's time has expired. Mr. Merrill will have the opportunity to answer the question.

Mr. MERRILL. There is limited time. I can only say that I agree absolutely with Congresswoman Velazquez that the job creation in the United States for a very long time, quite a few years before I got here, has been mainly or almost completely small business. That is why we are so focused on small business. I could not agree more. Our object is to create as many small-and medium-size business jobs as we possibly can and support as many of the 240,000 exporters as we can. I want to put that on the record.

Second, I think the quickest answer is with a number. I will just leave the one number here. Thirty-five years ago, the U.S. exported $42 billion worth of things. For the last 3 or 4 or 5 years, we have exported $1.1 trillion worth of things, out of an $11 trillion economy. Roughly speaking, $1.1 trillion is about the same size as the entire economy of China. It is three times the total economy of Russia. It is a lot of exports. So the movement toward exports, any way you want to measure it, has substantially created American jobs with or without Ex-Im Bank support. I will just stop there.

Mr. SANDERS. You did not answer my question.

Mr. MERRILL. Say again?

Mr. SANDERS. You did not answer my question.

Chairman KING. The time of the gentleman has expired.

Mr. Manzullo?

Mr. MANZULLO. Thank you.

Before I ask my question, perhaps I can answer it. In the district that I represent, we have a $256 million Boeing presence; $110 million Caterpillar presence; $95 million John Deere presence. Those companies support hundreds and hundreds of small machine shops and mom-and-pop shops throughout the entire district. Whenever one of those machines goes over, whenever an aircraft goes over, that represents thousands of jobs in my district that are all small businesses.

Mr. MERRILL. Thank you.

Mr. MANZULLO. I know that perhaps this will not help Mr. Sanders in his answer, but I do know this, that every time a Boeing aircraft is sold to China or any other place in the world, and China is buying more Boeings this year than America, that represents thousands and thousands of jobs. In the district that I represent, we are at 11 percent unemployment. It just dropped to 10.6 percent, and hopefully next month we will be in the single-digit unemployment. Were it not for the sale of aircraft and this giant machinery which is supported by Ex-Im, I can tell you our unemployment would be 20 or 30 percent.

So thank you for your leadership of the Ex-Im Bank. I especially want to thank you for the job that you are doing with regard to small businesses. I do not know of one small business that has been turned down by Ex-Im Bank because they are too little. Perhaps they did not fit into the parameters, but they are always given a fair shake. They get good service on it, and I think you are doing a great job just to be off .03 percent on your goal for the total dollar amount. I think that is exemplary what you are doing there.

Did you like that?

Mr. MERRILL. I thank you for the support.

Mr. MANZULLO. You bet.

Mr. MERRILL. I am honored and flattered. Thank you, thank you, thank you.

Mr. MANZULLO. You bet. Now, I have just a couple of very short questions of Phil. Last year, the Ex-Im Bank, normally they designate one person on the board that is the small business person. We heard that former Senator Cleland was going to be that person.

Mr. MERRILL. Yes.

Mr. MANZULLO. Is that correct?

Mr. MERRILL. That is correct. He wants to do it.

Mr. MANZULLO. Okay.

Mr. MERRILL. He served on the Small Business Committee.

Mr. MANZULLO. That is correct. So he is still the designated person on that?

Mr. MERRILL. Yes.

Mr. MANZULLO. Great.

The second question is, Ex-Im has been working with the business community to develop a new and approved dealer-distributor financing program over the past year that will benefit the small- and medium-size equipment manufacturers, sort of floor financing overseas. Given the strong support for the program, can you tell us when we can expect the dealer financing program to be available to our manufacturers?

Mr. MERRILL. Very shortly is the answer. The floor planning issue is one I understand. The issue at stake is being resolved. I cannot say definitively, but we think it will be resolved. The issue is whether the creditor, the floor planner, that is, the distributor in let's just say Ecuador that takes the Caterpillar tractor, or the ultimate customer to which they are sold are the buyers. And that is being worked out. That is the remaining issue.

Mr. MANZULLO. Okay. So it is working out the legals of it, but the desire to do it is all set there?

Mr. MERRILL. The desire to do it is there. We are going to get it.

Mr. MANZULLO. Thank you.

I yield back my time.

Mr. MERRILL. We are going to get it, with as much executive force as I can put behind it, which is not inconsiderable. We are going to try to get it done.

Mr. MANZULLO. Okay. I appreciate it.

Thank you. I yield back.

Chairman KING. Thank you, Mr. Manzullo.

Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman.

Thank you, Mr. Merrill, for being here. I have generally been a supporter of the Ex-Im Bank, but have a couple of questions that hopefully will help me understand a couple of things.

First of all, the name of the Bank is Export-Import Bank. I notice that you gave us all the figures on exports and no figures on imports. Is the name of the Bank inappropriate or do you all keep some records having to do with the extent of imports that the Bank supports? Or do you all support any imports?

Mr. MERRILL. It is a wonderful question. Obviously, you think clearly and logically. The answer is that to change the brand name of Ex-Im would be like taking the "Cola" off Coca-Cola.

Mr. WATT. I understand that. That is the public relations statement.

Mr. MERRILL. Yes, I understand.

Mr. WATT. Are you saying that the name of the Bank is misleading? You do not do any support of imports? Is that the bottom line?

Mr. MERRILL. No, we do not.

Mr. WATT. Okay. That is fine.

Mr. MERRILL. I will tell you separately later why.

Mr. WATT. Okay. It was not a trick question.

Mr. MERRILL. No imports; all exports.

Mr. WATT. All exports.

The second question was, you indicated, and I tried to find it in your prepared testimony, but could not find the exact wording of what you said in your oral testimony, that Ex-Im Bank operates only where businesses will not or cannot go without assistance or something to that effect.

Mr. MERRILL. Can I straighten it out?

Mr. WATT. Yes, tell me what you said, first, and then I want to ask a question.

Mr. MERRILL. I am very careful not to interrupt a Congressman when he is talking.

What I said was that we only go, we only finance where private capital will not go alone.

Mr. WATT. Okay. I thought that is what you were saying. In this context, I think Mr. Sanders's question about loans to GE and other major, particularly companies that provide financing themselves, either puts you in a situation where the statement that you just made is not true, or the Export-Import Bank is an influence in markets that if you think theoretically would not be an appropriate influence in a free trade context. You are shoring up things that if the market would take care of itself, which most free traders think it should, would resolve itself. Am I missing something here?

Mr. MERRILL. No, you are not. You got it right. I would probably be in that camp.

Mr. WATT. Okay, well then——

Mr. MERRILL. Wait a minute. I have to get one phrase out here. If there were not 28 other countries providing——

Mr. WATT. Okay. That is actually the question I am driving to. Is this really the assistance that the Export-Import Bank is providing a subsidy? And if other countries are doing the same thing, why wouldn't it be a subsidy if they are doing it, and why wouldn't the WTO consider that inappropriate in this free trade international trade world that we are living in?

Mr. MERRILL. The WTO has carved out an exception for the OECD. We have a common arrangement. It is called the Arrangement with the other OECD countries under which we have agreed to common terms, that is long-term loans, 12 years roughly, medium-term and so forth, and common financing arrangements, within certain parameters.

Mr. WATT. But those are on strictly business terms, I would think, not subsidized market terms where ordinary business would not go. Isn't this a market subsidy?

Mr. MERRILL. We are not subsidizing anybody. The Bank, does not subsidize anybody. They pay a fee for us, for political insurance or for risk insurance. If you know somebody who wants to take Bechtel's position or the $160 million we put into the BTC pipeline in Azerbaijan——

Mr. WATT. But isn't the whole philosophy of free trade to allow the market to take care of its own risk? Why should the government be playing that role?

Mr. MERRILL. Theoretically, Congressman, I agree with you. Practically, Boeing has to compete with Airbus; Caterpillar has to compete with——

Mr. WATT. But if all countries withdrew from this, wouldn't that leave us where you say the market should be in a free market context?

Mr. MERRILL. Yes, it would.

Chairman KING. The time of the gentleman has expired.

Mr. MERRILL. Yes, it would. Can I get one crack at your final question?

Mr. WATT. He wants to give it one final context. I think I am laying a platform for where Mr. Paul is probably going to go anyway. I am sounding very libertarian at this point.

Mr. MERRILL. Just let me say, this is a stretch analogy, but you would not need any policemen if there were no criminals either. I mean, the fact that you have all these countries——

Mr. WATT. It sounds like the Export-Import Bank is the criminal here, not the policemen.

Mr. MERRILL. That is why it is a stretch analogy.

Mr. WATT. Okay. All right.

Chairman KING. Now that Mr. Watt has laid the foundation and the platform, Mr. Paul?

Mr. PAUL. Thank you, Mr. Chairman.

Welcome, Mr. Merrill.

Mr. MERRILL. Thank you.

Mr. PAUL. You said the gentleman from North Carolina speaks clearly and logically.

Mr. MERRILL. Thanks.

Mr. PAUL. That is good and I will not contest that. But I want to see if I can get the same compliment, so I am going to try and follow-up. I notice in our memorandum from our staff here in the committee, it states tensions exist between the Bank's mission and the United States's commitment to free markets. I would say yes, there certainly are tensions. There is a contradiction. There is a real conflict. I think you indicated maybe that we should not use the word "subsidies" too generously, and yet the Bank would not come to the Congress for appropriations and authority if somebody did not get some specific benefits. So I think there is always a special benefit which is a subsidy, whether or not it is in cash. Maybe it is a competitive edge, and there is always a cost. There is involved here an allocation of credit, and the victim is never found, never seen. Especially in an area where there is tighter credit, there are victims that suffer. Although there may be a small businessman who gets the benefit, there is some other small businessman who is getting a disadvantage from the subsidy.

My question is, how can you rationalize support for this organization? Because we on our side, we are supposed to be the champions. They are not supposed to be the champions of the marketplace. We are. We are supposed to be the champions of the marketplace. We are not champions of subsidies. We declare freedom and free markets and less government, and yet we are pushing all this and we give all these programs.

So don't you think for your support of this organization, don't you have to do a lot of rationalization and reject some of the very principles that we stand for?

Mr. MERRILL. There are two answers to that question, congressman. Yes, that is a perfectly logical and clear set of principles with which it is hard to argue. I would not argue. I think that answer number one is practical. When a small businessman, I am sorry that Congressman Manzullo left, but when a small businessman in Moline, in a specific case, exported $20 million worth of trucks to Uzbekistan, no bank is going to finance that without a government guarantee. Do we want to make the sale or do we want to have a French or a German or an Italian company make the sale?

Theoretically, you are absolutely right. I agree with you. Practically, I want the guy in Moline to make the sale.

Mr. PAUL. So your argument is that freedom is impractical, which I disagree with.

Mr. MERRILL. I did not say that.

Mr. PAUL. Well, indirectly. But let me follow up with another one, and maybe I will get a little bit further on this next question. I am interested in the Trade Bank of Iraq. That has been set up. We waste no time in trying to get some benefits in there, maybe to our corporations. It has been set up at $500 million. Has that been used yet? And if it has been, has any corporation been participating in Iraq?

Mr. MERRILL. There has only been one use so far, but the Trade Bank of Iraq, which basically we initiated. Peter Saba, Chief Operating Officer, did the basic legwork, I would say. We put $500 million into it, or against it. We raised another $2 billion, $500 million from Japan, $250 million from Italy, and 15 other countries. So far, there has only been one, a consortium of 13 banks administered by J.P. Morgan which won the contract, not with us, but with the Coalition Provisional Authority.

There has only been one contract so far to the U.S.; that was $15 million. I hope you have a sense of humor for this, for a fogging machine out of the United States; a set of fogging machines; 200 of them. The problem is very simple in Iraq. First, either the taxpayers are going to put up the money or there is going to be foreign investment which is going to pump oil or invest there.

The three issues are sovereignty, security, which is obvious, and precedence over existing debt. Under the current circumstances, Iraq has $125 billion in existing debt and $30 billion in unpaid compensation awards plus additinal outstanding claims. So companies are understandably unwilling at the moment, or reluctant, to invest over the long term there. Nevertheless, we want to be prepared for when the government, the hand-off takes place and the debt is supposed to be written off by the Paris Club at the end of the year. Whenever a government comes into Iraq, we want to be prepared to make available lending.

One other thing I have to explain, and that is the Trade Bank applies not only for U.S. exporters, but for exporters from other countries as well, any country. It is multilateral. It is not U.S.-only.

Chairman KING. The time of the gentleman has expired. In the interest of fairness, if you want to keep up with your partner, Mr. Watt, you can take one more question.

Mr. PAUL. No, I am not going to.

Chairman KING. Okay. Thank you.

Mr. MERRILL. I thank you both.

Chairman KING. This is new access, Mr. Paul, a broad access here in the committee.

Mr. Merrill, I want to thank you for your testimony this morning. It has really been helpful to us. I would note that some members may have additional questions for you. They can submit them in writing and the record will remain open for 30 days.

With that, I thank you for your testimony and the subcommittee stands adjourned.

[Whereupon, at 11:09 a.m., the subcommittee was adjourned.]

A P P E N D I X

May 6, 2004

Remarks Prepared for Delivery by
Chairman Peter T. King
Subcommittee on Domestic and International Monetary Policy

Oversight Hearing of the Export-Import Bank

May 6, 2004

The Subcommittee meets today to conduct general oversight of the Export-Import (Ex-Im) Bank of the United States. This is the first oversight hearing since the 2002 reauthorization act, and we are pleased to have the Honorable **Philip Merrill**, president and chairman of the Export-Import Bank, testifying before us today.

Chairman Merrill brings a broad range of experience in both the public and private sectors to the Bank. Having served in six previous administrations in various capacities, we are fortunate to have such a distinguished witness before the Subcommittee today.

As the chief U.S. government agency tasked with financing American exports, Ex-Im Bank provides American exporters assistance needed to compete with their foreign competitors, and often serves as a "lender of last resort." The need for this agency stems from political or commercial uncertainties in foreign markets, and competing governments subsidizing their export financing, thus creating an unfair playing field in the marketplace. This is achieved by offering credit insurance, working capital and loan guarantees to U.S. exporters.

Obviously, the overall goal of the Bank is to use its authority and resources to create and sustain American jobs. Over the last five years, 311 New York companies received assistance from Ex-Im. In my district on Long Island, 13 small businesses have benefited from the programs offered by the Bank – I hope this number increase in the future.

The Bank is not with without its problems, however, and was made aware of them during the 2002 reauthorization. It's been two years since President Bush signed into law legislation reauthorizing ExIm Bank, and I am interested in the Chairman's comments on how the Bank has utilized its new authority to assist small businesses while creating and sustaining American jobs.

It is my understanding the Bank reached 19.7 percent of its 20 percent goal for financing small business exporters. I am curious to hear the Chairman's comments on whether he views the 20 percent figure as a floor or a ceiling and if more can be done to reach this level of financing for small businesses.

As you are aware, the 2002 reauthorization measure also requires the Bank to have on-line transactions for its customers. This is extremely important for small businesses lacking staff to deal with the paperwork and other bureaucratic hurdles when seeking assistance. I am interested in the current status of the Bank's efforts to offer their products electronically.

Lastly, I am concerned over the lack of an Inspector General for Ex-Im. As you know, the 2002 reauthorization act established a presidentially appointed Inspector General for the Bank, yet two years have passed and nothing has been done to fulfill this provision of the law. I'm not sure if this an appropriation issue or priority issue, but I'd like to hear your comments on this matter as well.

Again, thank you for taking time out of your busy schedule to testify today. I'd like to commend you on all your hard work up to this point and look forward to working with you as the Bank celebrates its 70th anniversary.

With that, I yield to the gentle lady from New York, Mrs. Maloney.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Domestic and International Monetary Policy, Trade and Technology

"Oversight of the Export-Import Bank of the United States
May 6, 2004

Good morning. As Chairman King has observed, this is the first time that the Committee has conducted an oversight of the Export-Import Bank of the United States under its new reauthorization legislation. This is a good time to conduct such a hearing. The Ex-Im Bank has had two years to implement the new legislation and thus we can evaluate its performance. The Bank will then have another two years to work on issues raised during this hearing before we begin the reauthorization process again in 2006.

I would like to begin by thanking Chairman Merrill and the staff of the Ex-Im Bank for all their hard work in support of U.S. businesses and their exports. Continued strength and growth of the American economy depends critically on the ability of all U.S. manufacturers, large and small, to export their goods and services to the rest of the world. In its 70th anniversary year, the Bank's efforts to promote growth in U.S. jobs through exports should be commended.

The Bank plays a critically important role in supporting U.S. manufacturing and exporting firms. It is no secret to anyone that the United States has a long-standing policy of promoting free trade and free markets. We as a country tend to believe that the private sector can find more efficient and innovative ways of doing things than a government bureaucracy and that the government's role in the market should be minimal.

Not all governments around the world share that philosophy, however. Many export credit agencies around the world believe their role is to intervene in the private markets and help private companies secure contracts that they would not otherwise win without government support. I understand that some foreign export credit agencies are today aggressively soliciting U.S. firms to relocate away from the U.S. so that the company can take advantage of more interventionist export finance programs abroad. I commend the Administration and the Ex-Im Bank for their efforts within the OECD to curtail this kind of activity.

The Export-Import Bank of the United States exists to level the playing field and help U.S. companies compete with foreign firms that receive this kind of support. The manufacturing sector in this country is a significant source of innovation, patent development and, therefore economic growth. We cannot permit potentially unfair competition to undercut this important activity. We should not accept that possibly unfair competition will require hard-working Americans doing a good job to be unemployed.

Oxley, page two
May 6, 2004

American workers benefit from free trade. The U.S. Department of Commerce indicates that U.S. jobs supported by exports pay 13 percent to 16 percent higher than the national average. Foreign companies employed 6.4 million U.S. workers in 2001. In addition, the Organization for International Investment reports that the average wage of a U.S. employee of a foreign company operating in the United States was $65,000, which is 16 percent higher than U.S. employers' average. In other words, jobs in companies that export pay more money to their workers, increasing domestic consumer resources, than companies that do business only in the United States. The Ex-Im Bank's role in helping U.S. companies export the finest goods in the world is to be commended.

I would also like to draw attention to the Bank's work in Africa and the Middle East. The Bank has established an office in Africa to support American exports to that region. It has taken significant steps to support the reconstruction of the Iraqi economy by establishing a Trade Bank for Iraq. These actions demonstrate a commitment of the Bank to be on the ground in places where both American and foreign interests can mutually benefit from a trading relationship. I know that supporting transactions for Highly Indebted Poor Countries can be complex, and I look forward to learning how the Ex-Im Bank balances the need to mainstream these countries back into the stream of international trade when they graduate from the HIPC process.

Our purpose today is to review Ex-Im's progress in the last two years in meeting a variety of legislative mandates. Here, the record is mixed and I would like to share with you some questions and concerns.

- <u>Support for Small Business</u>: While I am encouraged to learn that over 80 percent of the Bank's transactions have been to small and medium-sized companies, I am deeply concerned to learn that still the Bank did not manage to meet the 20 percent statutory threshold for supporting these businesses. I agree with Chairman King that the 20 percent threshold should be viewed as a floor and not a ceiling for transaction targets. I look forward to hearing Chairman Merrill's suggestions for how the Bank plans to increase its support of small and medium-sized exporters. In particular, I understand that the Ex-Im Bank just executed a memorandum of understanding with the Small Business Administration in an effort to increase its outreach to small businesses. This was a document almost ten years in the making, which is much too long for America's small businesses to wait. I wonder whether there are ways that the Ex-Im Bank can work more efficiently and effectively with the wide range of U.S. government entities that share a mandate to support American exports abroad.

- <u>Inspector General</u>: I am also deeply concerned to learn that the Bank has not managed, in the two years since the reauthorization legislation, to create an inspector general. The Bank is the largest federal government entity without an inspector general and I look forward to hearing Chairman Merrill's explanation of why the Congressional mandate has not been implemented. I support subcommittee Chairman King and the full Committee's Vice Chairman Kelly in their efforts to find out whether there is something more this Committee can do to ensure that an inspector general is appointed and the function is up and running as soon as possible.

Oxley, page three
May 6, 2004

• Steel: I am also surprised to learn that ambiguity continues to exist regarding the Bank's ability to engage in transactions that support the steel industry. The reauthorization language, the legislative history, and explanatory letters from Members of Congress have made it clear that the Bank is restricted in its ability to support increased steel production if the product or "substantially the same" product affected by the transaction is subject to a trade remedy (such as an anti-dumping or countervailing duty). We tried to make it very clear that this language sought to restrict the products supported by Ex-Im programs not just to the product covered by a trade remedy but also to products one step above or below. I understand that at least four steel transactions are or have been within the Ex-Im Bank pipeline in the last year. I trust that all four transactions are consistent with this "one-step-up-or-down" standard.

• Appropriations Volatility: I note that there has been a significant amount of volatility in the Bank's appropriations requests in the last few years. In FY2003, Congress appropriated $513 million for the Bank's credit subsidy which supports the loans, guarantees and insurance products for the Bank. For fiscal year 2004, no appropriations were requested since the Bank carried over loan subsidies and funds from cancelled transactions during the prior year. The Administration request level for fiscal year 2005 for the Bank is $125.7 million. I would like Chairman Merrill to explain this variance. How does the Bank estimate its projected needs and are there better ways to minimize this kind of volatility?

Congratulations again, Chairman Merrill, for all your hard work and for the Bank's success to date in its 70th anniversary year. I hope you and your colleagues find this hearing helpful in identifying priorities and issues where Members of Congress believe more can be done to fulfill your legislative mandate.

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Congresswoman Barbara Lee
Statement and Talking Points for DIMP – ExIM Bank Hearing
May 5, 2004

Thank you Mr. Chairman.

Let me first thank my colleagues, the Chairman and Ranking Member for their work in organizing this important hearing today. I think it's important that we continue to hold oversight hearings like this today so that we can ensure that Congressional intent is adhered to.

That being said, thank you Chairman Merrill for your testimony before the committee today. I also want to recognize and thank you and your staff at the Export-Import Bank for participating in a forum last year during the Congressional Black Caucus' Annual Legislative Conference.

Questions:

1) Minority and Women-Owned Businesses:

As you know Chairman Merrill, I'm particularly interested in examining the extent to which the Bank has been involved in outreach to minority and women owned small businesses.

I recently reviewed the Ex-Im bank's 2003 Annual Report and I was especially disappointed to find that the information regarding the description of the Bank's outreach efforts to socially and economically disadvantaged businesses was not included in the bound and printed version of the report.

When I flipped to the end, I was surprised to find that this information was stapled on as an addendum to the FY03 Annual Report.

Even though this information was specifically required by Congress in last year's authorization, it seems as if the Bank only included it as an afterthought.

And when I read through this information more closely I was also disappointed by the content.

It says that "in FY 2003, Ex-Im Bank participated in a wide-range of trade shows, seminars and conferences focused on woman-owned and minority-owned businesses".

It then goes on to list a few such events, "including the U.S. Hispanic Chamber of Commerce Annual Conference, the National Minority Supplier Development Council Annual Conference, the Center for American Indian Enterprise Development Annual Conference and the Women's Business Enterprise Annual Conference."

This is essentially one paragraph.

Nowhere in this report do you lay out the kinds of applications or solicitations that your participation in these conferences generated.

Nor do you describe or summarize any loans or businesses dealings made with minority or women owned business.

Also lacking in my judgment is information on how Ex-Im would plan to expand its outreach programs in Fiscal Year 2004 beyond maybe attending a few more conferences.

I should mention that the addendum indicates that Ex-Im now employs ***one*** full time business development officer who focuses solely on outreach to women and minority owned business, which I suppose is an improvement.

But the rest of the report focusing on this subject talks mostly about general outreach to small businesses, and then briefly mentions the seminars and symposia that are sponsored by the bank to reach underserved businesses.

Q: But who exactly participates in these seminars and symposia? How does the Bank generate interest and attendance for these events?

I was looking forward to your testimony today to see if I could get a few of these answers that I was looking for, but in your prepared remarks I see that you've essentially rehashed what was included on the subject as an addendum to the Annual Report.

The one difference of course, is that you highlight Bluefield Associates of Ontario, California – a minority owned firm exporting to Sub-Saharan Africa, and your designee for small-business exporter of the year.

Chairman Merrill what I would like to hear from you and your staff at Ex-Im is specific information on the kinds of projects that the bank's solicitation of minority and women-owned businesses has generated, including the location of such companies, the method by which they learned of the financing opportunities provided by the bank, the region or country in which the company seeks to export, the amount which was requested, and the final outcome of the application.

I think once we have that information we can get a clearer picture of the kinds of outreach efforts that the bank has undertaken apart from a list of conferences that were attended.

Q: Can you provide this type of information to the committee, and why was this not included in the annual report provided to Congress?

2) Role of the Sub-Saharan Advisory committee

Another issue I would like to focus on, as an extension of the outreach work of the bank to minority owned businesses, is the work of Ex-Im's Sub-Saharan Africa Advisory Committee (SAAC), which you alluded to in your prepared remarks.

To my knowledge, the SAAC provided 15 recommendations on practical ways to improve the banks ability to finance exports to Sub-Saharan Africa. In your remarks you say that you are "actively evaluating those recommendations". But from what I've heard and read of the minutes of the SAAC hearing on February 11th, most – if not all – of those recommendations were considered and rejected.

I understand that there was a meeting of the SAAC yesterday, and I look forward to hearing what occurred there, as I had seen that the top item on their agenda was to discuss the response of the Ex-Im Bank management to their recommendations.

Q: How do you view the role of the Sub-Saharan Africa Advisory Committee, and what can you tell this committee today about the Bank's views of the recommendations that the SAAC has made? If you can, please go through each of the recommendations one by one.

3) Revisions to Ex-Im's Environmental Guidelines:

If you remember, back in February of last year Rep. George Miller and I, along with 20 of my colleagues sent you a letter expressing our deep concern with Ex-Im's proposed financing of the Camisea Gas Project in Peru.

While that proposal was ultimately rejected by the bank, most people will agree that Ex-Im's handling of the proposal to finance the Camisea pipeline caused headaches for everyone involved, including the investor companies, Ex-Im itself, and other Administration officials. Camisea underscored the need for clearer and more binding guidelines for Ex-Im's environmental review process.

Q: EX-IM's environmental guidelines were originally slated to be revised by March 31, 2004. Why was this deadline extended at the Board of Directors meeting of April 1st to June 30? What is the status of EX-IM's evaluation of its environmental guidelines and procedures?

Statement of Rep. Carolyn B. Maloney
Ranking Member
Subcommittee on Domestic and International Monetary Policy, Trade and Technology
May 6, 2004

Thank you Chairman King for holding this oversight hearing on the Export-Import Bank. Good morning Chairman Merrill.

I thank you for joining the Subcommittee this morning, it's a pleasure to see you again. I enjoyed our meeting in my office last year after your appointment. I think today's hearing is especially appropriate given the importance of the Ex-Im Bank's mission of support of U.S. exports abroad.

My good friend John LaFalce always reminded this Committee on this topic that the Bank is actually improperly named as is sole mission is to support U.S. exports, which keeps jobs here at home. The Bank does not play a role in encouraging additional imports in to the U.S. Your mission is so important today because our country is handicapped by such a massive trade deficit.

In the era of half billion dollar trade deficits and outsourcing of information-based jobs I believe support for Ex-Im Bank is moreimportant than ever and I am pleased to have played a role in the Bank's latest authorization.

In the authorization in 2002, we included some very important mandates that I believe will make the bank stronger. Specifically, Congress dictated that 20 percent of Bank support must go to small business. I am pleased that the Bank has come close to this goal, hitting 19.7 percent in 2003.

I do look forward to the Chairman's comments on why the Bank has not yet fully implemented its automation program for small business that will make it easier for them to access the Bank. Talking to my constituents, I have been informed that the Bank may be attempting to shift more risk for small business lending onto private banks within the Working Capital Program. I want to hear from the Chairman on this issue.

I am also pleased that the authorization included a new commitment to the Bank's existing mandate to support exports to Africa and imposition of new safeguards on transactions that may fall under an existing countervailing duty, anti-dumping or Section 201 ruling.

The authorization also included an amendment I offeredin the Financial Services Committee giving the bank *explicit* authority to turn down an application for Ex-Im Bank support for companies that have a history of engaging in fraudulent business practices. I am interested to see if this is being used.

Finally, I am very pleased that the Bank decided against supporting the controversial Camisea project in Peru. More generally, I am also interested in the role that Exim is playing on OECD environmental standards. One of the main reasons that I believe the Bank is important to the U.S. is that it levels the playing field with foreign export credit agencies (ECAs)such as those in Japan, Germany, France, Canada, and other countries.

In 2000, the ECAs support from OECD nations totaled $58 billion in long-term export credits. In today's increasingly interconnected, global economy the U.S. must not fall behind the international competitors. In my own district the Bank has supported $2,952,247,329 from October 1994 to April 2004. I thank the Bank for its support of New York City and I look forward to working on keeping this relationship strong.

I thank the Chairman and I yield back the balance of my time.

Statement of Congressman Bob Ney
For the Subcommittee on Domestic and International Monetary Policy Hearing on The Export-Import Bank

Mr. Chairman, thank you for holding this important hearing on the Export-Importent Bank of the United States. This hearing is very timely and necessary. The Ex-Im Bank serves an important role in ensuring that U.S. exporters compete on a level playing field with subsidized foreign competitors. The Ex-Im Bank provides financing and loan guarantees for exporters so that they can venture into new markets and offer competitive terms for U.S. exports. These activities are important for the growth of our nation's economy.

Despite its good work, I do have grave concerns that at times the Export-Import Bank has been pursuing exports to the detriment of American jobs. In 2000 the Ex-Im Bank had helped finance the sale of steel equipment to China, to contributing to global overcapacity during the height of the steel crisis in the United States. Following that deal, the Ex-Im Bank attempted to finance the sale of steel producing equipment to Turkey in 2001, which would have further exacerbated the global steel crisis. Thankfully hard work by members of the Congressional Steel Caucus helped to prevent the loan. However, it highlighted the need for reform at the Bank. With the hard work of people like Pat Toomey and Evan Bayh, we passed significant reforms for the Bank so that it would no longer blindly pursue an exports first strategy that helps foreign countries build the capacity to steal American jobs and dump cheap products on the U.S. market, such as steel, driving whole industries into bankruptcy.

The Toomey-Bayh language conforms Ex-Im lending to current U.S. trade laws by barring any Ex-Im loan or guarantee to an entity for the production of a product that is the subject of a countervailing duty or anti-dumping order or a Section 201 determination by the International Trade Commission. In addition legislation requires the Ex-Im Bank to develop procedures and set up a comment period for loans or loan guarantees to a business which is subject to a preliminary countervailing trade duty or anti-dumping determination of material injury.

Unfortunately, it looks as though these reforms may not have been enough. The Bank recently put out for comment a proposal to finance the sale of steel making equipment to Ukraine. This is in spite of the fact that there are several anti-dumping duty orders in place for steel imports from the Ukraine. Furthermore, the Department of Commerce found in its 2000 global steel trade study, the Ukrainian steel industry "survives in its current form only as a result of the government's willingness to prop up struggling firms, to prevent companies from entering bankruptcy and to keep private investors outside the gates of Ukraine's best steel companies." In addition India and Mexico have submitted requests for Ex-Im financing for steel making equipment.

I am very concerned that the Export-Import Bank just doesn't get it when it comes to protecting American jobs. The Bank is so blindly focused on exporting anything and everything it ignores the fact that sometimes these exports can hurt U.S. workers. Using the U.S. steel industry as an example, foreign producers utilizing cheap labor have been dumping steel on our markets at cut rate prices for years, costing thousands of good jobs in the United States. In spite of that fact, the bank has repeatedly pursued deals that would increase the global steel capacity and give competitors to U.S. steel makers the ability to make steel more efficiently and more cheaply. Essentially the Bank wants to give foreign steel producers, who have been proven to be engaging in illegal trade practices, the ability to take American jobs. This is inexcusable and must change. Congress passed important reforms in the 2002 reauthorization and we must make sure that the Bank follows them.

I believe it is vital that this committee, and this Congress, follow up on the 2002 reauthorization bill we passed to force the Export-Import Bank to begin considering the impact of its deals on American jobs. We all want to see U.S. exports increased, however, we do not want to hand our competitors the technology to take more jobs from U.S. citizens.

Again, I want to thank Chairman King for holding this hearing. He has been diligent in overseeing the agencies under the Financial Services Committee jurisdiction and I look forward to his continued efforts.

STATEMENT BY REP. BERNARD SANDERS ON THE EXPORT-IMPORT BANK May 5, 2004

Mr. Chairman, thank you for holding this important hearing on the Export-Import Bank and I would like to welcome the President and Chairman of the Ex-Im Bank Phillip Merrill for being with us today.

Mr. Chairman, as you know the Export-Import Bank was created in 1934 in the midst of the Great Depression to create decent paying jobs in the U.S. through exports. Unfortunately, over the past several years, the Export-Import Bank has been a complete disaster and has turned into a huge corporate welfare bonanza for some of the largest corporations in this country which have been throwing U.S. workers out on the street and shipping our jobs to China, India and Mexico while receiving billions of dollars in direct loans and loan guarantees from the Ex-Im Bank. This has got to stop.

Mr. Chairman, last year we had a record breaking $489 billion trade deficit. Over the past 3 years, we have lost 2.8 million manufacturing jobs, representing over 16 percent of all factory jobs, including over 10,000 in my State of Vermont. We have also lost over a half million high paying white-collar information technology jobs and we are in danger of losing up to 14 million more over the next decade. The Export-Import Bank claims that over the past 70 years, it has supported $330 billion in U.S. exports. But, Mr. Chairman, in the past 4 years alone we have racked-up a $1.64 trillion trade deficit. That is not record to be proud of.

Is the Export-Import Bank to blame for all of this? Of course not. The North American Free Trade Agreement and Permanent Normal Trade Relations with China have also turned jobs into our number one export. But, the Export-Import Bank is responsible for providing direct assistance to Fortune 500 companies that are among the largest job cutters in the United States.

Mr. Chairman, let me give you just a few examples of what I am talking about:

** Since 1975, General Electric has eliminated more than 260,000 U.S. jobs, while investing over $1.5 billion in China with plans of outsourcing $5 billion a year to China. At the same time, GE has received more than $2.5 billion in direct loans and loan guarantees from the U.S. Export-Import Bank. Now, Mr. Merrill, I want you to listen carefully to a quote from the CEO of General Electric Jeffrey Immelt, and you tell me if they should be receiving Ex-Im assistance: "When I am talking to GE managers, I talk China, China, China, China, China. You need to be there. You need to change the way people talk about it and how they get there. I am a nut on China. Outsourcing from China is going to grow to $5 billion."

And, the previous CEO of General Electric Jack Welch had this to say, "Ideally what you want is to have every company on a barge." This is a man who advertised to the world that he is taking jobs all over the world, laying off American workers. Mr. Merrill, why would we give a company like that Export- Import Bank assistance?

** How about Boeing? Since 1990, Boeing laid off 135,000 workers increasingly outsourcing design work to China, Russia and Japan, while receiving over $18 billion in direct loans and loan guarantees from the Export-Import Bank. Why should the taxpayers of this country be subsidizing a company that is laying off huge numbers of American workers while increasing employment in China, Russia and Japan?

** What about Motorola? Since 2001, Motorola has laid off 42,900 workers and invested $3.4 billion in China, while receiving over $190 million in direct loans and loan guarantees from the U.S. Export-Import Bank. Why give this job cutter corporate welfare?

** Let's talk about General Motors. Since 2001, GM laid off 37,500 workers and invested $3.5 billion building manufacturing plants in China, while receiving over $500 million from the U.S. Export-Import Bank in direct loans and loan guarantees. GM has recently announced that it will be buying $6 billion in auto parts from China every year, up from $2.8 billion last year.
** IBM. Since 2001, IBM laid off over 15,000 U.S. workers and signed deals to train 100,000 software specialists in China over the next three years, while receiving more than $20 million from the U.S. Export-Import Bank.

** Halliburton. While Halliburton laid off 10,000 workers when they merged with Dresser, and has used foreign subsidiaries to evade U.S. taxes, they and their subsidiary Kellogg, Brown and Root received $551 million from the Export-Import Bank since 2000.

And the list goes on. Dozens of America 's largest corporations are receiving taxpayer assistance from the Export-Import Bank while they move our jobs abroad.

Mr. Chairman, last Congress I worked with the former Chairman of this Subcommittee Doug Bereuter to reform Ex-Im. We introduced legislation that would have prohibited the Ex-Im Bank from providing assistance to companies that lay off a greater percentage of U.S. workers than they do abroad. This bill was scheduled for a mark-up. We were on our way to providing meaningful reform that would have protected U.S. workers. Then, the business community caught wind of the bill and the rest is history. The mark-up was cancelled. The reform never took place. And, more of our jobs have been lost to China, India and Mexico while the job cutters continue to receive billions in assistance from the Ex-Im Bank.

But, the fight goes on. This Congress I have introduced H.R. 3888, the Defending American Jobs Act, with 67 tri-partisan co-sponsors. This bill would prohibit the federal government, including Ex-Im, from providing loans, loan guarantees or grants to companies that are laying off a greater percentage of U.S. workers than they do overseas. The time for this legislation is long overdue. While it will not solve the whole problem, it will at least put an end to government subsidies to companies that are shipping our jobs abroad. It is time to stop digging our own graves. With that I thank the Chairman, and I look forward to listening to Mr. Merrill's testimony.

STATEMENT OF
PHILIP MERRILL
CHAIRMAN AND PRESIDENT
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE AND TECHNOLOGY
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

MAY 6, 2004

Mr. Chairman, Representative Maloney and Members of the Subcommittee:

I am pleased to be here today to report on the progress the Export-Import Bank of the United States ("Ex-Im Bank" or the "Bank") has made in achieving our mission as set forth in our Charter. The Export-Import Bank Reauthorization Act of 2002 was the result of extensive effort and cooperation between Members of both parties in both the House and the Senate. I especially want to acknowledge the role of this Subcommittee as well as the Full Committee on Financial Services. Both Members and staff put in many long hours to get the job done.

The Act reaffirmed the Bank's basic roles and responsibilities in financing and facilitating exports of goods and services, and in so doing contributing to the employment of United States workers; in establishing a reasonable assurance of repayment before approving a transaction; and in supporting all businesses, large and small, in their efforts to create jobs through exports. It also reaffirmed that the Bank is *demand driven*. This means that as long as transactions meet our criteria of creditworthiness and our environmental guidelines we generally do not pick and choose which transactions to approve.

Everything that we are doing, we aim to do better. We are focusing on three key priorities: **putting customers first, improving cycle time, and expanding support for knowledge-based and services exports.** In putting customers first, we are implementing the three guiding principles President Bush has set forth for government – namely, that it should be citizen-centered, results-oriented and market-driven. For Ex-Im Bank, putting customers first means ensuring that every customer receives quick answers and clear responses. We have assigned relationship managers to assist customers that do a high volume of business through Ex-Im Bank in order to ensure consistent processing. And as I will discuss below, we have made our Website easier to use, with improved access to information, applications, and contacts at Ex-Im Bank.

By improving cycle time, Ex-Im Bank is particularly focused on reducing our transaction processing ("cycle") time in order to help our customers offer timely financing to their buyers. As any exporter knows, timeliness can mean everything when you are competing for international sales. To improve cycle time, Ex-Im Bank is simplifying applications for financing products that most benefit small business exporters. We are also modernizing other systems and procedures.

By expanding support for knowledge-based and services exports, the Bank shows that it is keenly aware of the importance of the new high-technology and services industries. We are working with exporter and financial groups to determine how we can best increase export financing for those industries. In each of the past eight years, we have supported between $1 billion and $2 billion per year of U.S. services and high-tech exports.

We have made real progress in meeting these goals. I would like to provide you with a brief overview of achievements at Ex-Im Bank since the 2002 reauthorization.

Introduction

The Export-Import Bank Reauthorization Act of 2002 was signed by President Bush in June 2002. In FY 2002, the Bank supported $12.95 billion in exports, and in FY 2003 $14.3 billion. This year, FY 2004, we estimate that we are going to support $15.6 billion in exports. For FY 2005 the Administration has requested $125.7 million for our program budget which, when combined with carryover funds from prior fiscal years, will provide us with a program budget of $471.4 million to support an estimated $16.3 billion in exports. We are very encouraged by this steady upward trend. Those amounts represent U.S. jobs that we support by meeting official export assistance offered by our major competitors, and by stepping in when commercial banks will not assume the financing risks in markets that still provide opportunities for our exporters.

It has been suggested that there is occasional "volatility" in the Administration's request for Ex-Im Bank's program budget from year to year. That is basically due to two factors. First, as I said above, we are demand driven. That means that we have to base our budget estimates on the projected needs of our customers – exporters and bankers. In keeping with the budget cycle, those estimates begin a full 18 months before the beginning of the fiscal year in which the program budget may be expended. Obviously, a lot can change in the world economy in that time span. Major markets may be downgraded on even closed, or they may be upgraded. Major sales may be lost or won.

In recognition of the fluctuations inherent in the budgetary system, Ex-Im Bank has been permitted four-year carryover authority for its program budget. That means that unused funds resulting from overestimates may be used in future years to cover unforeseen increased risk or to lower the request for new funding. We have found that this system works very well.

We can facilitate exports in several ways. Ex-Im Bank guarantees financing and extends credit directly to international buyers to facilitate purchases of U.S. goods and services. The Bank also provides working capital financing that enables U.S. exporters to obtain loans that provide them with the needed liquidity to grow their international sales. And Ex-Im Bank's export credit insurance programs enable exporters to increase their export sales by reducing nonpayment risk and giving them the ability to extend competitive credit terms to foreign buyers.

Our working capital and insurance programs are particularly useful in targeting the needs of small businesses. And while I am going to detail our small business efforts below, I want to stress the following point now. We are well on our way to meeting the Congressional target of having 20% of the total dollar value of Ex-Im Bank's authorizations directly benefit small businesses. For FY 2003, the number was 19.7%. Additionally, over 80% of our transactions directly benefit small businesses.

The key to reaching our small business goals is our administrative budget. It is through full funding of this budget that we are able to support our outreach programs and the improvements to our information and technology programs. For FY 2005, the Administration is requesting $73.2 million, which is less than $1 million over the level for the current year, FY 2004.

I would now like to review some of the matters raised in our 2002 reauthorization. I will lead off with small business.

Small Business

Mr. Chairman, as I emphasized in the introduction to this testimony, small business is a major, central concern for Ex-Im Bank. And here is what we are doing.

In FY 2003, the Bank authorized 2,258 transactions directly supporting small business. That was out of 2,707 total transactions and it represents over 80% of the Bank's financings. These transactions totaled $2.075 billion, including $622 million in working capital guarantees, $1.361 billion in export credit insurance, and $92 million in medium and long-term loans and guarantees. That accounted for 19.7% of the total dollar value of Ex-Im Bank's authorizations directly benefiting small businesses. Those figures represented significant increases over FY 2002, when 17.6% of the Bank's financings directly benefited small businesses.

Let me give you some examples of specific businesses that have benefited from Ex-Im Bank, which should help make the raw data understandable in human terms.

Bluefield Associates, Inc. of Ontario, California, is a manufacturer of cosmetics and toiletries that employs 30 people. The company has been an active Ex-Im Bank policyholder since 2001. Its market portfolio has been concentrated primarily in Sub-Saharan Africa. In the most recent policy year, the company reported export sales volume to Nigeria, the United Kingdom, Ghana, Namibia, Tanzania, and Canada. Export sales volume reported to Ex-Im Bank has almost doubled from $2.2 million in 2002 to $4.2 million in 2003. I am happy to announce that Bluefield Associates, a minority-owned business, has just been named Ex-Im Bank's Small Business Exporter of the Year.

With 35 employees, **Bio-Lok, of Deerfield, Florida**, is a manufacturer and distributor of dental implants sold to distributors who in turn sell to clinicians. In addition to its three foreign subsidiaries, Bio-Lok has distribution agreements with entities in twelve countries worldwide.

The company manufactures and distributes the Micro-Lok and Silhouette Precision Dental Implant Systems consisting of dental implants, related prosthetics, devices, tools, spade drills and items purchased for resale.

Kiss Nail Products, Inc. of Port Washington, New York, is a manufacturer of nail care products employing 300 people. It has been insured with Ex-Im Bank since 2001. It has shipped to the United Kingdom, Canada, Germany, Ireland, Japan, the Netherlands, Austria, Sweden, France, South Africa, Spain, Mexico, Russia, New Zealand, Finland, Poland and Latvia. Under its Ex-Im Bank policy, reported sales volume for this exporter has grown from $4.2 million for 2002 to $7.96 million for 2003 and volume has been growing steadily.

Reinke Manufacturing of Deshler, Nebraska, a manufacturer of new irrigation equipment, has experienced an increase in export credit volume in the last year from $1.5 million to $2.4 million. The company employs 250-300 people. Reinke's top markets are in Zambia , Israel, Mexico and South Africa, with smaller markets elsewhere around the world. The company has been an Export-Import Bank insured since May 2000. Reinke's export credit sales have increased 44% from its first full year in 2001, where sales totaled $1.6 million, to 2003, where sales totaled $2.3 million.

Superior Manufacturing Company of Chicago, Illinois, is a manufacturer of floor matting employing approximately 200 people. Superior Manufacturing has been an Ex-Im Bank insured since 1997 and has incurred no losses on its Bank policies. Its export credit sales in its first year were $870,000, and in 2003 its sales, although somewhat lower, were still substantial at $460,000. The company's top markets include Mexico, Canada, Australia, South Korea and Jamaica. Additional smaller markets are Trinidad and Tobago, Hong Kong, Singapore, Japan, Nicaragua, the Netherlands Antilles, Colombia and the Bahamas.

SRS Industries, Inc. of Los Angeles, California, is a wholesaler of wireless telecommunications equipment employing 55 people. SRS has been insured with Ex-Im Bank since 2002. In the past year, it has reported shipments to Estonia, El Salvador, Mexico, the United Kingdom, the Netherlands, the Dominican Republic, South Africa, Singapore, Bermuda, Norway, Colombia, Brazil, Guatemala, the Netherlands Antilles, Guyana, Nicaragua, Honduras, Grenada, Hong Kong, Chile, Peru, Paraguay, Nigeria, Jamaica and Dominica. Reported sales volume in the first year under its Ex-Im Bank policy was $2.96 million, which was well above the $1.76 million the company had projected on its policy application.

Endoscopic Technologies, Inc. /dba/ Estech Inc. of Danville, California, is a manufacturer of cardiac surgery products employing 22 people. Estech has been an Ex-Im Bank policyholder since 2001. The company reported export sales to the following markets during the past year: Italy, Germany, Switzerland, South Korea, the Netherlands, France, Greece, Taiwan, Canada, Turkey, the United Kingdom, Poland, Austria, Australia, Sweden, Hong Kong, Israel, Denmark, Finland, Spain, India and China. Reported export sales have grown from $503,000 in 2002 to $1.1 million in 2003.

Small Business Supplier Data

As noted above, Ex-Im Bank has a target for direct small business support of 20% of the total dollar value of Ex-Im Bank authorizations. In addition, in the 2002 Reauthorization, Congress required Ex-Im Bank to estimate on the basis of an annual survey or tabulation the number of entities that are suppliers of Bank users and are small business concerns. While that is a legal requirement, it provides Ex-Im Bank an opportunity to tell a story that too often goes untold – the significant indirect benefits that accrue to small businesses that supply goods and services to larger exporters that utilize Ex-Im Bank financing. At the time of authorization of each long-term transaction (i.e., transactions either of $10 million or more or with a repayment term in excess of seven years), Ex-Im Bank estimates the percentage of exports supported that are attributable to small business suppliers. In FY 2003, small business suppliers accounted for approximately 13% of total export value on Ex-Im Bank's long-term transactions. That amounts to over $1 billion in indirect support for small businesses. That support is in addition to direct support for small businesses, which as I said above accounted for 19.7% of the total dollar value of Ex-Im Bank's authorizations, and over 80% of total authorizations in fiscal year 2003.

Technology Improvements

Upgrades to its technology over the past few years have enhanced greatly the Bank's ability to meet the demands of small businesses. In fiscal year 2003, Ex-Im Bank revised and updated its Website to provide all customers with improved access to information, applications and forms. As a result, all of Ex-Im Bank's applications and forms are available through the Website, **www.exim.gov**. Letter of interest applications can now be processed electronically and claims filing can now be handled online.

In fiscal year 2003, Ex-Im Bank continued to develop its Business Automation Project (BAP), which will enable Ex-Im Bank to process applications for financing more efficiently and effectively. BAP's initial focus is on automating the Bank's short-term multibuyer insurance program, which primarily benefits small business exporters.

The Bank participates in the government-wide "Business Gateway" initiative to integrate the content and functions of the Websites of Ex-Im Bank, the Small Business Administration and other agencies into one comprehensive site, **www.business.gov**.

The Bank also is a key participant in the Trade Promotion Coordinating Committee's (TPCC) "One Stop, One Form" registration system, an Internet-based system that will enable small businesses to apply electronically for all government export programs.

Finally, Ex-Im Bank announced at its recently – concluded Annual Conference the signing of a co-guarantee Memorandum of Understanding with the Small Business Administration (SBA). Under SBA's Export Working Capital Guarantee Program, there is a $1,500,000 statutory limit on financing SBA's guarantee. Under the terms of this MOU, Ex-Im Bank will provide a co-guarantee that supplements SBA's guarantee in order to provide a 90% guarantee for loans of up to $2 million. As a result, borrowers will be able to work through their existing SBA lender without coming to Ex-Im Bank for the financing.

Electronic Tracking Systems

Ex-Im Bank tracks loan, guarantee and insurance activity through its Integrated Information System, an aggregation of several electronic databases providing comprehensive information on all Bank transactions. In fiscal year 2003, Ex-Im Bank initiated a data quality review to further ensure the accuracy of the information in its electronic databases.

Ex-Im Bank also maintains a customer management database, focused primarily on small businesses, and utilizes this database to assist in outreach to small business exporters throughout the United States.

Africa

When reauthorized by Congress in 1997, Ex-Im Bank was mandated to increase its business in Sub-Saharan Africa in a manner consistent with its reasonable assurance of repayment standard. Congress reaffirmed that mandate in the 2002 reauthorization.

In FY 2003, Ex-Im Bank supported 152 transactions totaling $643 million in 20 Sub-Saharan African countries. Just five years earlier, in FY 1998, the Bank completed a total of 91 transactions for $61 million. Over the last six fiscal years, Ex-Im Bank has authorized transactions supporting nearly $2 billion in U.S. exports to Sub-Saharan Africa.

The growth in business is largely the result of Ex-Im Bank's strategic marketing efforts, including deepening relationships with African banks, embassy outreach programs, African buyer training programs and staff travel to the region. The Bank also expanded its reach in Africa under the Short-Term Africa Pilot Program. The pilot program offers Ex-Im Bank support in an additional 16 Sub-Saharan African countries in which the Bank would otherwise not be open for business, raising the total number of Sub-Saharan Africa countries eligible for Ex-Im Bank trade financing to 39 countries.

Ex-Im Bank continues to be proactive in its efforts to bring medium-term financing to the region. One such mechanism is its Master Guarantee Agreement (MGA). By entering into MGAs with local lenders, Ex-Im Bank greatly increases the efficiency with which it can provide medium-term financing. By the end of FY 2003, the Bank had MGAs with 17 banks in Sub-Saharan Africa.

Pursuant to a Congressional mandate, Ex-Im Bank's Sub-Saharan Africa Advisory Committee (SAAC), composed of individuals with knowledge of and experience in Sub-Saharan Africa, advises the Bank's Board on promoting the expansion of Ex-Im Bank's financial commitments to

Sub-Saharan Africa. This year's advisory committee provided specific recommendations on how Ex-Im Bank can accept additional risk in the region, and we are actively evaluating those recommendations.

Highlights of the Bank's efforts in support of Sub-Saharan Africa during FY 2003 include:

First Authorized Credit Guarantee Facility: Ex-Im Bank authorized its first credit guarantee facility (CGF) in Sub-Saharan Africa. The CGF is a guarantee of a line of credit between a U.S. bank and a foreign bank (or occasionally a large foreign buyer), which enables the foreign bank to extend loans to its local clients on competitive financing terms that facilitate the purchase of U.S. goods and services. This $10 million facility will help facilitate the sale of various U.S. capital goods and services financed by the Eastern and Southern African Trade and Development Bank (PTA Bank) in Nairobi, Kenya. PTA Bank is a regional development bank active in 17 eastern and southern African countries. The guaranteed lender on this transaction is Merchant & Traders Bank (M&T).

In addition, Ex-Im Bank's Board of Directors recently approved a credit guarantee facility in the amount of $25 million to support the sale of U.S. capital goods and services financed by Standard Trust Bank, PLC, Lagos, Nigeria.

Africa Air Cargo Transport Roundtable: A working group of experts from the United States and Africa met at Ex-Im Bank to discuss ways to promote economic development and trade by addressing air cargo transportation issues between the two continents, particularly as they relate to the African Growth and Opportunity Act (AGOA). Representatives from ten African countries attended the two-day seminar, along with U.S. government, non-government and private sector officials. The recommendations of the Roundtable were presented at the January 2003 AGOA Forum in Mauritius.

Africa Short-Term Insurance Pilot Program: In FY 2003, Ex-Im Bank expanded its Africa Short-Term Insurance Pilot Program (STIPP), which now offers Ex-Im Bank financing in 16 countries that otherwise would not have received Ex-Im Bank support. In FY 2003, Ex-Im Bank supported exports to more Sub-Saharan African countries than ever before, with four new countries qualifying for transactions under STIPP. Those transactions included the sale of a grain storage facility to Chad, engineering services to Equatorial Guinea, as well as transactions in Guinea-Bissau involving marine patrol equipment and Mauritania for meat and poultry exports.

In-country interaction: Ex-Im Bank representatives traveled to Sub-Saharan Africa on several occasions in FY 2003, including Board trips to Senegal, Nigeria, South Africa, Botswana, Benin, Cameroon, Equatorial Guinea, Gabon, and South Africa. A Board member spoke at the Nigerian Economic Summit and delivered the keynote address at the African Ministerial Forum on Integrated Transport in Abuja, Nigeria. Staff were represented at the 2003 AGOA Forum in Mauritius.

Highly Indebted Poor Countries

Many states of Sub-Saharan Africa suffer from severe poverty, and this raises the question of Ex-Im Bank policy toward Highly Indebted Poor Countries, commonly referred to as HIPC. Ex-Im Bank supports financing exports under certain conditions to HIPCs that have had debt forgiveness. First, one year must elapse after the signing of the Paris Club agreed minute for the debt forgiveness before Ex-Im Bank will begin to consider export financing transactions. The country must have a rating of eight or better from the Inter-agency Country Risk Assessment System (ICRAS). The country's arrears to the U.S. government cannot exceed 1% of its total debt to the U.S. government. Finally, the export credit transaction for that country would not violate any established International Monetary Fund agreement on ceilings for non-concessional lending.

Outreach to Socially and Economically Disadvantaged and Woman-Owned Small Businesses and Small Businesses Employing Fewer than 100 Employees

Ex-Im Bank has increased its outreach to woman-owned and minority-owned businesses. In FY 2003, Ex-Im Bank participated in a wide-range of trade shows, seminars and conferences focused on woman-owned and minority-owned businesses, including the U.S. Hispanic Chamber of Commerce Annual Conference, the National Minority Supplier Development Council Annual Conference, the Center for American Indian Enterprise Development Annual Conference and the Women's Business Enterprise Annual Conference. A significant number of the small businesses that attend the seminars and trade shows in which Ex-Im Bank participates employ less than 100 workers.

Ex-Im Bank's business development officers, including those located in its network of regional offices throughout the country, focus heavily on the new-to-export segment of U.S. small businesses.

As stated above, we sponsor seminars and symposia throughout the country targeted to small businesses that traditionally have been underserved in the trade finance market. The symposia consist of half-day training programs to help U.S. companies learn how to use U.S. government resources to find foreign buyers, obtain working capital loans, protect against risks of buyer nonpayment and finance international sales. Participants in these symposia include other agency members of the TPCC, which will be discussed more fully in the following paragraph, including the U.S. Commercial Service of the Department of Commerce, the Small Business Administration and the Overseas Private Investment Corporation.

And to re-emphasize another point I made previously, I am happy to report that this year Ex-Im Bank presented its small business exporter of the year award to Bluefield Associates of Ontario, California. This is a minority-owned firm with extensive exports to Sub-Saharan Africa. We at

Ex-Im Bank are proud that we are able to help small businesses such as Bluefield prosper in the international marketplace. K.C. Obioha, vice-president of Bluefield Associates, has said of Ex-Im Bank, "Given our core market in Sub-Saharan Africa, without Ex-Im Bank's programs we couldn't have grown to the size we are now. Having tried for seven years, we otherwise could not have obtained lines of credit from commercial banks. Ex-Im Bank's financing has been our lifeline."

Fast Track

The Ex-Im Bank Board approved a framework for the Fast Track Application Processing System (for loans between $10 and $25 million within the Working Capital Guarantee Program) in July 2003. Staff is in final negotiations with the nine major pre-approved financial institutions to develop the credit criteria that will be required of the Lenders.

Trade Promotion Coordinating Committee (TPCC)

The President and Chairman of the Export-Import Bank serves as the Vice Chair of the Trade Promotion Coordinating Committee (TPCC). The TPCC is an interagency committee composed of 19 U.S. government agencies. Each TPCC agency plays a key role in advancing the Administration's goal of maximizing U.S. export potential. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. government export promotion initiatives under the leadership of the Secretary of Commerce.

Among the duties of the TPCC is preparation and submission to Congress of an annual report, entitled the "National Export Strategy (NES)," that outlines the Administration's trade promotion agenda. TPCC accomplishments during 2003 pertaining to Ex-Im Bank and its competitive position vis-à-vis foreign export credit agencies are summarized below.

Highlights of TPCC Accomplishments During 2003

- The scope of the joint marketing task force, which includes representation from Ex-Im Bank, the Small Business Administration (SBA), the U.S. Commerce Department's Census Bureau and International Trade Administration, and the U.S. Department of Agriculture has been broadened. The task force was established to produce and disseminate literature on U.S. government trade promotion programs at major domestic trade shows and trade financing seminars, and through direct mail campaigns. This marketing effort helps to provide the U.S. export community with the tools necessary to effectively utilize U.S. government programs to boost U.S. export potential.

- Marketing the availability of Ex-Im Bank financing to foreign buyers during early project development has increased opportunities for U.S. exporters. The effort is aimed specifically at: (1) identifying U.S. export opportunities and, where appropriate, encouraging foreign buyers to source goods and services from U.S. suppliers; and (2) demonstrating U.S. government financing support for those U.S. export opportunities at the initial developmental stage of the project.

- The "mixed credit" concept has been implemented whereby U.S. Agency for International Development (USAID) grants are combined with Ex-Im Bank standard financing. Mixed credits will enable the U.S. government to leverage USAID funds and respond to comparable development projects supported by foreign governments on behalf of their exporters.

- TPCC agencies continue to cross-train their staff on a host of U.S. government trade promotion programs. The objective is to help the next generation of international trade officers better identify customer needs and export objectives and to package and seamlessly deliver an effective, customized solution to integrate the multitude of services offered by the various TPCC agencies. In 2003, 92 participants from a total of ten Federal agencies received the training.

- Ex-Im Bank and SBA have signed a co-guarantee MOU which builds on previous efforts to harmonize the export working capital loan programs of both agencies. This approach will provide the exporter with more easily accessible working capital and the lender with combined SBA and Ex-Im Bank coverage without having to deal with two separate agencies.

Economic Impact

Ex-Im Bank's Charter requires Ex-Im Bank to assess whether the extension of its financing support is likely to yield a net adverse economic impact on U.S. production and employment or would result in the production of substantially the same product that is the subject of specified trade measures. If a transaction is deemed by Ex-Im Bank to meet the legislatively specified standards, then economic impact can be the basis for denial of Ex-Im Bank support. The purposes of Ex-Im Bank's Economic Impact Procedures are to: 1) ensure that all transactions are screened for economic impact implications; 2) identify those transactions that are subject to applicable trade measures or that pose a risk of substantial injury to the U.S. economy; and 3) put only those cases that require further economic impact analysis through a more extensive process that is fair, consistent, and publicly transparent.

Ex-Im Bank implements the requirement to analyze the economic impact of transactions it is asked to support through its Economic Impact Procedures. Transactions are subject to screens designed to: 1) identify those transactions associated with specific legislative prohibitions; and 2) determine the potential of a transaction to cause substantial injury to the U.S. economy. The Economic Impact Procedures consist of three stages, which are analyzed consecutively.

Stage I: Transactions that Establish or Expand Production Capacity. The first stage of the Economic Impact Procedures is to determine if a transaction supports the export of capital goods that will enable a foreign buyer to establish or expand production capacity of an exportable good. Only those transactions are subject to further economic impact analysis in Stages II and III.

Stage II: Categorization of Transactions. The second stage of the Economic Impact Procedures divides transactions into one of three categories for further analysis. Those three categories are:

Category I: Transactions Not Subject to the Final or Preliminary Trade Actions Contained in Categories II and III.

Category II: Transactions Subject to Specified Final Trade Measures.
(i) Final anti-dumping or countervailing duty orders
(ii) Suspension agreements arising from anti-dumping or countervailing duty investigations
(iii) Section 201 injury determinations

Category III: Transactions Subject to Specified Preliminary Trade Actions.
(i) Preliminary anti-dumping or countervailing duty injury determinations
(ii) Section 201 investigations initiated by the Executive or Legislative Branch

Stage III: Analysis of the Economic Impact of Transactions by Categories. The third stage of the Economic Impact Procedures consists of screens to determine whether a transaction requires a detailed economic analysis that is summarized below.

Category I: Transaction Not Subject to Specified Final or Preliminary Trade Actions.
Transactions in this category are subject to a detailed economic analysis if the transaction: 1) is for more than $10 million in Ex-Im Bank financing[1]; and 2) poses the risk of substantial injury. Pursuant to Ex-Im Bank's Charter, the established or expanded by the Ex-Im Bank financing equals or exceeds 1% of U.S. production.

Category II: Transactions Subject to Specified Final Trade Measures.
Transactions in this category are subject to automatic prohibition under

[1]If Ex-Im Bank financing is $10 million or less, exclusive of the exposure fee, a transaction is not subject to further economic impact analysis. However, these transactions are aggregated by both buyer and product for economic impact analysis in Ex-Im Bank's annual review.

Ex-Im Bank's Charter. A detailed economic impact analysis is not performed. An exception to this automatic prohibition may be granted by Ex-Im Bank's Board if an applicant shows that the exporter and/or the U.S. economy will be extraordinarily harmed by denial of Ex-Im Bank support. A 14-day notice and comment period is required prior to Board action on such a transaction.

Category III: Transactions Subject to Specified Preliminary Trade Measures. For transactions in this category, a 14-day public notice and comment period will preliminary anti-dumping or countervailing duty injury determination[2] and on initiated at the request of the Executive or Legislative Branch. Ex-Im Bank based on comments received during the 14-day comment period and other available information, that the transaction poses the risk of substantial injury.

If a transaction requires a detailed economic analysis, Ex-Im Bank staff will assess: (i) the global supply and demand for the product in question (*e.g.*, by considering indicators of oversupply such as price trends, U.S. employment trends, bankruptcy, and merger activity); and (ii) the broad competitive impacts on U.S. industry arising from the new foreign production (*e.g.*, whether U.S. production could be directly or indirectly displaced as a result of the new foreign production). In addition, a detailed economic impact analysis will include a 14-day public notice and comment period and will report on the views of interested parties, including the views of other U.S. government agencies. All of the information gathered, including the beneficial impact of the export on the U.S. economy, will be presented to the Ex-Im Bank Board of Directors for its consideration in determining the net impact of the transaction on the U.S. economy.

Summary Data

In FY 2003, the Bank processed 558 medium-term insurance and medium- and long-term loan and guarantee transactions. Of those transactions, 227 were applications for loans and guarantees at the preliminary commitment (PC) and final commitment (AP) stages, and 331 were applications for medium-term insurance. An economic impact analysis was required in 87 of those cases, or 16% of the total transactions acted upon. Three of those 87 transactions required a detailed economic impact analysis, and all three were found to have a net positive economic impact. The remaining 84 transactions were subject to a post-authorization review to ensure that

[2]To ensure the efficient processing of small business transactions, a $10 million threshold will apply to working capital and short-term insurance transactions subject to a preliminary AD/CVD injury determination.

there were no aggregations of more than $10 million to a single buyer that would have required a detailed economic impact analysis.

Tied Aid

The term "tied aid credits" refers to concessional financing that is contractually conditioned upon the purchase of some or all of the goods and/or services from suppliers in the donor country or a limited number of countries. To be compliant with the Arrangement Rules of the Organization for Economic Cooperation and Development (OECD), tied aid must be at least 35% concessional, but must be at least 50% concessional when provided to the least developed countries. However, tied aid can only be provided to high and upper middle income countries if it is at least 80% concessional. In addition, tied aid is prohibited for commercially viable projects in countries that require 35% concessionality.

Ex-Im Bank expenditures for tied aid are financed from the Tied Aid Credit Fund (also called the "War Chest"), a special appropriation line item that currently contains $260.5 million.

Consistent with long-standing U.S. export financing policy, Ex-Im Bank does not initiate tied aid. Instead, Ex-Im Bank and the U.S. Treasury Department work together to determine whether to match a foreign tied aid offer. A determination to match may be made when it is determined that a tied aid match would help to introduce new disciplines or be useful in enforcing existing disciplines. The United States considers that tied aid, when used by a foreign export credit agency in accordance with the technical rules but for the clear purpose of gaining a longer-term advantage for sales on market terms, violates the spirit of the tied aid rules and should be matched.

Pursuant to Section 9(a) of the Export-Import Bank Reauthorization Act of 2002, Ex-Im Bank and the Treasury Department jointly developed and revised the principles, processes and standards governing the use of the Tied Aid Credit Fund. Included in the revision, which was submitted to Congress on December 12, 2002, and consistent with Section 9(b)(ii) of the Act, Ex-Im Bank and Treasury agreed that the final case-by-case decision on the use of the Tied Aid Credit Fund would be made by Ex-Im Bank unless the President of the United States determines that issuing the tied aid credit would materially impede the purposes for which the Fund was established.

Renewable Energy and the Environment

The Bank has been responsive to the mandate in our Charter directing us to promote the export of goods and services related to renewable energy. In FY 2002, Ex-Im Bank convened a Renewable Energy Export Advisory Committee to provide guidance on ways the Bank can promote renewable energy exports. In response to the Advisory Committee' recommendations, Ex-Im Bank formed a Renewable Energy Task Force to explore ways in which the Bank can enhance the support it provides to renewable energy exports.

Renewable energy exports can benefit from Ex-Im Bank's Environmental Exports Program, which provides for the maximum allowable repayment terms under the OECD and the capitalization of interest during construction. Ex-Im Bank has actively marketed its ability to support renewable energy technology exports at a number of events. For example, in April 2003, the Bank conducted a workshop entitled "Financing Environmental Exports" at its Annual Conference that included guest speakers from GE Wind and the Solar Energy Industries Association. During 2003, Ex-Im Bank representatives participated in the American Wind Energy Association's Annual Conference in Austin, Texas; on a panel on Financing International Sales for the Solar Energy Industries Association's Annual Conference, also in Austin; on a panel on Financing Solar Energy Projects for the American Solar Energy Society in Phoenix, Arizona; and in two "reverse trade missions" for the National Hydropower Association's meeting with potential buyers from India and Mexico.

In addition to marketing the Bank's ability to support renewable energy exports, Ex-Im Bank's engineering and policy staff have explored the challenges involved in supporting renewable energy exports on OECD terms. Those are challenges that many ECAs face, and the United Nations Environment Program sponsored workshops in October 2003 and February 2004 to specifically address issues involved with ECA financing of renewable energy exports. During FY 2002 and FY 2003, Ex-Im Bank authorized more than $66.2 million to support U.S. exports of technology, goods and services related to renewable energy.

With respect to Ex-Im Bank's environmental review policy, I am extremely pleased to announce that in late 2003, the U.S. and other members of the OECD Working Party on Export Credits and Credit Guarantees agreed to the OECD Common Environmental Approaches. In addition to setting high minimum environmental standards for foreign projects supported by ECAs, the Common Approaches will serve to level the playing field for U.S. exporters competing to participate in those projects.

Ex-Im Bank is proud of this agreement and the Bank's leadership role in this area. It is a victory for the environment and for U.S. exporters, who now will be able to compete on quality and price. The Bank is in the process of revisiting its Environmental Procedures and Guidelines to reflect the Common Approaches.

Under the Common Approaches, all ECAs will exchange information relating to each ECA's implementation of the new environmental agreement. This reporting procedure will help to ensure that the ECAs play by the new environmental rules while enabling Ex-Im Bank to monitor closely the level of environmental compliance practiced by our foreign counterparts.

Iraq

Ex-Im Bank remains committed to doing its part to support reconstruction efforts in Iraq. In November of last year, our Board approved a $500 million insurance facility to support short-term letters of credit issued by or on behalf of the Trade Bank of Iraq. This action was taken as part of a coordinated, multilateral effort with 15 other export credit agencies to mobilize over $2 billion of support for Iraqi trade. At the end of April, we completed our first transaction for $15 million.

Going forward, Ex-Im Bank continues to work with the Coalition Provisional Authority, Iraqi officials, representatives of other U.S. agencies and departments, and the private sector regarding the availability of Ex-Im Bank support for U.S. exports to Iraq.

Conclusion

Mr. Chairman, Ex-Im Bank must remain flexible enough to meet the challenges offered by the constantly changing world of international commerce, while never losing sight of the original purpose for which it was founded 70 years ago – to create and sustain high-paying jobs here in the United States by financing exports that would not go forward without us, while expecting a reasonable assurance of repayment for each transaction we approve. We take seriously the mandates and goals Congress gives us, and we feel that we have made real progress toward meeting the changes to our Charter enacted in 2002. We have been able to make this progress through the diligent efforts of exporters and the hard work of the dedicated staff at Ex-Im Bank.

I will be happy to respond to any questions you may have.

Export-Import Bank of the US 2002 Advisory Committee

Recommendations to the Board of Directors

December 2002

Export-Import Bank of the U.S
2002 Advisory Committee

Recommendations to the Ex-Im Bank Board of Directors

Introduction
Over the past nine months the Advisory Committee has considered three key areas in which Ex-Im Bank is facing evolutionary changes that need to be addressed in order for the Bank to maintain its key relevance in the export import arena. They are:

1) The composition of exporting industries, with an increasing proportion of services;
2) The role of financial intermediaries, in terms of both types of players and services provided; and
3) The practices and philosophies of competitor ECAs.

The Advisory Committee members have collected information from a number of sources (direct and indirect, written and verbal) and analyzed that information. As a result of that process, the Advisory Committee has prepared reports on: *Mandated Missions of the G-7 ECAs* (Attachment A), *The Needs of Exporters* (Attachment B), *The Needs of Banks* (Attachment C), *One-Stop Shop Co-Financing Arrangements* (Attachment D), and *The Shipping Requirements under PR-17* (Attachment E). From this data and the members' professional experience a number of recommendations have been developed. The following eight recommendations are thought to provide the greatest impact to the Bank's performance. Additional recommendations (appearing in Attachment F), while important, are offered as supplemental observations for the Bank to consider and implement.

1. Ex-Im Bank needs to increase public awareness of the availability of Ex-Im Bank support by coordinating with other TPCC members and exporter/exporter-oriented organizations and should initiate "Early Project Development" cooperation among Ex-Im Bank, TDA, OPIC, and the Commerce Department, to pro-actively develop project opportunities of interest to U.S. exporters.

2. Ex-Im Bank should continue to focus its attention on bringing Market Windows and tied/untied aid under the auspices of the OECD arrangement to limit the competitive advantage that may accrue to those countries currently offering these services.

3. Ex-Im Bank should review its policy for co-financing, weighing its impact on U.S. employment with its impact on export creation.

4. To further improve the competitiveness of Ex-Im Bank programs (by matching the type of cover provided by most European ECAs), Ex-Im Bank should consider establishing a long-term insurance product.

5. Ex-Im Bank should engage a consulting firm to conduct a more focused study of the banking sector to determine the logistical impediments to the use of Ex-Im Bank (by segment of the market).

6. Ex-Im Bank should promote a customer-centric orientation, by creating a Customer Service Group with responsibility to receive customer complaints, coordinate action and responses, and ensure that repetitive issues are raised to management and addressed through systemic approaches.

7. To better serve its customers (especially small- and medium-sized exporters), Ex-Im Bank should review the entire process that an exporter must go through in order to obtain Ex-Im Bank products and services, including working capital guarantees, loan guarantees, and credit insurance. Then, Ex-Im Bank should streamline and simplify the process, in order to provide faster and more transparent service.

8. To further promote transparent service, Ex-Im Bank should create an application tracking system that could be accessed by internal and external users.

Conclusion
These eight recommendations are intended to make Ex-Im Bank more accessible, innovative and efficient in the provision of support to U.S. exports, including middle market exports. In pursuing these ideas, Ex-Im Bank should be able to better fulfill its objective of maximizing support for U.S. exports and contributing to the promotion and maintenance of U.S. jobs.

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2002 A.C. Chairman
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Attachment A

November 15, 2002

Sub-Committee Report
Mandated Missions Of The G-7 ECAs

Introduction

The sub-committee compared the mission statements and operating philosophies of the G-7 ECAs to assess the extent to which they are reflected in their finance programs and their competitive posture. Our research was limited to reviewing the websites of the G-7 ECAs, their stated missions, published policy papers and various articles and books written about the ECAs in recent years. We also relied on the research published by Ex-Im Bank in its annual Competitiveness Reports and a recent meeting between one of our member companies and EDC.

Executive Summary

- Within the context of the OECD Arrangement on Export Credits and the confines of their legal mandates, the ECAs have evolved different organizational structures, mission statements and operating philosophies to meet their national export goals. Although they all exist to support their country's exports and foreign investments, each accomplishes its goals by providing a different mix of insurance, guarantees and loan products. The mission and focus of the G-7 ECAs appears to be undergoing continual evolution and revision. EDC, ECGD and SACE have each completed a lengthy review of their mission and programs in the past two years.

- The ECA organizational structures range from purely government-owned entities to varying mixtures of private and governmental ownership. Their program offerings range from basic export finance programs supporting exports to only non-OECD countries as a last resort lender to a much broader spectrum of finance and investment programs available to support exports to all countries, rich or poor, with significant support provided to OECD countries (EU ECAs and EDC for example). COFACE (Fr.) and HERMES (Gr.) are now private insurance groups with branches worldwide. They have a government mandate to support exports for the ECA "government book" of their business while they also act as a private insurance company. Ex-Im Bank, ECGD, SACE and JBIC are purely government agencies that only focus on supporting export sales to non-OECD markets.

- EDC appears to be the most aggressive ECA offering finance products across a broad spectrum (a combination of Ex-Im and OPIC programs) to include, loans, guarantees insurance and equity investments to all countries worldwide including the U.S. and within Canada itself. EDC is government-owned but functions more like a commercial bank. It has a general policy of supporting transactions with as much as 50% third country-sourced foreign content and, it is very active in the US market. 61 % of its portfolio is in the Americas; the majority of which is in the United States. EDC also provides one of two "Market Windows"; the other is provided by KFW, a non-OCED state-owned German development bank. The existence of Market Windows, outside the discipline imposed by the OECD Arrangement, will continue to provide a competitive disadvantage to Ex-Im Bank and the other ECAs.

- The European Union ECAs appear to have harmonized their programs to the greatest extent. This is made easier by the fact that most EU ECAs provide medium and long-term insurance to their banks and exporters rather than guarantees or direct credits. The European ECAs have liberal foreign content rules to cover each other's exports. Most will cover up to 30% third country foreign content originating from Europe. They provide one-stop-shop reinsurance facilities to their exporters to support multisourced West and East European exports to the rest of the world thus making it easier for foreign buyers to purchase from several countries in Europe all financed and coordinated under one insurance policy issued by one ECA. As Western and Eastern Europe become more fully integrated within the EU, it is likely that this close cooperation among the European ECAs will continue and expand. This process of evolutionary integration in Europe has posed a competitive challenge to Ex-Im Bank, EDC and JBIC.

- With the advent of the Internet being used more frequently by exporters to avail themselves of product and services from suppliers worldwide (multisourcing), the rapid growth of one-stop-shop financing in Europe will shift the competitive advantage to those European countries that have established the most sophisticated network of cooperative agreements among OECD and non-OECD ECAs. Like a commercial bank private financing, one ECA will be able to cover multisourced product and service supply under one insurance policy. The committee believes that the one-stop-shop concept will ultimately be expanded to cover project finance structures as well. Ex-Im Bank appears to be lagging behind the European ECAs in aggressively pursuing these cooperative financing arrangements and it must do so in order to remain competitive.

- All the G-7 ECAs cover third country foreign costs (content sourced from third countries). The standard is usually up to 15% of the home country contract value. The Europeans however, routinely cover up to 30% of each other's foreign content. EDC will consider covering up to 50% foreign content and JBIC up to 70%. ERG in Switzerland reportedly will cover up to 70%. Among the G-7 ECAs, Ex-Im Bank is the only ECA that limits its foreign content support to 15% of the contract value. It is the only ECA that requires its "eligible" foreign content to be first imported into the US before it is eligible for export financing support.

- The key competitive differences between G-7 ECAs appear to be their interpretation of the rules of the Arrangement. For example, the OECD Arrangement applies to "all official support." Most ECAs interpret this phrase to include entities that provide export finance support that benefit from government enhancements (the institutional approach). The Germans and Canadians interpret "official support" to mean only those government agencies providing "official OECD Arrangement compliant terms" (the transaction approach). This is the argument they use to justify their position on Market Windows. Market Window transactions are financed on commercial terms outside the OECD parameters. Both the Canadians and Germans have a Market Window and other ECAs are considering setting up similar facilities to be competitive.

- Following 20 years of negotiations, the OECD has succeeded in removing most of the competitive advantages from ECA interest rate policy, tied aid and exposure fees. The OECD is still the best forum to discuss and resolve ECA competitive issues. In a fluid, competitive environment, ECAs appear to be continually looking for new ways to gain advantage one over the other. Market Windows and Tied-Untied Aid (JBIC) are two examples of the most compelling competitive issues among ECAs today. The Market Window issue is currently being discussed by the OECD under the title "definition of official support." If the OECD would broaden the definition of "official support" to cover Market Windows, then the Arrangement would apply to them. At this point the definition is narrow enough that the Canadians and Germans do not believe they are subject to the rules of the Arrangement. All efforts to conduct further negotiations on this issue, according to Ex-Im Bank, have been derailed or stalled by Canada or Germany. The tied-untied aid issue appears to be only a Japanese issue but it is one that can offer a competitive advantage to Japanese exporters if it is not reigned in by the OECD. Ex-Im Bank needs to continue to pursue both the Market Window and tied-untied aid issues within the discipline of the OECD to improve its competitiveness.

- Legislative restrictions tend to make Ex-Im less competitive compared to the G-7 ECAs. More specifically, unilateral trade sanctions severely limit Ex-Im's competitiveness in sanctioned markets. India and Pakistan were both sanctioned for a period of time by the U.S. Government after conducting their nuclear testing program. Regulations requiring shipping on US bottoms (MARAD Public Resolution 17) adherence to more stringent environmental standards, congressionally-mandated economic impact reviews all tend to limit Ex-Im's competitiveness in comparison to the other G-7 ECAs which have lesser standards or none at all.

- The G-7 ECAs count for over 80% of all ECA financing worldwide according to Delio Gianturco in his book entitled, Export Credit Agencies The Unsung Giants of International Trade and Finance. There are over 200 ECAs worldwide in 100 countries. The majority of these are in the developing world and are relatively new to the world stage. In total, the business activity of the ECAs far exceeds that of all multilateral development banks. The World's ECAs together finance approximately 12% of all their countries exports. Ex-Im Bank estimates that it finances approximately 2% of U.S. exports to developing countries. In the future, it appears that increasing ECA competition will come from the Asian ECAs, as well as from other countries, with rapidly expanding export markets (China for example).

Recommendations

- Ex-Im Bank should further review the European ECAs' practice of supporting up to 30% foreign content originating from third countries and the impact of supporting foreign content under one one stop shop arrangements and, how these policies might affect Ex-Im Bank's competitiveness. It is not clear from our research exactly how each G-7 ECA calculates foreign content and whether any differences in this calculation provides a competitive advantage.

- Ex-Im Bank should consider researching and publishing in its Annual Competitiveness Report information on the G-7 ECAs as follows:
  1. the role of each ECA in respect to the social and economic policies of it home country;
  2. The Governmental budget and authorization level of each ECA;
  3. An update on the OECD discussion on reaching consensus on environmental standards.

- Ex-Im Bank should continue to focus its attention on bringing Market Windows and tied-untied aid under the auspices of the OECD Arrangement to limit the competitive advantage that may accrue to those countries currently offering these services.

- Ex-Im should continue to monitor and study the growth and evolution of one stop shop arrangements among the ECAs and in particular, the European ECAs. An economic impact analysis should be conducted to better understand the benefits and costs associated with Ex-Im Bank entering into similar arrangements, as well as the possible impact of one stop shop arrangements on Ex-Im Bank's environmental and domestic content requirements, and the economic impact review. .

Background Research

The Changing ECA Environment

Attachment A

In his April 2001 article for the Institute of International Economics, entitled, The U.S. Export-Import Bank: Time for an Overhaul, Gary Haufbauer sums up the current environment for ECAs as follows:

- Major capital goods are no longer sourced by exporting companies from a single country. Rather, economic efficiency requires enormous amounts of multisourcing by the multinationals using many sub-suppliers in order to be competitive. (U.S. exporter studies have shown that many of these U.S. sub-suppliers are small and medium-sized businesses).

- The ECAs have responded to this trend toward multisourcing in a strategic fashion. One-stop-shops, setting up insurance alliances overseas, adopting more liberal foreign content guidelines are direct results of this trend.

- Small and medium-sized businesses are becoming a bigger factor in the export picture as more of them reach overseas customers either directly or as sub-contractors. As a result, many of the G-7 ECAs have focused their programs on small and medium-sized companies. Ex-Im Bank, ECGD and EDC all have increased their focus on this segment of the export market in recent years.

- Meanwhile, some foreign ECAs have invented clever ways around the OECD Arrangement. Many ECAs have acquired the streamlined characteristics of market competitors while maintaining the advantages of government support. The Market Windows as operated by the Canadians and the Germans is a case in point.

Future Trends

According to Gianturco, a number of trends are apparent among the ECAs, worldwide, and these trends will no doubt influence the policies of the G-7 ECAs in the future. These trends are summarized as follows:

- The number of ECAs, worldwide, is increasing rapidly and these new ECAs in developing countries are currently not members of the OECD. The OECD has only 30 member nations, comprised of countries in Western and Central Europe, Asia and North America. The areas most likely to see the formation of new ECAs in coming years are countries in Africa, Eastern Europe and Central Asia. The World Bank is active in helping finance many of these new ECAs. The question that arises is how will the OECD maintain discipline for export finance rules if all the ECAs are not members?

- There is a trend toward consolidation of the private Insurers of Western Europe, which are forming joint ventures, alliances and associations primarily within the European Community and in developing countries. These entities have the advantage of insuring exports without regard to national content requirements.

COFACE is one of the leaders of this trend having business operations in over 56 countries, on five continents. HERMES follows a similar pattern.

- ECAs and the multilaterals are engaged in more co-financing than in years past. This trend should continue. The OECD is faced with increasing pressure to lengthen its standard repayment terms to accommodate the perceived need of the developing countries and to better match the repayment terms offered by the multilaterals. The IFC, EIB, EBRD and other multilerals all offer more flexible and longer repayment terms than do the ECAs. Historically, insurers fell into two categories; private domestic insurers and government export insurers. Political risks were invariably the domain of governments. In Europe, mergers and acquisitions have enabled some private insurers to operate globally. Political risks are being written more and more often in the private markets. To some degree, private markets are replacing government insurance. An example of this is the purchase by NCM of ECGDs short-term insurance business in 1991. NCM, as of 1999, is providing the same cover for Dutch exporters on their worldwide insurance.

- According to Ex-Im's 2001 Competiiveness Report, published in July 2002, a major trend affecting ECAs in 2001 was the widespread review of their basic missions and the scope of their business. While the reasons for these reviews vary widely among the ECAs, every G-7 ECA, except one, was emerging from or beginning a process that would have a fundamental bearing on either the missions or operations of these entities.

- There appear to be two major tendencies that are emerging::
    1. ECAs are becoming more disciplined financially and budgetarily.
    2. There is a greater focus on social concerns such as the environment, human rights and sustainable development.

- Ex-Im believes that the impact of these ECAs' changes in the near or mid-term will be:
    1. More official competition for better risk transactions such as well-structured project finance deals and sovereign credits and less competition for marginal risks.
    2. Greater consideration for issues like the environment and social issues.

Attachment A

Annex I

Summary of G-6 ECA Missions and Operations

Compagnie Francaise d'Assurance pour le Commerce Exterieur (COFACE)

The COFACE Group is the largest public or private export credit insurer in the world. The Group is privately-owned. It provides private market export credit insurance, credit information and debt recovery services for its international clients from 56 offices on five continents.

COFACE also represents the government of France by providing short-term political risk insurance and medium and long-term comprehensive insurance in non-OECD markets. Buyer credit policies cover up to 95% for commercial and political risks. Supplier credit insurance covers 90% of the political risk and 85% of the commercial risk. COFACE is bound by the OECD consensus and its insurance carries the full faith and credit of the French government for its government book of business. Loans are provided at CIRR or at floating interest rates by commercial banks through Natexis Banque (formerly BFCE), a government-owned bank. Loans have an interest rate support mechanism similar to that offered by ECGD supported by Natexis Banque. Natexis Banque recently purchased the majority share of COFACE.

In addition to providing pre and post-shipment credit insurance, COFACE will insure against exchange rate risk, investment risk and the risk that a marketing campaign or trade fair will not be successful.

Third country costs can be insured up to 30% for EU countries and case-by-case for non-EU countries.

In 1992, for its private market insurance activity, the COFACE Group decided to share its risk analysis and monitoring system with selected private credit insurance partners in order to pool its expertise. The Credit Alliance was created. Today, 71% of the Group's turnover covers services provided in the EU market. The remainder is in Eastern Europe, Asia and the Americas.

The COFACE system is somewhat opaque with little information provided to the public, particularly on its website. In October 2001, the Group announced it would provide an Internet service of investigating buyer's credit and offering payment insurance for individual transactions. Thus COFACE is now the world's fist provider of on-line services of credit investigation and evaluation, as well as payment insurance for export credits. It's credit rating system covers 41 million international companies worldwide.

Attachment A

Export Development Canada- (EDC)

EDC is a crown corporation, which means it is a government entity that operates on private sector principles. It operates more like a commercial bank than a classic export credit agency. It competes directly with Canadian commercial banks and insurance companies. EDC operates autonomously within the Canadian government and is financially self-sustaining. In addition to providing offical export credit insurance, EDC also offers contract insurance and various surety bond products. In this respect, its long term insurance and ancillary products are similar to products offered by the U.S. Overseas Private Investment Corporation.

EDC's mandate is to support Canadian exports and Canadian foreign investment. The amount of its support for a given transaction is governed by the concept of "Canadian Benefits." EDCs approach to Canadian benefits involves a strategic assessment of both immediate and long-term Canadian wealth-creation benefits to include:

- Exports of goods and services,
- Canadian foreign investment,
- Dividends to Canadian companies,
- Stream of future revenues under related contracts,
- Research and development levels in Canada,
- World product mandates,
- Follow-on opportunities for Canadian companies

EDC provides Direct Loans, financial guarantees, PRI, comprehensive credit insurance, surety bonds, bank guarantee enhancements as well as equity for projects it supports. EDC's structured Finance Division can provide advisory, arranging, and underwriting services for project finance transactions. 63% of EDC's total portfolio supports projects in North America including Canada. EDC raises its funds in the capital market and it carries an AA+ S&P credit rating.

EDC's business is booked either in its Corporate Account or its Canada Account. Corporate Account transactions may either be structured under the OECD Arrangement or, under the "Market Window" structure, which is outside the parameters of the OECD. The Canada Account is used for those transactions that are viewed to be beneficial to Canada but cannot be structured on private market terms because of the risks involved.

EDC carries the full faith and credit of the Canadian government and is bound by OECD consensus rules except for its Market Window transactions which it views as commercial business and thus outside the OECD Arrangement.

EDC can cover up to 85% of the eligible contract value, 85% of its guarantee fee can be capitalized. Insurance cover is for 90%. Third country exports can be financed by EDC up to as much as 50% if EDC concludes that the total transaction is in the national interest of Canada by providing various tangible and intangible Canadian benefits. Coverage and be provided in foreign currencies.

Although EDC does not publicly provide information on the volume of its business done under its Market Window, evidence accumulated by Ex-Im Bank suggests that approximately 90% of its total business volume is done under this program. The majority of EDC's business is directed toward higher income, OECD countries rather than to developing countries.

EDC has an online credit checking system covering over 70 million foreign buyers worldwide. It provides economic and political research for free online. In the committee's opinion, it has one of the best and most user-friendly websites among all the G-7 ECAs. It is transparent about its activities with the exception of its Market Window.

ECA also has detailed policies to incorporate environmental, sustainability and social responsibility issues into its financing decisions. It doe not however, have the equivalent of Ex-Im Bank's economic impact policy.

In recent discussions with EDC's staff in September, it was indicated that EDC is reviewing its "Canadian Benefits " policy and is likely to liberalize its current standards even further. EDC is very user friendly and it maintains a specific account officer for all major clients. This officer is the first point of contact when applying to EDC.

Hermes Kreditversicherungs AG (HERMES)

HERMES is a consortium of a group of private sector insurance companies and a quasi-private company that provides official export credit insurance on behalf of the German government. Its short-term insurance is for its private book whereas its medium and long-term insurance is for its government book.

It is full faith and credit insurer for those deals booked on behalf of the government and it follows OECD consensus terms and conditions. Government departments, agencies and commercial banks provide the loans to the foreign buyers. Its delivery and program structure is similar to Coface.

HERMES covers up to 95% of the 85% eligible contract value. The insurance premium cannot be capitalized into the loan value. Third country exports can be financed by HERMES up to 40% for EU countries and up to 10% for non-EU countries. The exceptions are Japan, Norway and Switzerland where specific, bilateral agreements allow up to 30% foreign content from those countries.

HERMES also has additional bilateral agreements with Turk Eximbank, ERG, SEC (Slovenia), EGAP (Czech Republic), ECGD, OeKB and COFACE. Some are these agreements are reinsurance agreements conforming to the One Stop Shop concept.

Kreditanstalt fur Wiederaufbau (KFW)

Kreditanstalt für Wiederaufbau (KFW) is a public financial institution responsible for German economic development. It is 80% owned by the federal government and 20% by the states. It was initially formed after World War II and was funded by the Marshall Plan. It operates most often as a private bank but it has the advantage of not paying taxes or dividends.

Its mission is to promote the growth of the German economy, which it does in a variety of ways. One of its missions is to fund German export credits but it does so outside the parameters of the OECD since it is not a member and it is not an ECA. KFW provides Market Window financing on commercial terms outside the consensus rules. However, it will also provide financing for exports under a government-supported window (the official window) on Arrangement terms including providing CIRR.

KFW provides medium and long-term loans to foreign buyers of German capital goods in most industrial sectors. It also makes project finance loans that do not have to be specifically tied to German goods but nevertheless serve German national interests. Untied loans are provided for financing direct investments of German companies in other countries. Untied loans are provided to obtain raw materials for German industry. The majority of KFW loans are provided on purely commercial terms (Market Window). KFW raises its funds in the German and international capital markets.

KFW can lend on fixed or floating interest rates denominated in Euros or other convertible currencies. KFW will cover third country exports without specific limits.

With KFW, Germany can provide financing to special, targeted sectors such as aircraft (Airbus), provide tied aid, and be open in markets where the ECAs typically are not (like some NIS countries).

KFW also administers German tied aid funds. The decision as to when and how to provide tied aid funds rests with another part of the German government.

Istituto Per i Servizi Assicurativi Del Credito all' Esportazione (SACE and SIMEST)

SACE is the government institution that provides official export credit financing. It provides, short, medium and long-term insurance cover. Loans are provided by commercial banks and government agencies. SACE conforms with the consensus and provides financing on OECD Arrangement terms. Its insurance cover is up to 95% for political risks and up to 90% for commercial risks. CIRR loans are supported by SACE and it also provides overseas private investment insurance. SACE will not finance its insurance premium and it can finance up to 40% for EU third country costs. Third country cover for non-EU countries is 15%. Cover can be provided in most hard currencies.
SIMEST provides interest support to commercial banks in order to achieve CIRR. SIMEST is a development financier, with public and private participation, formed in 1990 for the promotion and formation of joint ventures abroad. The Ministry of Finance is the major shareholder. The private shareholders consist of Italian banks and business associations.

SACE has recently "reinvented itself" and is now an independent agency with more financing flexibility. It can now offer guarantees as well as insurance. It appears that SACE has not yet fully defined or communicated its new strategy. Its activities are not very transparent.

Export Credits Guarantee Department (ECGD)

ECGD is the oldest ECA established in 1919. ECGD is a separate department of the UK government and therefore, carries the full faith and credit of the UK government.. It provides export credit guarantees to commercial banks and an interest rate support mechanism, which enables them to lend at CIRR with a "guaranteed" spread above their cost of funds. ECGD also provides medium and long term insurance to U.K exporters.

It maintains a "top up" reinsurance facility with a private insurance company in the event that a private sector insurer is unwilling to provide short-term insurance to a buyer in a market where ECGD is open and officially-support export credit is available from other countries.

ECGD offers both supplier credit and buyer credit facilities and lines of credit. Overseas investment insurance is also offered. ECGD can guarantee up to 100% of the 85% eligible contract value. Insurance coverage is up to 95%. Third country goods can be financed up to 30% for Japan and the EU and up to 15% for non-EU countries. Cover can be provide in hard currencies, multiple sales can be financed under a single line of credit and ECGD will cover swap-breakage costs on project financings. Interest rate support can be fixed at CIRR or floating.

ECGD was the first ECA to establish the One Stop Shop concept. Currently, it has bilateral reinsurance agreements in place with 14 ECAs including some ECAs in the higher tier developing countries.

ECGD's stated mission is:

> *"To benefit the UK economy by helping exporters of UK goods and services win business and UK firms to invest overseas by providing guarantees, insurance and reinsurance against loss, taking into account the Government's international policies. ECGD compliments and does not compete with its private sector banks and insurers."*

ECGD published its **Review of the Export Credits Guarantee Department's Mission and Status in July 1999** and its **Report on the Review of ECGD's Mission and Status** in July 2000. In September 2001, ECGD published another paper entitled, **The Establishment of a Trading Fund.** The first two reports are a detailed review of the role of ECGD in the world today and what the agency's mission should be going forward. The third review is a work in progress. ECGD has not yet implemented its Trading Fund.

Attachment A

The concept of the Trading Fund is as follows:

- To establish a robust risk management framework to enable ECGD to maintain sufficient capital over time to support a broad range of export business while providing excellent service to its customers without increasing premia.
- ECGD has stated it will only undertake the Fund if it can maintain its current risk-reward balance.

This concept is still subject to public review and comment. The overall concern, based on customer comments ECGD has published on its website is that ECGD will be less inclined to take risk and less competitive with other ECAs.

Japan Bank for International Cooperation JBIC/ NEXI

JBIC was established in October 1999 as a result of merger between the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF). JBIC's operations have two components:

- International financial operations for the promotion of Japanese exports and imports as well as overseas economic activities and,
- Overseas economic cooperation operations that assist developing countries to achieve economic and social infrastructure development and economic stability.

The purpose of JBIC is to contribute to the sound development of Japan and the international economy by providing loans and other financial operations that promote Japanese exports, imports to Japan and Japanese economic activities overseas.

JBIC is a government entity that provides direct loans in combination with commercial bank financing. It also provides import financing and untied, investment and import credits. It is a full faith and credit entity and it conforms to the consensus for its traditional export finance business. Its financial products include export loans, import loans, overseas investment loans, bridge loans, refinancing to governments, equity for projects, financial guarantees and untied loans.

It is the last category which has caused the most controversy in recent years with other G-7 governments alleging that these "untied loans" are in fact "tied" to Japanese procurement in violation of OECD rules.

NEXI is the Nippon Export Investment Insurance and it was established in 1950. The Japanese government reinsures insurance agreements underwritten by NEXI. NEXI is considered to be a specialized ECA which insurers Japanese foreign investment, bonds, prepayments for imports and short, medium and long-term export transactions. NEXI is a member of the Berne Union and it works closely with JBIC and other ECAs worldwide.

Attachment B

November 1, 2002

TO: Ed Monto, Chairman
Advisory Committee to the
Export-Import Bank of the United States

FROM: Jean-Pierre Rosso, Chairman
Governor Mike Johanns
David Ickert
Peter Lehman
Exporters Subcommittee

SUBJECT: Exporters Subcommittee Report

The Exporters Subcommittee was charged to examine exporter's issues at the Export-Import Bank of the United States (ExIm), and to make recommendations on behalf of exporters.

Findings

The Subcommittee divided their approach to focus on the following three exporter groups:

I. *Core Users,*

II. *Occasion/Frustrated Users, and,*

III. *New/Non Users.*

I. ***Core Users***

Core Users were defined as companies who regularly use ExIm programs and services. Core Users understand how ExIm works, and may in fact depend on ExIm financing. Core Users are interested in developing greater flexibility and streamlining in ExIm programs, which would enable Core Users to export more goods.

The Subcommittee reviewed current ExIm programs, assessed the competitiveness of ExIm's policies and procedures vis-à-vis other export credit agencies (ECAs), and examined ExIm's current technology strategy. In it's deliberations, the Subcommittee consistently applied a "best practices" test - - that is, are ExIm's programs, policies & procedures, and technology strategy considered "best-in-class" among other ECAs, lenders, and credit insurers.

The Subcommittee found that, in terms of the overall amount of export financing, ExIm is being "outgunned" by foreign ECAs who are focused on developing long-term relationships. In 2000, total ECA financing was approximately $500 billion. According to the Bank, ExIm's total volume of financing was $15.5 billion, ranked 5th among G-7 nations, behind Japan ($94 billion), France ($48.1 billion), Canada ($30 billion), and Germany ($29.3 billion). In 1998, according to the most recent Berne Union data available to the Subcommittee, ExIm ranked 8th of major trading nation's ECAs.

On a specific bi-lateral comparison with Canada in 2001, EDC issued approximately $30 billion USD in export financing and approved more than 6,000 transactions. ExIm issued only $12.5 billion USD in financing, and approved 2,300 transactions.

II. *Occasional ("Frustrated") Users*

Occasional or "Frustrated" Users were defined as companies who have used or attempted to use ExIm's programs and services in the past and have not returned to use ExIm's programs.

The Subcommittee identified several reasons that companies no longer use ExIm programs and services. Some of these reasons involved strategic decisions out of ExIm's control, such as companies deciding not to pursue emerging markets or the impact of a slowing economy.

The Subcommittee was concerned with reasons that specifically involved ExIm policies and procedures. Some of the reasons identified include: (1) Overseas customers are resistant to ExIm financing due to bad previous ExIm experiences; (2) As business has become more global, ExIm policies prevent companies from using ExIm programs; (3) ExIm does not have adequate programs for the services industry; and, (4) some foreign ECAs are now aggressively marketing their services to US companies, with the goal of attracting sourcing and, ultimately, manufacturing facilities from the US.

The Subcommittee was extremely concerned about the final reason. The Subcommittee found that, in some instances, certain foreign ECAs are tracking ExIm decisions, prepared to approach the US exporter with financing options if ExIm does not approve the application. Some foreign ECAs are adopting more flexible foreign content rules in order to facilitate transactions, and other foreign ECAs are not maintaining cargo preference rules. As a result, some US companies are now working with foreign ECAs on a regular basis, potentially steering sourcing and manufacturing to these countries.

The Subcommittee noted that US companies have reported these developments to the Trade Promotion Coordinating Committee (TPCC), which incorporated that information into their 2002 National Export Strategy. The Subcommittee recommends that ExIm staff further investigate this trend, and track this activity.

III. *New/Non-Users*

Attachment B

The Subcommittee was especially interested in the category of New/Non Users. New/Non Users are companies who have never used ExIm products and services. This category consists primarily of small and medium sized companies who may be looking to export to developing countries for the first time and are unaware of ExIm's role in promoting US exports.

The Subcommittee views this category as a tremendous opportunity for ExIm to expand it's customer base. The US Government estimates that over 200,000 US companies are involved in exporting. On average, ExIm works with 2,500 companies each year - - barely 1% of the US total.

The Subcommittee recognizes that the ExIm is currently subject to a Congressional mandate stipulating that on an annual basis 20% of ExIm's volume of financing must be with small businesses. As small business make up the majority of the businesses in the new/non users category, growth in this area would likely assist ExIm in meeting the Congressional mandate.

Recommendations

While the Subcommittee reviewed three categories of exporters, the Subcommittee's recommendations below may cut across all three categories and are specifically intended to benefit as many exporters as possible.

I. Implement ExIm-specific recommendations made by the Trade Promotion Coordinating Committee in the 2002 Report on Export Strategy.

The Subcommittee recommends that ExIm implement recommendations made in the 2002 Report on Export Strategy. The Subcommittee noted that this report contains specific recommendations from the Trade Promotion Coordinating Committee (TPCC) regarding ExIm policies and procedures that address the needs of Core Users, Occasional/Frustrated Users, and New/Non Users.

The Subcommittee recommends ExIm prioritize the following 5 recommendations:

1. Streamline case processing to provide faster and more transparent service to exporters on specific transactions.

2. Initiate "Early Project Development" cooperation among ExIm, TDA, OPIC, and the Commerce Department, to pro-actively develop project opportunities in the 6 "pilot countries" of interest to U.S. exporters.

3. Use the tied-aid War Chest more aggressively to counteract foreign governments using foreign assistance in combination with export credit.

In addition, the Subcommittee recommends that the Bank provide clear guidelines and application procedures for tied-aid support.

4. Utilize the US Commercial Service and Small Business Administration (SBA) more effectively to identify new users and initiate financing cases. This requires implementation of the TPCC goal of cross-training Commercial Service officers and SBA officials in ExIm policies and procedures and greater cooperation among agencies.

5. Expand ExIm's "Working Capital" program, to provide more financing to small- and medium-sized businesses, including export suppliers and sub-suppliers, who need financing to increase production for export transactions. ExIm's program needs to be closely coordinated with similar programs at SBA.

The Subcommittee commends the work of the TPCC and specifically recommends that ExIm develop a implementation timeframe & work plan, designate project officers for each recommendation, and regularly report back to the Advisory Committee on the progress and results for each recommendation.

II. Review ExIm's Competitive Report to Congress

The Subcommittee recommends a comprehensive review of ExIm's Competitiveness Report to Congress. The report historically represents that ExIm is competitive with other ECAs, but based on current information, this may no longer be the case. ***The Subcommittee strongly recommends that ExIm include hard statistics and comparable numbers within the Report, to accurately reflect ExIm's competitiveness with other ECAs.***

The Subcommittee also recommends that the Advisory Committee receive quarterly briefings on the most recent Berne Union reports, including mixed-credit and tied-aid notification and offers. The Subcommittee feels that the quarterly Berne Union reports -- which include country-by-country transaction information for all Berne Union members -- are necessary to the Advisory Committee's statutory responsibility to report to Congress on ExIm's competitiveness.

ExIm's competitiveness affects all ExIm users. It affects the employees at the companies who rely on ExIm to export goods overseas, as well as those companies' suppliers. In the recent Congressional re-authorization of ExIm there is a specific mandate for ExIm to support US jobs. To fulfill that mission, ExIm must be as competitive as possible, offering every opportunity for US companies to continue to employ US workers.

III. Expand outreach to national and state banking associations as well as State Departments of Commerce

The Subcommittee recommends that ExIm develop a targeted outreach plan to members of national and state banking associations as well as State Departments of Commerce. With limited resources, ExIm needs to leverage opportunities at meetings of these groups.

The Subcommittee felt that small and medium-size banks are the key to increasing ExIm's small business exports. If small and medium-size banks understand ExIm's programs, the banks will be prepared with answers and options for small businesses interested in exporting. The success of this initiative can be measured by ExIm's follow-up activates with small businesses and ultimately by small business exports generated from ExIm presentations.

IV. Streamline & simplify exporters' obligations when obtaining ExIm products and services

The Subcommittee recommends that ExIm review the entire process that an exporter must go through in order to obtain ExIm products and services, including working capital guarantees, loan guarantees, and credit insurance.

The Subcommittee felt that ExIm's proposal to create "relationship managers" may solve some of the current issues, but the Subcommittee strongly recommends that these "relationship managers" be well-versed in the underwriting process. The Subcommittee also recommends that individual exporters work with the same "relationship manager" on all ExIm transactions.

The Subcommittee acknowledged that the underwriting process is tedious and time-consuming for exporters. This may be necessary, but it often comes as a surprise to a first-time ExIm user. If the process is more difficult than the exporter has been led to believe, a frustrated exporter may abandon it's application mid-way through the underwriting process.

In addition to all "relationship managers" being knowledgeable in the underwriting process, the Subcommittee identified four additional recommendations for ExIm to consider:

1. To expand on one of the TPCC recommendations (Recommendation I.1., above):

    A. ExIm's current application tracking system should be made available to ExIm users, ExIm Board Members and all necessary ExIm staff. This tracking system should be the basis for dialogue between the new "relationship managers" and ExIm users. Additionally, ExIm should survey users for ways to automate and refine the tracking system, based on users' needs.

Attachment B

B. ExIm should simplify the application process, especially for small- and medium-sized exporters, to allow for greater flexibility

C. ExIm should allow greater flexibility on medium-term credit standards based on the financial characteristics of different businesses.

D. ExIm should review the "delegated authority" program, and if necessary, modify the program to allow maximum flexibility for exporters. ExIm should also review, and if necessary, modify the program to allow state financial institutions to use the program.

The Subcommittee recommends that ExIm should provide quarterly updates on the delegated authority program to the Advisory Committee. These updates should include the list of approved delegated authority lenders with the number of submitted and approved transactions by each lender.

2. Each year, ExIm should analyze all applications submitted to determine the percentage of applications that are denied, withdrawn, or otherwise not approved. Reasons for an application not being approved (including withdrawn) should be tracked and examined for trends. These trends could identify opportunities for process changes, accountability, and marketing.

3. ExIm should review and consider modifying current ExIm programs to allow US joint-ventures in emerging markets to finance the purchase of US-manufactured components and parts.

4. ExIm should work with exporters to develop financial common software for the underwriting process.

Attachment C

Export-Import Bank
2002 Advisory Committee – Banking Subcommittee 10/18/02

Subcommittee members: Jackie Kaiko, Diane Willkens, Curt Bradbury
Susan Houser of Ex-Im Bank was very helpful to the subcommittee.

Banking Subcommittee topics:

- Why are there fewer banks willing to participate in Ex-Im Bank programs for SME's?
- What are drivers for getting more banks engaged in using Ex-Im Bank programs?

I. American Bankers Association Survey

Basis for Recommendations:
We worked with the Bankers Association for Finance & Trade (BAFT) and the American Bankers Association (ABA) to conduct a survey of ABA members regarding their use of Ex-Im Bank programs. The survey was faxed to the ABA's 5000 members as part of the bi-weekly ABA newsfax to member institutions' CEO's. Data from that survey forms a part of the basis of our conclusions and recommendations.

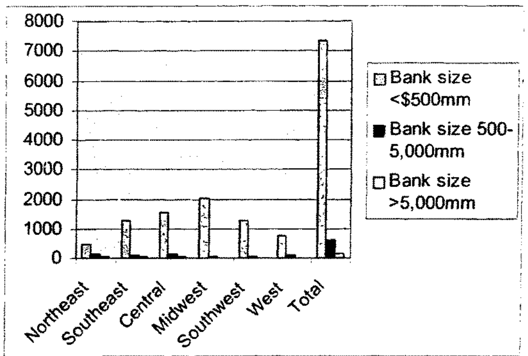
American Bankers Association (ABA)
Based in Washington, D.C., the American Bankers Association (ABA) brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership - which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes the ABA the largest banking trade association in the country. Some 5000 of the approximately 8,000 banking institutions in the U.S. belong to the ABA.

Survey Format:
A pilot or test version of the survey was sent by fax to a small sample of ABA members in early September and yielded 11 responses. The final survey that was faxed to the full complement of ABA members in early October yielded 83 responses. While the total of 94 responses represents a somewhat small sample, the results yielded some very striking results. So while the survey can be viewed as providing strong directional guidance, it would be best backed up by more a comprehensive solicitation of opinion.

The survey asked respondents to indicate their total asset size and the location of their headquarters. Responses are sliced by these two sets of characteristics with three asset-size categories:

- Less than $500million
- $500million to $4.9billion
- $5billion or more

Attachment C



ABA Survey – distribution of responses by bank asset size and region

Survey Summary of Results Highlights:

(See Annex I to this report for the full survey results)

- Interest among respondents in export finance: **69.9% of respondents indicated that they do not offer export finance services nor do they have plans to do so.** Most of these respondents (96.6%) were in the smallest asset-size category – less than $500mm – with no geographic concentration.

- Familiarity with the Export-Import Bank: **71.3% of respondents said that they were not very familiar or not at all familiar with Ex-Im.** Again, a large portion (91.0%) of these respondents had total assets of less than $500mm with no strong geographic concentration.

- Of more concern than this low level of familiarity with the Bank was a lack of interest in learning more: **57% of respondents said that they were not interested in learning more about Ex-Im Bank.** The overwhelmingly majority (91.8%) of negative responses to this question came from banks in the under $500mm asset-size category. There were no geographic concentrations.

n.b. - 90.9% of U.S banks have assets of less than $500mm (see page 5).

- While only 20 banks responded to the question asking which Ex-Im Bank products are being provided to SME customers, responses ranged across the three asset-size categories, with a slight edge toward use of the WCGP, and use by banks in the Midwest.

- Only 25 respondents answered the question about the importance of Ex-Im Bank programs to their SME customers; but **64% of those who responded said these programs were somewhat or very important to their SME customers.** These respondents were spread among the three asset-size categories and were geographically dispersed.

- Regarding the importance of Ex-Im Bank programs to the respondent's competitiveness: Of the 27 banks that answered this question, **70.3% said that they were very or somewhat important to their competitiveness.** This group of respondents was size and geography-diverse.

- These **issues were cited as ones that prevent these banks from using Ex-Im programs more**:
  - 77.4% Low demand by customers.
  - 45.2% Ex-Im not a strategic focus for the respondent's bank.
  - 41.9% Respondent's bank does not have sufficient staff to handle Ex-Im transactions.
  - 19.4% Ex-Im transactions not sufficiently profitable vs. time & work involved.
  - 19.4% U.S. content is too restrictive for their customer's product: Too much content is sourced overseas.
  - 19.4% Ex-Im programs too hard to use vs. alternatives.
  - 16.1% It takes too long to close an Ex-Im deal.
  - 12.9% Documentation is too difficult to use.
  - 12.9% U.S Content definition and determination process is too confusing.
  - 9.7% MARAD requirements make transactions uncompetitive or too difficult.
  - 6.5% Ex-Im staff not sufficiently helpful.
  - 6.5% No cover in countries of interest to respondents' customers.
  - 3.2% Ex-Im staff not well-informed on the Bank's products and policies.
  - 3.2% Ex-Im credit standards are too conservative.
  - 3.3% Documentation is too difficult to use.

  Please see the Summary of Results for detailed asset-size and geography breakdowns.

II. General Conclusions and Recommendations:

Conclusions:
If the results from our ABA survey are indicative of the characteristics of a larger cross-section of U.S. banks, then the demand for Ex-Im Bank financing among banks is low and demand for Ex-Im Bank by the smallest banks is extremely low. For any single bank, this could be the result of any one of several factors: the bank is in an area with low exports; the bank's customer base includes few exporters; Ex-Im products don't fit the export transactions of the bank's clients; or it is not economically efficient for the bank to retain staff with export finance or ECA deal expertise.

While other features of Ex-Im Bank programs (e.g., U.S. Content, MARAD, Economic Impact, and Additionality) may impede more active use, either public policy priorities or recent changes in these policies precluded this subcommittee from recommending changes in these public policy-related areas. Rather, our recommendations are directed at day-to-day pragmatic changes in areas of high impact.

Recommendations - Overview:

We recommend that a consultant be engaged to conduct a more broad-based study while the Bank continues its outreach to SME's and their banks. Our recommendations are drawn from the very strong results of a rather small sample response to the survey. Clearly more research is needed to understand how representative these results are of the broader U.S. banking market.

We also support the necessity of maintaining the highest commitment to customer service and promotion of a positive customer experience. As only a relatively small percentage of the respondents to this study have worked with Ex-Im Bank, the results did not offer a good sense of the perception among the respondents of the quality of Ex-Im Bank products or the customer experience. However, from our own experience in the market, and as Ex-Im Bank customers, we hypothesize that it is important to Ex-Im Bank's usefulness/relevance to ensure a positive customer experience and to cultivate repeat users.

Specific Recommendations:

1) Outreach to Banks and Exporters

Outreach to Banks

A) **Targeted: Engage a consulting firm to conduct a more focused study of the banking sector to determine the logistical impediments to the use of Ex-Im Bank by segments of the market.** Explore these questions: What is the effectiveness of Ex-Im Bank's marketing, product features, distribution – how it sells, what it sells, how it delivers? Are small banks the best candidates for Ex-Im Bank attention? Should resources be concentrated toward medium-sized and larger banks that could act as regional aggregators of Ex-Im Bank transactions?

B) General:

a) Outreach and **cultivation of national, regional and state banking associations** to promote more interaction between those organizations' members and Ex-Im Bank. Staff participation in banking conferences and seminars with representation at booths, speaking slots, sessions.

b) Organize a **pilot program** with a state (Nebraska?) designed specifically to reach out to banks to determine how to promote export finance and use of Ex-Im Bank export finance products.

c) **"Mentor" program for banks** that are new-to-Ex-Im Bank, providing a contact who would be available to answer questions/assist as necessary, helping them become a knowledge resource for their customers.

d) Create a **program to compensate banks** for deals brought into Ex-Im Bank (reviving an idea successfully used by Ex-Im Bank in the past.)

Outreach to Exporters - **We hypothesize that strong interest on the part of SME exporters in Ex-Im Bank stimulates interest and demand on the part of their banks to support their transactions.**

A) **Outreach and cultivation of SME exporters:** coordination with other TPCC members and exporter/exporter-oriented organisations.

2) Customer Service

Promotion of a customer-centric orientation at all levels of Ex-Im Bank as the top priority of the Bank. Accountability for providing a positive experience for all stakeholders as the goal of every employee of Ex-Im.

We submit that these elements of the customer/deal management model would contribute to a positive customer experience.

a) Goal **and Incentive systems for staff that reward creating customer satisfaction.** Rigorous administration of metrics to monitor and measure customer satisfaction for use against the Goal System.

b) A **Customer Service Group** responsible to senior Bank management with responsibility to field customer complaints, coordinate action and responses, and ensure that repetitive issues are raised to management and addressed through systemic approaches.

c) A **"hot line" for complaints** with this telephone number posted on the Bank's website. Include a mechanism for handling protecting anonymity if requested.

d) Proper **use of voicemail and email by all staff** (i.e., direction to frequently update outgoing messages and frequent monitoring of incoming messages.) Prompt return of phone calls to customers, both exporters and banks by all staff. This is not happening now.

f) Written **after-the-deal-close satisfaction queries** with exporters; active monitoring of these responses.

2) Advisory Committee – mechanics

a) Start **the Advisory Committee activities earlier in the year** so that work is well on its way before the summer months. Consider timing the tenure of the Advisory Committee to the Bank's fiscal year. This year our first meeting was in mid-March, committees were set in mid-April and we were asked to submit our recommendations by mid-October.

b) Prior to the first Advisory Committee meeting, **provide incoming Committee members with previous Committees' recommendations** along with a summary of any actions taken following up on those recommendations. For example, provide the '03 Committee with the Recommendations and Results from the '01 Committee.

c) Provide incoming Committees with current **organization charts** of Ex-Im including names of managers and contact info.

Distribution of Commercial Banks as of Year-End 2001
FDIC data

REGION * BANK SIZE IN $MILLIONS Crosstabulation

			BANK SIZE IN $MILLIONS			
			UNDER 500	500-5,000	5,000 AND more	Total
REGION	NORTHEAST	Count	476	132	41	649
		% of Total	5.9%	1.6%	.5%	8.0%
	SOUTHEAST	Count	1261	107	24	1392
		% of Total	15.6%	1.3%	.3%	17.2%
	CENTRAL	Count	1562	127	31	1720
		% of Total	19.3%	1.6%	.4%	21.3%
	MIDWEST	Count	2028	57	9	2094
		% of Total	25.1%	.7%	.1%	25.9%
	SOUTHWEST	Count	1271	66	6	1343
		% of Total	15.7%	.8%	.1%	16.6%
	WEST	Count	745	116	20	881
		% of Total	9.2%	1.4%	.2%	10.9%
Total		Count	7343	605	131	8079
		% of Total	90.9%	7.5%	1.6%	100.0%

Survey on Export Financing and Export-Import Bank Of The United States

Summary of Results
(base=94 banks[1])

[1] Includes 11 pilot test respondents and 83 all-member survey respondents.

TABLE 1
PROFILE OF SURVEY PARTICIPANTS
By Asset Size and Region

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Northeast	8	8.5	6	6.4	1	1.1	15	16.0
Southeast	10	10.6	4	4.3	1	1.1	15	16.0
Central	12	12.8			1	1.1	13	13.8
Midwest	22	23.4			2	2.1	24	25.5
Southwest	11	11.7					11	11.7
West	13	13.8	1	1.1	2	2.1	16	17.0
Total	76	80.9	11	11.7	7	7.4	94	100.0

Region Definitions:

Northeast — Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, U.S. Virgin Islands

Southeast — Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia

Central — Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin

Midwest — Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

Southwest — Arkansas, Louisiana, New Mexico, Oklahoma, Texas

West — Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

TABLE 2
BANKS OFFERING EXPORT FINANCING SERVICES[2]

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Combined	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Bank's own program	3	4.2	2	28.6	4	100.0	9	10.8
Through a third party	7	9.7	1	14.3			8	9.6
Plan to offer	6	8.3	2	28.6			8	9.6
No plans exist	56	77.8	2	28.6			58	69.9
Total	72	100.0	7	100.0	4	100.0	83	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Bank's own program	1	8.3	3	21.4			3	14.3			2	15.4
Through a third party	1	8.3	1	7.1	1	8.3	1	4.8	1	9.1	3	23.1
Plan to offer	3	25.0	1	7.1			2	9.5	1	9.1	1	7.7
No plans exist	7	58.3	9	64.3	11	91.7	15	71.4	9	81.8	7	53.8
Total	12	100.0	14	100.0	12	100.0	21	100.0	11	100.0	13	100.0

[2] Based on all-member survey responses only. The question was not asked in the pilot test.

TABLE 3
FAMILIARITY WITH EXPORT-IMPORT BANK

By Asset Size

	Bank Assets							
	Less than \$500 million		\$500 million–\$4.9 billion		\$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very familiar	3	3.9	2	18.2	5	71.4	10	10.6
Somewhat familiar	12	15.8	3	27.3	2	28.6	17	18.1
Not very familiar	17	22.4	3	27.3			20	21.3
Not at all familiar	44	57.9	3	27.3			47	50.0
Total	76	100.0	11	100.0	7	100.0	94	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very familiar			3	20.0	1	7.7	3	12.5	1	9.1	2	12.5
Somewhat familiar	5	33.3	3	20.0			1	4.2	1	9.1	7	43.8
Not very familiar	3	20.0	4	26.7	5	38.5	5	20.8	1	9.1	2	12.5
Not at all familiar	7	46.7	5	33.3	7	53.8	15	62.5	8	72.7	5	31.3
Total	15	100.0	15	100.0	13	100.0	24	100.0	11	100.0	16	100.0

Attachment C

TABLE 4
BANKS THAT ARE INTERESTED IN LEARNING MORE ABOUT EXPORT-IMPORT BANK

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Yes	29	39.2	5	62.5	3	75.0	37	43.0
No	45	60.8	3	37.5	1	25.0	49	57.0
Total	74	100.0	8	100.0	4	100.0	86	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Yes	8	61.5	8	57.1	3	25.0	6	27.3	3	27.3	9	64.3
No	5	38.5	6	42.9	9	75.0	16	72.7	8	72.7	5	35.7
Total	13	100.0	14	100.0	12	100.0	22	100.0	11	100.0	14	100.0

TABLE 5
EXPORT-IMPORT BANK PROGRAMS PROVIDED TO SME CUSTOMERS

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Working Capital Guaranty Program	7	70.0			6	85.7	13	65.0
Insurance	3	30.0	2	66.7	5	71.4	10	50.0
Loan Guaranty	4	40.0	3	100.0	7	100.0	14	70.0
Total	10	100.0	3	100.0	7	100.0	20	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Working Capital Guaranty Program			2	40.0	2	66.7	3	100.0	1	50.0	5	100.0
Insurance			3	60.0	1	33.3	3	100.0	1	50.0	2	40.0
Loan Guaranty	2	100.0	5	100.0	2	66.7	2	66.7			3	60.0
Total	2	100.0	5	100.0	3	100.0	3	100.0	2	100.0	5	100.0

TABLE 6
IMPORTANCE OF EXPORT-IMPORT BANK PROGRAMS TO SME CUSTOMERS

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very important	2	16.7	2	33.3	3	42.9	7	28.0
Somewhat important	3	25.0	2	33.3	4	57.1	9	36.0
Not very important	6	50.0					6	24.0
Not important at all	1	8.3	2	33.3			3	12.0
Total	12	100.0	6	100.0	7	100.0	25	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very important			2	40.0	1	50.0	1	33.3	1	33.3	2	25.0
Somewhat important	3	75.0	1	20.0			1	33.3	1	33.3	3	37.5
Not very important			2	40.0	1	50.0	1	33.3			2	25.0
Not important at all	1	25.0							1	33.3	1	12.5
Total	4	100.0	5	100.0	2	100.0	3	100.0	3	100.0	8	100.0

Attachment C

TABLE 7
IMPORTANCE OF EXPORT-IMPORT BANK PROGRAMS TO BANK'S COMPETITIVENESS

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very important	2	14.3	1	16.7	3	42.9	6	22.2
Somewhat important	6	42.9	3	50.0	4	57.1	13	48.1
Not very important	5	35.7					5	18.5
Not important at all	1	7.1	2	33.3			3	11.1
Total	14	100.0	6	100.0	7	100.0	27	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very important			2	40.0	1	33.3	1	25.0	1	33.3	1	12.5
Somewhat important	3	75.0	2	40.0	1	33.3	3	75.0	1	33.3	3	37.5
Not very important			1	20.0	1	33.3					3	37.5
Not important at all	1	25.0							1	33.3	1	12.5
Total	4	100.0	5	100.0	3	100.0	4	100.0	3	100.0	8	100.0

TABLE 8
ISSUES PREVENTING BANKS FROM USING EXPORT-IMPORT BANK PROGRAMS MORE

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Your customers find the documentation for Ex-Im transactions too difficult to use	1	5.0	1	20.0	2	33.3	4	12.9
Your bank finds the documentation for Ex-Im transactions too difficult to use	1	5.0					1	3.2
The U.S. content definition is too restrictive for your customers. Their export sales contain too much content produced in other countries to allow those sales to be eligible for Ex-Im financing	1	5.0	1	20.0	4	66.7	6	19.4
The U.S. content definition and determination process is too confusing	1	5.0			3	50.0	4	12.9
Ex-Im programs are too hard to use compared to alternative financing methods	4	20.0	1	20.0	1	16.7	6	19.4
Ex-Im does not provide financing in countries to which your exporting customers sell			1	20.0	1	16.7	2	6.5
The requirement to use U.S.-flag shipping vessels to transport the exported goods makes Ex-Im transactions uncompetitive or too difficult for your customers to use			1	20.0	2	33.3	3	9.7

TABLE 8 (continued)

By Asset Size (continued)

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Ex-Im financing is not in high demand by your customers	17	85.0	4	80.0	3	50.0	24	77.4
Ex-Im financing is not a strategic focus for your bank	12	60.0	2	40.0			14	45.2
Your bank does not have staffing to be able to readily handle Ex-Im transactions	8	40.0	3	60.0	2	33.3	13	41.9
Ex-Im transactions are not sufficiently profitable to justify the time and work involved	4	20.0	1	20.0	1	16.7	6	19.4
It takes too long to close an Ex-Im deal compared to other ways to finance export transactions	2	10.0	2	40.0	1	16.7	5	16.1
Ex-Im staff are not sufficiently helpful in working through product or program issues	1	5.0	1	20.0			2	6.5
Ex-Im staff are sometimes not well-informed on changes in Ex-Im's products and policies	1	5.0					1	3.2
Ex-Im's credit standards are too conservative for deals in many emerging markets					1	16.7	1	3.2
Other*	4	20.0	1	20.0	1	16.7	6	19.4
Total	20	100.0	5	100.0	6	100.0	31	100.0

TABLE 8 (continued)

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Your customers find the documentation for Ex-Im transactions too difficult to use							3	50.0			1	11.1
Your bank finds the documentation for Ex-Im transactions too difficult to use			1	14.3								
The U.S. content definition is too restrictive for your customers. Their export sales contain too much content produced in other countries to allow those sales to be eligible for Ex-Im financing	1	50.0			1	33.3	2	33.3			2	22.2
The U.S. content definition and determination process is too confusing	1	50.0					2	33.3			1	11.1
Ex-Im programs are too hard to use compared to alternative financing methods					1	33.3	2	33.3			3	33.3
Ex-Im does not provide financing in countries to which your exporting customers sell							1	16.7			1	11.1
The requirement to use U.S.-flag shipping vessels to transport the exported goods makes Ex-Im transactions uncompetitive or too difficult for your customers to use	1	50.0									2	22.2

TABLE 8 (continued)

By Region (continued)

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Ex-Im financing is not in high demand by your customers	1	50.0	6	85.7	3	100.0	5	83.3	3	75.0	6	66.7
Ex-Im financing is not a strategic focus for your bank	1	50.0	4	57.1	2	66.7	3	50.0	2	50.0	2	22.2
Your bank does not have staffing to be able to readily handle Ex-Im transactions	1	50.0	5	71.4	1	33.3	1	16.7	2	50.0	3	33.3
Ex-Im transactions are not sufficiently profitable to justify the time and work involved					2	66.7	1	16.7	1	25.0	2	22.2
It takes too long to close an Ex-Im deal compared to other ways to finance export transactions	1	50.0	3	42.9			1	16.7				
Ex-Im staff are not sufficiently helpful in working through product or program issues			2	28.6								
Ex-Im staff are sometimes not well-informed on changes in Ex-Im's products and policies			1	14.3								
Ex-Im's credit standards are too conservative for deals in many emerging markets							1	16.7				
Other*			3	42.9					1	25.0	2	22.2
Total	2	100.0	7	100.0	3	100.0	6	100.0	4	100.0	9	100.0

* Other comments:

- Many of our customers sell dual use goods not eligible for Ex-Im coverage. Additionally, in our insurance coverage for letter of credit confirmations, many of our customers sell under terms greater than 180 days.
- Single buyer policies need to cover more than 90 percent of exposure or allow bank to hold collateral for the 10 percent exposure.
- Ex-Im credits need more exposure in banks.
- We just are unable to determine any need for export financing or the need to offer Ex-Im products within our market area.
- Just beginning.
- It is very difficult to collect a claim due to the tremendous bureaucracy and any minimum detail avoid paying the claim.

TABLE 9
STAFF MEMBER RESPONSIBLE FOR EXPORT-IMPORT BANK TRANSACTIONS

By Asset Size

	Bank Assets							
	Less than $500 million		$500 million–$4.9 billion		$5 billion or more		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Relationship manager	7	53.8	3	60.0			10	40.0
Specialist	2	15.4	2	40.0	6	85.7	10	40.0
Someone else (e.g., credit administration)	4	30.8			1	14.3	5	20.0
Total	13	100.0	5	100.0	7	100.0	25	100.0

By Region

	Region											
	Northeast		Southeast		Central		Midwest		Southwest		West	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Relationship manager	1	50.0	1	20.0	1	33.3	2	40.0	2	66.7	3	42.9
Specialist	1	50.0	3	60.0	1	33.3	3	60.0	1	33.3	1	14.3
Someone else (e.g., credit administration)			1	20.0	1	33.3					3	42.9
Total	2	100.0	5	100.0	3	100.0	5	100.0	3	100.0	7	100.0

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Additional Comments on Export Financing or the Ex-Im Bank

- The staff at Ex-Im has always been responsive and informative when called upon. We use the WCGP Delegated Authority Program frequently.
- Our bank recently hired a mid-level manager with extensive international banking experience including Ex-Im Bank—would like to take advantage of his experience to explore offering this service at our bank.
- Requirement to include entire foreign content as part of the down payment may be logical but tends to make some financing packages unattractive.
- Would be interested in learning more about the program, although usage would be limited.
- Are there local contacts to find out more about Ex-Im programs?
- We are not familiar but get many requests for international letter of credit.
- Not a need in our market.
- We are not familiar with Ex-Im product offerings. We recently established a letter of credit for a commercial client for international imports. Used a correspondent bank for this.
- We are interested in short-term financing programs.
- We don't have any customers that export their production.
- Apparently our customers have no need for the services offered by Ex-Im since we do not have any requests in this agricultural area.
- One key issue is that Ex-Im changes status on countries periodically. Banks need confidence that once they put a deal in place involving a foreign country that Ex-Im is going to support it to the term of the financing (especially on working capital loans).

Attachment D

November 15, 2002

Sub-Committee Report
One-Stop- Shop Co-Financing Arrangements

Introduction

The sub-committee reviewed the genesis of the one-stop-shop financing mechanism among the G-7 ECAs to assess how prevalent a financing tool this has become; the competitive advantages that may accrue to those ECAs that are actively pursuing these cooperative financing arrangements and, lastly, the extent to which Ex-Im Bank is competitive with the other G-7 ECAs in developing this financing tool. It is recognized that the one-stop-shop concept raises certain issues for Ex-Im such as the possible loss of U.S. jobs to the extent financing is arranged by a foreign ECA. We have not attempted a cost/benefit analysis of this issue in this paper but it is one Ex-Im Bank should consider as it develops more ECA bilateral arrangements.

One-stop-shops are bilateral agreements between two or more ECAs which enable one ECA to serve as the "lead" ECA covering the foreign content of the other ECAs under its own policy (insurance or guarantee) and then the lead ECA obtains reinsurance from the other participating ECAs to cover their domestic content. The lead ECA therefore, is not financing the foreign content of the other participating ECAs because it has reinsurance to cover that foreign content. The lead ECA is however taking the reinsurance risk of the other participating ECAs (will they reimburse Ex-Im Bank in the event of a claim?).

We conducted our research by reviewing Ex-Im Bank's existing program with its Policy and Planning Division. We also contacted GE Capital Corporation, one of the early users of Ex-Im's one-stop-shop program, ECGD, the originator of the concept, EDC, SACE and COFACE all of which are actively engaged in establishing bilateral agreements with OECD and non-OECD ECAs worldwide. We found a great deal of useful information about this financing tool on the ECGD website. Another useful source for our research was Ex-Im Bank's annual Competitiveness Report to Congress for calendar years 1999, 2000 and 2001.

Executive Summary

- ECGD originated the one-stop-shop concept in 1995. Since that time, ECGD has entered into either bilateral agreements or cooperative agreements with ECAs in 24 countries and has completed 41 financings with 10 different ECAs supporting export sales with a total contract value of more than 7 billion pounds ($ 10.8 billion). ECGD, COFACE, HERMES and SACE appear to be the most active ECA users of one-stop-shops. COFACE reported to our sub-committee that it has financed 40 transactions under its 12 existing agreements.

- SACE reports that it has reinsurance agreements with OND, EKN, HERMES, OeKB, NCM, CESCE, COFACE, SEC, EKF, COSEC and ECGD. It also has a cooperation agreement with HBOR, the Croatian Bank for Reconstruction and Development and with the Russian ECA. It is negotiating agreements with ERG, EDC, EFIC, EGAP KUKE, NEXI, FINNVERA and SINOSURE. To date, it has financed 7 transactions under agreements with HERMES, OeKB and COFACE.

- The one-stop-shop concept appears to be expanding rapidly among the European ECAs and to a lesser degree, among the non-OECD member ECAs. Worldwide there are over 200 ECAs in existence and their numbers continue to grow. As the concept evolves, the committee believes that this financing mechanism will continue to expand and the ECAs will ultimately use it for more complex structures, like project finance.

- ECGD reports having established bilateral agreements with Austria, Belgium, Denmark, Japan, Finland, Hungary, Czech Republic, South Korea, Luxembourg, Malaysia, Netherlands, Norway, Slovakia, Poland, Slovenia, South Africa, Spain, Sweden and Croatia. It is currently negotiating a bilateral agreement with Australia. In addition, it has cooperative agreements with several other ECAs. Cooperative agreements define a less formal arrangement than a bilateral and are not truly one-stop-shops since they provide for co-financing and not reinsurance.

- The European ECAs (and East Europeans to a lesser degree) appear to have a geographic and programmatic advantage in working with one another to support exports to countries outside Europe. For example, the European ECAs will routinely support up to 30% foreign content originating and exported from third countries anywhere in Western Europe. Most European ECAs use insurance cover rather than direct credits and guarantees thus making it easier for them to establish bilateral agreements with each other. ECGD and EDC are the exceptions; like Ex-Im Bank, they offer guarantees. EDC offers direct credits as well as insurance and guarantees.

- Multisourcing by exporters has grown rapidly among sophisticated exporters. The Internet enables them to offer and receive bids worldwide thus improving their pricing and to expedite delivery. As the sources of supply expand, one-stop-shops will become an even more important tool in providing financing for a given export sale. The one-stop-shop concept among ECAs is simply imitating financing that can be provided by large international banks on commercial transactions.

- Establishing one-stop-shops enables the European ECAs to limit the amount of resources they will expend in financing third country foreign content originating in Europe. Thus, the one-stop-shops serve to unite financing from Europe to the rest of the world while allowing the ECAs to more efficiently use their budgeted resources and to limit their exposures to importing countries.

- One-stop-shops offer the following advantages to both exporters and buyers:

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1. Exporters can work with only their home country ECA but can offer competitively priced multisourcing of goods and services that best meet the foreign buyer's needs. This may provide the exporter with a competitive advantage over other country exporters without access to one-stop-shops.
2. The amount of documents that must be negotiated between the exporter, lenders, ECAs and the borrower are reduced because one ECA is leading the financing while it obtains reinsurance from the other participating ECAs. This saves considerable time and legal expense in reaching financial close. It also makes the exporter more competitive.

- Ex-Im Bank has established only two one-stop-shop arrangements since 2000; one with ECGD and one with EDC. Ex-Im Bank has notified the export community of its willingness to finance transactions on a "case-by-case" basis with other ECAs. It has done so with GIEK (Norway) and the Export Import Bank of Hungary. Ex-Im is currently negotiating bilaterals with HERMES and COFACE. Other ECAs report that Ex-Im Bank is somewhat reluctant to let another ECA lead in a one-stop-shop transaction. To date, Ex-Im has approved a total of 10 transactions with ECGD (4), EDC (4) and COFACE (2) in addition to two, one-off transactions (Hungary and Norway). Ex-Im Bank reports that it has responded to all requests for one-stop-shop financing made by the U.S. export community to date.

- A central source of information and data on exactly how many one-stop-shops and cooperative agreements have actually been established worldwide and the number and value of the transactions booked under them does not appear to be readily available nor is there any formal reporting mechanism in place to monitor this activity worldwide.

Recommendations

- Ex-Im should conduct a cost/benefit analysis of the effect one-stop-shop arrangements may have on U.S. jobs. Will jobs be lost if Ex-Im Bank cannot be competitive with other G-7 ECAs and thus potential U.S. contracts are lost to foreign exporters or, will more U.S. jobs be lost because Ex-Im Bank supports a multisource financing under a one-stop-shop arrangement?

- Ex-Im Bank should consider establishing a long-term insurance product to better harmonize its cover with the European ECAs.

- Ex-Im Bank should more aggressively advertise the existence of it one-stop-shop arrangements and its willingness to provide one-off support with other ECAs. Although Ex-Im has this information on its website, it is difficult to find.

- Ex-Im Bank should indicate to its ECA partners in co-financing its willingness to follow another ECA's lead, in conformity with Ex-Im Bank's policy and public mission, in a one-stop-shop transaction. At least one European ECA has stated that, "Ex-Im appears reluctant to follow the lead of other ECAs."

- Ex-Im should work with the OECD or the G-7 ECAs to establish a reporting mechanism among the ECAs to better monitor the evolution of this important financing tool and to better assess Ex-Im Bank's competitiveness with the European ECAs.

Background Information

Ex-Im Bank One-Stop-Shops

Ex-Im Bank can do business with other ECAs with which it has a bilateral framework agreement in place or, it can establish a "one-off" agreement to cover a specific transaction. This latter mechanism enabled Ex-Im Bank to do business with Hexim and GIEK for two export transactions.

The sub-committee was not able to review these agreements, as they are considered confidental between the two signatories. Ex-Im Bank has indicated its willingness to consider financing case-by-case transactions in conjunction with other ECAs even though bilaterals have not been fully agreed. Ex-Im Bank will consider providing its financing using insurance, a direct credit or a financial guarantee; whichever is best suited to the transaction and the other ECA involved.

Ex-Im Bank has established two classes of ECA risk that is reflected in its premium. Level One for the G-7 ECAs and a Level Two for all others. The difference in the risk perception is based on the relative size and experience of the ECA as well as its country of origin. The risk to Ex-Im Bank in any reinsurance agreement is that the other party will not honor its commitment to reimburse Ex-Im Bank.

See Appendix I for detailed explanation of the Ex-Im/ ECGD one stop shop.

One-Stop-Shop Information- Ex-Im Bank's Annual Competitiveness Reports

To date, the majority of one-stop-shop co-financing support has come from the G-7 ECAs. The EU ECAs have multiple agreements in place among themselves but also with many Level Two, non-G-7 European and non-European countries. These agreements have enabled the EU ECAs to better manage their country exposure limits since they no longer have to cover as much foreign content sourced from the other EU countries (typically, they will cover up to 30%). The agreements also provide greater documentary efficiency for the foreign buyer since the buyer only has to negotiate documents with one ECA and its lenders.

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G-7 ECA One-Stop-Shops Among the G-7 Only

	Ex-Im	ECGD	EDC	Hermes	COFACE	SACE
Ex-Im		X	X			
ECGD	X		X	X	X	X
EDC	X	X			X	
Hermes		X	X		X	X
COFACE		X	X	X		X
SACE		X		X	X	

Note: JBIC at this time has no agreements. This chart does not include the agreements of G-7 ECAs with non G-7 ECAs. In addition, accurate information on this last category is not available.

- Since the 2001 report was published, ECGD has reported signing bilateral agreements with both NEXI and JBIC. COFACE also reports that it is is negotiating with both Japanese entities at the current time, as is Ex-Im Bank.

- Most ECAs agree that this mechanism can be used across sectors, for direct credits, insurance and guarantee transactions without limit on transaction size. It also is generally agreed that this mechanism may not work well with project finance structured transactions because of the complexity of the structures.

G-7 Co-financing "One-Stop-Shop" Transactions as of December, 2001

[Note:Ex-Im Bank data includes authorized M/LT guarantees and insurance as of 1/9/02]

	Ex-Im	ECGD	EDC	Hermes	COFACE	SACE
Ex-Im*		4	4		2	
ECGD	4			6	10	3
EDC	4					
Hermes		6			7	
COFACE	2	10		7		6
SACE		3			6	

* Ex-Im Bank has approved "one-off" co-financing transactions with the Norwegian and Hungarian ECAs.

Additional Information- Provided by Ex-Im

- For some ECAs, interest in one-stop-shop co-financing was spurred by budgetary concerns and efforts to limit exposure to domestic content only; most notably in markets where ECAs are on cover with restrictions.

- The EU content rules are governed by the EU protocol of ECA cooperation. The EU protocol allows a member ECA to support up to 30% "non-domestic" content of another member state. The EU ECAs also allow 10-15% non-EU content to be included for official support. Thus, although the EU ECAs have a 50% minimum domestic content threshold, absent co-financing, a member state could be using up a significant portion of its exposure limit in a market for "non-domestic" content. EU content rules are possible to waive on a case-by-case basis, and frequently are waived when country restrictions exist. However, co-financing helps offset the impact that the EU protocol has on individual ECA budgets.

- Ex-Im Bank has signed bilateral agreements with the ECAs of Canada and the United Kingdom. Staff continues to negotiate with the ECAs of France and Germany (COFACE and HERMES) to establish bilateral agreements with each of these institutions. Ex-Im Bank has begun discussions with a number of commercial banks regarding their experience with HERMES and COFACE insurance coverage and documentation.

- Ex-Im has initiated negotiations with the Japanese ECAs (JBIC, NEXI). It is exploring creative financing structures as a means of bridging the gap between the Japanese legislative prohibition on providing a USG agency with a government guarantee and the desire to cooperate on transactions.

- ECAs and members of the US exporting community have requested that Ex-Im Bank pursue bilateral negotiations to establish framework co-financing agreements with ECAs in a number of other countries.

- Ex-Im Bank established the Co-financing Task Force (CFTF), an in-house working group, to address and bring to the attention of senior management problems and issues that arise during bilateral negotiations and transaction processing.

- In case processing, Ex-Im Bank has encountered and resolved an assortment of technical issues, ranging from fee allocation between ECAs to differing claims payment processes. So far, Ex-Im Bank has been able to work through the issues and has processed all of the transactions presented to it.

- Co-financing can be used for medium- and long-term transactions. Ex-Im Bank has provided co-financing for structured transactions. All ECAs generally agree that due to the nature of project finance transactions, the one-stop-shop is not often used; however, as ECAs gain experience, these agreements may be used more frequently. For example, if an ECA is providing support for a small portion of a large transaction, co-financing may be an attractive option. Ex-Im currently <u>does not</u> have a long term insurance program and this may prove to be an impediment in future co-financings.

- Direct lenders have been unable to utilize co-financing or reinsurance for a variety of reasons. Some of these reasons include the interest that an official ECA would charge and collect as well as the ability of another ECA to cover such interest. ECAs that have had trouble in this regard include EFIC and EDC (Australia and Canada).

- Japan has problems counter-guaranteeing any entity that is not Japanese. Therefore, Japan has established protocol agreements with other ECAs whereby the Japanese ECAs agree to cover foreign content absent a counter-guarantee or reinsurance arrangement. According to Ex-Im Bank, the value of these protocols is unclear considering that Japan already has the ability to cover this foreign content up to 70%.

- ECAs do not have transactional data available generally. One-stop-shop co-financing is just another example of the lack of transparency among ECAs. ECGD however, has begun to monitor this mechanism among the G-7 ECAs. The committee believes a more elaborate monitoring system should be set up to better assess competitiveness.

- Most G-7 ECAs retain an additional 10% of the exposure fee as an Administrative fee. Ex-Im Bank currently has an OMB/legislative "impediment" that does not allow it to collect an additional 10% of the exposure fee. If Ex-Im could collect this fee it could accrue revenue to offset any incremental risk associated with dealing with ECAs that are risk Level II. This change might make this program more palatable for Ex-Im Bank to operate One-Stop-Shops in Level II countries.

Attachment D

Annex I

Ex-Im Bank – ECGD: Working together to win business

Attachment D

Ex-Im Bank – ECGD: Working together to win business

INTRODUCTION

At **US Ex-Im** and **ECGD** we recognise your need to source from more than one country in order to win business overseas. Responding to this concern, **US Ex-Im** and **ECGD** have negotiated a "One-Stop-Shop" export credit service for US and British exporters working together on projects in third countries. This means that US Ex-Im and ECGD can offer cover for US and British goods in one financing package – with each country's equipment being shipped directly to the buyer's country.

Either **ECGD** or **US Ex-Im** can provide support for the whole deal based on its own export credit schemes. The agreement between ECGD and US Ex-Im introduces a number of advantages for both exporters and buyers namely:

- **exporters** can source from more than one country, thereby offering a mix of goods and services that best meets the buyer's needs
- **exporters** generally only have to negotiate with one export credit agency (however, some contact between the main US sub-contractor(s) and US Ex-Im will be necessary where ECGD is leading the deal)
- **buyers and borrowers** need only negotiate with one export credit agency and bank

SOME FREQUENTLY ASKED QUESTIONS

Who do I approach and who will provide the support?

The country with the largest share of the sourcing and the location of the Main Contractor will normally determine which agency leads.

If the **US exporter** has either of these roles, then it should contact **US Ex-Im.** US Ex-Im will enquire whether ECGD is willing to provide co-financing/reinsurance or a counter-guarantee for a "One-Stop-Shop" facility from US Ex-Im for the whole deal. For example, if the contract were sourced 60% from the US and 40% from the UK, it would be a US Ex-Im led facility.

If the **UK exporter** has either of these roles, then it should contact **ECGD**. ECGD will enquire whether US Ex-Im is willing to provide co-financing/reinsurance or a counter-guarantee for a "One-Stop-Shop" facility from ECGD for the whole deal.

For example, if the contract were sourced 60% from the UK and 40% from the US, it would be an ECGD led facility.

If it is not clear which agency should lead then you can speak to either.

I AM THE MAIN CONTRACTOR, CAN I DECIDE WHICH AGENCY LEADS?

No. The principle of "largest share/main contractor – leads" is generally followed for each transaction.

WHAT ABOUT FIXED RATE FINANCE?
Where **US Ex-Im** is in the lead, the commercial banks will normally offer a floating market interest rate. Fixed market interest rates are also available but less frequently sought. US Ex-Im lends at fixed rates of interest in accordance with the OECD Consensus rule on interest rates. The US and UK portions will be subject to the same terms (CIRR).

In the case of an **ECGD** led deal, ECGD will provide fixed interest rate support under its interest make up system in accordance with the OECD Consensus rules on interest rates for the UK portion of the deal. The UK bank will normally offer the borrower fixed or floating market interest rates for the US portion of the deal.

Do I pay more for this scheme?
No, the charges would be similar to you applying to both agencies separately. However, they will not necessarily be exactly the same, as you will be getting the Lead Agency's form of cover for the whole deal.

The premium rate is determined with reference to the Lead Agency's system. If the rates of the agencies differ they can agree that the premia be blended so that the all in charge is broadly the same.

Does it take longer?
No. Since only a single application and a single set of credit documents will be required, the overall time and effort to conclude a "One-Stop-Shop" transaction should be substantially reduced compared to arranging financing under two separate facilities with two ECAs.

At the application stage, it will take a few days for the Lead Agency to seek the views of the Follower ECA as to whether they wish to participate. A final commitment from the Follower ECA will be required before the documentation is signed.

In addition, where **ECGD** is in the lead and US Ex-Im is providing co-financing/ reinsurance or a counter-guarantee, US Ex-Im will - in line with its normal procedures - approach the main US sub-contractor(s) to provide certain certifications to ensure that US statutory and policy requirements are met. For larger transactions (above $10m or with a repayment term of seven years or more), Ex-Im will also require the main US subcontractor(s) to certify that the US equipment will be shipped on US vessels, unless a waiver is granted.

Does the "One-Stop-Shop" affect the buyer/borrower?
A buyer and/or borrower would usually welcome fewer export credit agencies/banks being involved in a deal. There should be no disadvantages to the buyer and/or borrower.

What are the procedures under this arrangement?
An exporter or bank will approach an export credit agency. Once the Lead Agency is established, that agency will ask the other if it wishes to provide the necessary co-financing/reinsurance or a counter-guarantee support to allow the "One-Stop-Shop" facility to be offered.

If the agency(ies) agree that they are willing to consider reinsurance the Lead ECA would inform the exporter (or applicant) that support can be considered further and what the conditions might be. It is not a commitment to provide any cover. The two agencies will work together behind the scenes to ensure that credit, environmental and/or other concerns are addressed.

If the exporter's contractual negotiations proceed satisfactorily, then the Lead Agency will seek a final response from the Follower ECA on its willingness to provide cover for its portion. This commitment will be time limited (usually for six months) but can be extended. This commitment from the Follower ECA will enable the Lead Agency to issue a commitment and/or provide the cover sought.

Is the exporter/banker at risk if the Reinsurer does not meet its obligations to the Lead agency?
No, you are fully covered once the insurance policy or guarantee has been issued.

Can third country or local costs be supported under the arrangements?
Where **US Ex-Im** is in the lead, to be eligible for support, all goods and services must be shipped from the U.S (except the goods covered by the UK under the "One-Stop-Shop"). **US Ex-Im** has no country limits. Support for local costs is generally available when the costs are related to the US exporters' responsibilities in carrying out the contract. **U.S. Ex-Im** foreign content and local cost policy allow the Bank to support:

- the lesser of 85% of the value of exported goods (Net Contract Price) or 100% of the U.S. content
- up to 15% of the value of the exported goods for local costs in the buyer's country

Where **ECGD** is in the lead any goods which qualify for a UK Certificate of Origin are normally eligible for **ECGD** support. Advice on whether a certificate could be given can be obtained from the local Chamber of Commerce. **ECGD** can also consider supporting amounts of foreign content:

- up to 30% of the contract for goods sourced from the European Union and Japan
- up to 15% of the contract for goods sourced from non European Union countries (but not in addition to the 30% above)

- up to 15% of the value of the exported goods for local costs in the buyer's country

ECGD reserves the right to restrict its support to a lesser amount in certain circumstances (for example if it already has significant exposure in a country). However, **ECGD** can consider higher amounts of support for foreign costs by reinsuring the non-UK portion under the "One-Stop-Shop" agreements in place with many other export credit agencies.

Which other export credit agencies have a "One-Stop-Shop" agreement with ECGD or US Ex-Im?
The agreement with ECGD is the first such agreement that **US Ex-Im** has negotiated with another export credit agency, but US Ex-Im can do transactions on a 'one-off basis'. More reciprocal agreements are foreseen.

ECGD has or is negotiating arrangements with the agencies of Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Netherlands, Norway, Spain and Sweden.

These alliances are growing so please speak to **ECGD** and **US Ex-Im** for an up to date position.

Further information
We would be pleased to explain our One Stop Shop service in greater detail and to discuss how particular projects could be supported under the Scheme.
For more information, please speak to the **US Ex-Im** or **ECGD** contacts listed here. We look forward to your call and to helping you win business. You may also wish to visit our websites:

- www.exim.gov Note: Please refer to the Ex-Im Bank website for applicable Program Requirements and other co-financing related documents.
- www.ecgd.gov.uk

ECGD PO Box 2200 2 Exchange Tower Harbour Exchange Square London E14 9GS England	For information on the Co-financing agreements and ECA relations call *David Wyatt,* Head of Business Promotion, Tel: 44 (0) 20 7512 7426, Fax: 44(0) 20 7512 7268 E-mail: dwyatt@ecgd.gov.uk; or *Tracey Kewell,* International Co-operation Tel: 44 (0) 20 7512 7368, Fax: 44 (0) 20 7512 7268, E-mail: tkewell@ecgd.gov.uk
US Ex-Im Bank 811 Vermont Avenue, N. W Washington D.C 20571 USA	For information on the Co-financing agreements and ECA relations call the Policy and Planning Division on 202-565-3760. For information on Co-financing transactions and case-specific inquiries call Structured and Trade Finance Group on 202-565-3900 or Insurance on 202-565-3630.

Attachment E

November 15, 2002

Sub-Committee Report
Ex-Im Bank Shipping Requirements - PR-17

Introduction

The 2002 Advisory Committee's sub-committee on Competitiveness chose as one of its three topics, the issue of US flag vessel shipping (U.S. cargo preference) required of Ex-Im Bank by the US Maritime Administration (MARAD) under Public Resolution 17 passed by the 73rd Congress in 1934.

This topic continues to receive attention from Congress. A recent letter from a number of Senators in both parties states, "In view of the need for secure, reliable sealift, the events of September 11th, and America's long-term war on terrorism, any actions by the Export-Import Bank that could curtail U.S.-flag cargos would be most unwise for our national security."

Representative Sonny Callahan has also written the Bank concerning this issue. He states that, among other things, "PR 17 provides a cargo base for the U.S. merchant marine allowing it to compete against foreign flag fleets and to attract new tonnage to the U.S. ship registry, thereby creating new American jobs. In addition, a healthy U.S. merchant marine is an integral part of national security, supplying manpower and ships to transport military cargoes in times of war or emergency. In view of the war on terrorism and the need for increased defense readiness, now is not the time to threaten a time-honored mainstay of an industry whose role is so vital to the national interest."

Recently, this issue was raised in a letter to the Vice Chairman of Ex-Im Bank dated April 8, 2002 from the National Foreign Trade Council (NFTC) and the Coalition for Employment through Exports, Inc. (CEE). In their letter, the exporter's representatives stated,

> "We write on behalf of our collective members to bring to your attention our continuing concerns about the negative competitive impact of the U.S. cargo preference rules and for strengthening the Bank and improving U.S. competitiveness, we recommend that the bank seek changes in the application of cargo preference rules."

The competitiveness committee chose to study this issue because the export community has claimed for years that the Ex-Im Bank U.S. shipping requirements and how they are administered by MARAD puts US exporters at a competitive disadvantage with exporters in the G-7 countries. Further, it is recognized that the American Maritime Congress and organized labor are opposed to proposals that would directly or indirectly weaken cargo preference and the negative impact it would have on U.S. jobs and national security.

This is a highly contentious issue. The NFTC/CEE on the one hand, claim that MARAD rules cause their exports to sometimes be uncompetitive while MARAD, members of Congress and various Maritime unions and their supporters have vigorously defended the absolute necessity for the existence of this law and the procedures implemented by MARAD to administer it. Further, the Maritime unions are strongly against any changes to MARAD procedures since their position is that any changes will have a negative impact on U.S. jobs and will ultimately weaken the United States' ability to fight foreign wars.

In writing this paper, the committee members met with the NFTC, CEE, and the American Maritime Congress .to discuss the issue. While MARAD was present during the meeting with the AMC, no conclusions or recommendations were reached. However, it was apparent that dialogue was continuing among MARAD, NFTC, CEE, and the AMC.

This paper will not attempt to resolve this longstanding debate. Our purpose is to merely present both sides of this issue with our conclusions.

Background - PR 17

Highlights of the current regulations regarding PR-17 include:

- It is the sense of Congress that in any loans made by the Reconstruction Finance Corporation (the precursor to Ex-Im Bank) or any other instrumentality of the Government to foster the exporting of agricultural or other products, provision shall be made that such products shall be carried exclusively in vessels of the United States, unless, as to any or all of such products, the Secretary of Transportation, after investigation, shall certify to the Reconstruction Finance Corporation or any other instrumentality of the Government that vessels of the United States are not available in sufficient numbers, or in sufficient tonnage capacity, or on necessary sailing schedule, or at reasonable rates.

Ex-Im Bank Requirements

- All goods financed with an Ex-Im Bank direct loan or a long-term guarantee must be shipped in vessels of U.S. registry if they are exported by ocean vessel, unless a waiver of this requirement is obtained from the U.S. Maritime Administration of the U.S. Department of Transportation ("MARAD"). [**Note: At its discretion, MARAD may issue a "compensatory" waiver to an exporter who, through honest error, has shipped Ex-Im Bank supported cargo on a foreign ship AND did not previously obtain a waiver. The compensatory waiver would require the U.S. exporter to export future non-Ex-Im Bank financed cargo on U.S. vessels.**] Shipments for exporters financed under Ex-Im Bank's medium-term guarantee program and the short-term and medium-term insurance program, including Credit Guarantee Facilities, are not subject to U.S.-vessel shipping requirements.

- The Ex-Im Bank shipping requirements only apply if the goods are to be transported by ocean vessel. Exports shipped from the U.S. by air, truck, or railroad is not required to be transported on U.S. carriers. To obtain the Ex-Im Bank loan or guarantee, the borrower must provide evidence of the U.S. shipping (a bill of lading issued by the actual U.S. vessel operator for shipment on a U.S.-registered vessel) or a MARAD waiver. If a shipment of goods is made on a non-U.S. vessel, the goods will not be eligible for Ex-Im Bank financing.

Waivers

- A request for a waiver of the U.S. vessel shipping requirements may be submitted to the Office of Cargo Preference, MARAD. A waiver can be obtained if no suitable U.S. vessel is available. If a waiver is obtained from MARAD and the shipping complies with the terms of MARAD waiver, goods shipped on vessels of non-U.S. registry are eligible for financing by Ex-Im Bank. To obtain the Ex-Im Bank loan or guarantee in such case, the borrower must provide Ex-Im Bank with a copy of the MARAD waiver along with the shipping documents.

Position of the American Maritime Congress (and organized labor)

The American Maritime Congress as well as organized labor have expressed their views on cargo preference. They maintain that "improving the administrative application of cargo preference without reducing cargos available to U.S. flag vessels, as has been done both in 1997 and 2001, is always a worthwhile goal. Reducing the availability of cargos for U.S.-flag vessels, however, is unjustifiable and would be harmful to American jobs, the U.S. Merchant Marines, and our national defense."

The American Maritime Congress raises a number of other issues as well:

- Cargo preference is a Government responsibility and should be reinforced, "not whittled away, in view of September 11th, the expanding war on terrorism, and America's widespread, global interests."

- Cargo preference is essential to retaining vessels under the U.S. flag, guaranteeing a minimum amount of business for U.S. flag vessels in a world market dominated by foreign vessels operating under flags of convenience, subsidized by home governments, and subject to fewer taxes and regulations.

- Reducing Ex-Im Bank generated cargo will negatively impact the U.S. Merchant Marine and seafaring labor and other American jobs the Merchant Marine provides, including shipbuilding, ship repair, and shoreside jobs as well as defense, sealift and personnel assets which are essential to national security.

- Ex-Im Bank generated cargos are even more vital to U.S.-flag carriers and maritime jobs than they have been in the past due to the decline in military and food aid, preference cargos in recent years as forward military basing and food donations have decreased.

- The U.S. flag Merchant Marine is fully integrated into national defense planning and any negative effect on this would have an impact on our national defense.

- The national implications of weakening U.S.-flag Ex-Im Bank cargo requirements have "national implications."

- Cargo preference costs are not a significant burden to Ex-Im Bank operations or to the competitiveness of Bank generated projects.

- Far from hurting U.S. exports, cargo preference helps U.S. exporters meet crucial Ex-Im Bank domestic content requirements.

- Increasing the current $10 million threshold for loan guarantees would reduce cargos subject to U.S. flag preference directly and would set a bad precedent for future increases in the medium-term ceiling which would further reduce cargos.

Position of the National Foreign Trade Council (NFTC) and the Coalition for Employment Through Exports Inc. (CEE)

The NFTC and CEE have expressed their viewpoint on cargo preference rules. They raise concerns about the "negative competitive impact of the U.S. cargo preference rules and procedures on U.S. exporters." These groups voice concerns that the "application of cargo preference requirements to Bank-financed transactions jeopardizes U.S.-origin exports and provides an incentive for foreign sourcing, with a resultant loss of U.S. jobs." They believe the cargo preference rules cause the following problems:

- Shipping costs for U.S., flag vessels are generally more than double that of non-U.S. flag carriers and there is no clear definition or application of their "reasonable costs" doctrine; leaving the exporter open to seriously uncompetitive pricing.

- The age of the U.S. fleet make them uninsurable although insurance is a financing requirement forcing exporters into an untenable position of shipping without the insurance required by Ex-Im Bank.

- Lack of adequate U.S. flag vessels and ship-based loading facilities for the weights and dimensions of the goods being exported causing exporters to risk damage to goods being shipped on vessels of inadequate dimensions.

- The inability to ship directly from the desired point of departure to the desired port of delivery; solely because of unavailability of U.S. flag carriers in a given port. This causes exporters to pay much higher transportation costs, it lengthens the shipping time and risks damage to sensitive goods.

- The requirement for transshipment and transfer of goods during the shipment solely to meet the convenience of U.S. flag carriers risks damaging the goods, increases the shipping costs and increases the shipping time.

The NFTC and CEE also argue that the current waiver policy "is too unpredictable and restrictive, and, thus U.S. exports and jobs are being lost to foreign sourcing." The NFTC and CEE have offered seven recommendations for improving the administration of cargo preference rules as follows:

MARAD should:

- Offer an unconditional pre-bid waiver valid for a 3-year period if no U.S. flagged vessel is qualified to carry the cargo.

- Define limits of " fair and reasonable shipping rates" as required by PR 17. Grant automatic waivers should US-flagged vessel cost exceed 15% of a non-US flag carrier.

- Not dictate ports of exit that would add significant costs or shipping delays to transactions.

- Grant an automatic, unconditional waiver if insurance can't be obtained for the US vessel as required by the financing entity.

- Grant an automatic waiver if US flag carriers cannot adequately handle goods in terms of size, weight and loading.

- Allow US exporters to ship on either the vessels owned by a US company or those that fly the US flag.

- Establish a transparent independent appeals process to review waiver requests denied by MARAD.

Conclusion

While the sub-committee does not have any specific recommendations to make, it appears that Ex-Im Bank should stay involved in the future discussions on this issue since it must implement MARAD regulations, but also fulfill its broad mission by promoting U.S. exports (and thus creating jobs), while not reducing jobs in the maritime industry.

Attachment F

Additional Recommendations

The Advisory Committee further recommends that either Ex-Im Bank or next year's Advisory Committee consider the following.

1. Start the Advisory Committee activities earlier in the year so that work is well on its way before the summer months. Consider timing the tenure of the Advisory Committee to the Bank's fiscal year.

2. Prior to the first Advisory Committee meeting, provide incoming Committee members with previous Committees' recommendations along with a summary of any actions taken following up on those recommendations.

3. Provide incoming Committees with current organization charts of Ex-Im Bank, including names of managers and contact information.

4. Provide transactional activity briefings to the Advisory Committee at each meeting.

5. Expand outreach and cultivation of national, regional and state banking associations and state Departments of Trade to promote more interaction between those organizations' members and Ex-Im Bank. For example, design a pilot program to reach out to banks in a state.

6. Create a "Mentor" program for banks that are new-to-Ex-Im Bank, providing a contact that would be available to answer questions/assist as necessary, thereby helping the banks become a knowledge resource for their customers.

7. Review a prior program feature that had Ex-Im Bank financially compensate banks for bringing in deals.

8. Utilize the US Commercial Service and Small Business Administration (SBA) more effectively to identify new users and initiate financing cases. More closely coordinate Ex-Im Bank's program with similar programs at SBA.

9. Expand Ex-Im's "Working Capital" program, to provide more financing to small- and medium-sized businesses, including export suppliers and sub-suppliers, who need financing to increase production for export transactions.

10. Ex-Im Bank should review the Working Capital "delegated authority" program, and if necessary, modify the program to allow maximum flexibility for exporters. Ex-Im Bank should also review, and if necessary, modify the program to allow state financial institutions to use the program.

11. Review Ex-Im Bank's policy regarding financing support for purchases of U.S. goods and services by foreign joint ventures (with a U.S. owner).

12. Use the tied-aid War Chest more aggressively to counteract foreign governments providing foreign assistance in combination with export credit.

13. Staff should use voicemail and e-mail appropriately (e.g., frequently updating outgoing messages, frequent monitoring of incoming messages, and prompt return of phone calls to customers).

14. Ex-Im Bank "relationship managers" should be knowledgeable of the underwriting process. Additionally, individual exporters should work with the same "relationship manager" on all of their Ex-Im Bank transactions.

15. Ex-Im Bank should allow greater flexibility on medium-term credit standards based on the financial characteristics of various industry segments.

16. Improve clarity of guidelines and application procedures for accessing tied-aid support.

17. Perform a comprehensive review of Ex-Im's Competitiveness Report to Congress. Include hard statistics and comparable numbers within the Report. Also include an analysis of the role of each ECA in respect to the social and economic policies of its home country and an update on the OECD discussion on reaching consensus on environmental standards.

18. Annually analyze all applications submitted to determine the percentage of applications that are denied, withdrawn, or otherwise not approved. Reasons for an application not being approved (including withdrawn) should be tracked and examined for trends.

19. Survey customers after transactions are concluded on the helpfulness, timeliness, and appropriateness of the service they received.

20. Establish a reporting mechanism among the ECAs to better monitor the evolution of co-financing.

21. Further review the European ECA's practice of supporting up to 30% foreign content originating from third countries and the impact of supporting foreign content under one-stop-shop arrangements, and how these policies might affect Ex-Im Bank's competitiveness.

22. Ex-Im Bank should more aggressively advertise the existence of it one-stop-shop arrangements and its willingness to provide one-off support with other ECAs.

23. Ex-Im Bank should indicate to its ECA partners in co-financing its willingness to follow another ECA's lead, in conformity with Ex-Im Bank's policy and public mission, in a one-stop-shop transaction.

24. Ex-Im Bank should develop an implementation timeframe & work plan, designate project officers for each recommendation, and regularly report back to the Advisory Committee on the progress and results for each recommendation.

25. Ex-Im Bank should work with exporters to develop financial common software for the underwriting process.

26. Ex-Im Bank should coordinate with other TPCC members and exporter/exporter-oriented organizations to reach out to and cultivate SME exporters.

27. Ex-Im Bank should establish a goal and incentive system for staff that rewards creating customer satisfaction. This system should contain a rigorous administration of metrics to monitor and measure customer satisfaction for use against the Goal System.

28. Ex-Im Bank should have a "hot line" for complaints with this telephone number posted on the Bank's website. Further, Ex-Im Bank should include a mechanism for handling/protecting anonymity if requested.

Export-Import Bank of the US 2003 Advisory Committee

Recommendations to the Board of Directors

September 2003

Export-Import Bank of the U.S
2003 Advisory Committee

Recommendations to the Ex-Im Bank Board of Directors

Over the past nine months the Advisory Committee has considered two key export industries in which Ex-Im Bank needs to maintain its key relevance in the export import arena. They are the Service Industry and the Agriculture and Agricultural Machinery Industries.

The Advisory Committee members have collected information from a number of sources (direct and indirect, written and verbal) and analyzed that information. As a result of that process, the Advisory Committee has prepared a report on each industry. From this data and the members' professional experience a number of recommendations have been developed.

These attached recommendations are intended to make Ex-Im Bank more accessible, innovative and efficient in the provision of support to U.S. exports, including middle market exports. In pursuing these ideas, Ex-Im Bank should be able to better fulfill its objective of maximizing support for U.S. exports and contributing to the promotion and maintenance of U.S. jobs.

Edward A. Monto
2003 A.C. Chairman
Finance

Andres B. Bande *Services*	Dr. Daniel K.H. Chao *Production*	John W. Rauber, Jr. *Agriculture*
Diane M. Willkens *Small Business/Services*	David Ickert *Small Business/Production*	Lt. Gov. Michael Steele *State Government*
Jacqueline A. Kaiko *Finance*	William L. Bryant *Agriculture*	H. Thomas Kornegay *Commerce*
David M. Roebuck *Small Business/Services*	Jean-Pierre Rosso *Agriculture*	Terrence D. Straub *Production*
Owen E. Herrnstadt *Labor*	Thea Lee *Labor*	

THE EXPORT-IMPORT BANK OF THE UNITED STATES

2003 ADVISORY COMMITTEE

SUBCOMMITTEE REPORT AGRICULTURE INDUSTRY

INTRODUCTION

Background

In early 2003, the Advisory Committee was asked to undertake an analysis of the current and future export potential of the U.S. agricultural sector. Particular emphasis was placed on identifying industry trends that will likely influence demand for Ex-Im Bank services, and on identifying global production shifts that the Bank may be able to help industry address.

The Advisory Committee formed a working group of sector representatives to undertake this analysis. Working group members conducted interviews and focus group discussions with commodity and input producers, agricultural equipment manufacturers, banks, and government agencies currently involved in extending export credit to the agricultural sector. This report summarizes the results of the working group's analysis. It provides the Ex-Im Bank with some direction regarding where and how over the coming decade it should focus its agriculture-related products and services.

Government-supported export financing of agricultural exports has historically fallen into two distinct activities: commodity export financing, which has largely been the purview of the U.S. Department of Agriculture; and export financing of agricultural equipment and inputs, which has for the most part been handled through the U.S. Export-Import Bank. Each of these activities is discussed in the report, as is a detailed analysis of historic trends for both commodities and machinery exports.

The report is divided into four sections. The first section provides a general overview of where agricultural production is increasing, and where agricultural trade is likely to expand. Understanding the projected trends in U.S. agricultural exports should help the Bank understand how to assist U.S. commodity exporters. Similarly, by examining trends in agricultural production abroad, the Bank should be able to better determine the future growth markets for U.S. agriculture-related machinery exports and other inputs.

The second section briefly compares the financial products and services currently provided by the U.S. Department of Agriculture with those provided by the Bank, and explores some reasons agricultural producers and exporters do not take better advantage of the Bank's programs.

The report's third section identifies two issues the Bank should monitor.

The fourth section provides recommendations for program modifications that the Bank should consider in order to better serve the agricultural sector. These recommendations are summarized below.

Recommendations

- When considering an expanded role for the Bank in financing U.S. agricultural exports, Ex-Im should investigate opportunities to facilitate the expansion of U.S.

agricultural sales to those developing and transitional economies experiencing the greatest increases in GDP.

- Ex-Im Bank needs to improve its outreach to those exporters who are likely to be involved in $50,000-$200,000 transactions, and offer more variable finance programs to distributor/dealers. The Bank should also reevaluate is its requirement of sovereign guarantees in certain markets.

- To improve the competitiveness of US agriculture under potentially new restrictions on the terms that may be extended to agricultural exporter customers, Ex-Im and USDA should continue and strengthen their collaboration on program outreach, and any program modification that changes in multilateral rules might necessitate.

- Anecdotal information indicates that, while there is a general awareness among commodity organizations of the programs and financial products available through the Export-Import Bank, there is also the misimpression that Ex-Im programs are only available for large financial transactions. Further, there seems to be a market perception that the Guarantee Program is only for larger deals and is subject to more complex underwriting standards. Ex-Im should work to correct this market perception/ misunderstanding.

- Ex-Im might consider having one of their independent directors add the "Agricultural Promotion" responsibility to their portfolio. This director could then act as an internal promoter for information or recommendations as well as new business opportunities that assist the agricultural export community.

- Applications for used equipment should have initial coordination between the underwriting and engineering groups so that all questions by Ex-Im are posed upfront by both departments in order to enhance the speed of the process.

- Many of the importers for agricultural equipment are end-users and small-to-medium sized companies. Any modifications making the Ex-Im process simpler and more beneficial for these buyers would be helpful to the sale and export of U.S. agricultural equipment.

- Ex-Im should consider applying the enhancements now used for medical equipment to the agriculture sector. Those enhancements could include among others: 1) automatically allowing "covered" financing of a foreign buyer's local cost up to 15% of the contract price when supporting a U.S. agriculture equipment sale; 2) allowing the maximum repayment terms extend up to seven years for medium term financing; 3) allowing capitalization of interest during the construction/erection period for agriculture construction or expansion and 4) continuing to provide flexibility when considering individual transactions in the agriculture sector.

- Ex-Im should continue to pursue establishing new co-financing agreements, enhance existing ones and streamlining such agreements. In addition to pursuing new co-finance/insuring agreements, swift action should be taken to resolve operational issues with existing arrangements.

- Ex-Im should consider whether a Relationship Manager or group of Relationship Managers could be designated that would specialize in the Ag industry. This RM, or group of RMs, could then develop a more in-depth knowledge of the agriculture industry and serve as the contact and resource for Ex-Im's customers exporting agriculture equipment.

- Ex-Im should consider making cover available for the agricultural sectors that are economically healthy even if it is choosing to remain off cover for the rest of the country.

- When borrowers have positively distinguished themselves from others, Ex-Im should acknowledge that achievement by expediting their underwriting process and/or reducing their fees. Ex-Im should consider expedited underwriting and/or reduced fees when such credit package is enhanced with a lien.

ASSESSMENT OF GLOBAL AGRICULTURAL TRADE AND PROJECTED TRENDS

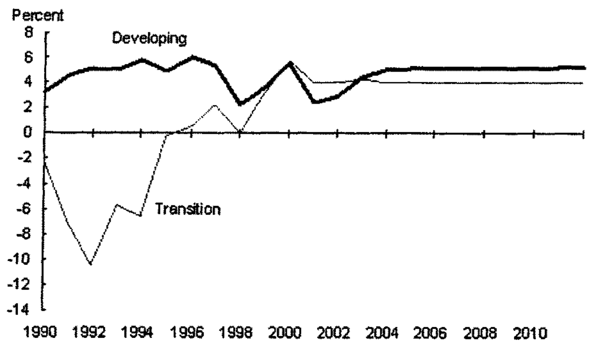
The U.S. has been and will remain a significant net exporter of agricultural commodities. In calendar 2002, the U.S. agricultural trade surplus reached $11 billion. Cumulative exports for 2002 were $53 billion, while imports rose to $41.9 billion for the year.

The U.S. Department of Agriculture (USDA) provides extensive coverage of the imports and exports of major commodities. Some of that analysis is examined in Appendix I. USDA has projected growth trends in agricultural trade through its annual Baseline Projection. These projections should help Ex-Im Bank narrow its geographic focus when evaluating opportunities to support the agricultural sector. According to USDA Under Secretary J.B. Penn, the Department:

> "expects U.S. agricultural exports to increase by almost 4 percent annually for the period 2002-2012. Exports are projected to increase from $53 billion in 2002 to $76 billion by 2012. Most of the export growth would involve shipments to developing countries, especially non-Japan Asia and Latin America. These gains will be driven by rapid increases in food demand stemming from strong income growth and continued trade liberalization. Although bulk commodities would account for some of that growth, most of the growth would involve consumer-oriented, high value products—led by horticultural products (fruits, nuts and vegetables) animal products and processed food and beverages."

USDA believes growth in U.S. agricultural exports will be driven in significant part by expected GDP growth in the developing and transition economies. To this extent, when considering an expanded role for Ex-Im Bank in financing U.S. agricultural exports, Ex-Im should investigate opportunities to facilitate the expansion of U.S. agricultural sales to those developing and transitional economies experiencing the greatest increases in GDP.

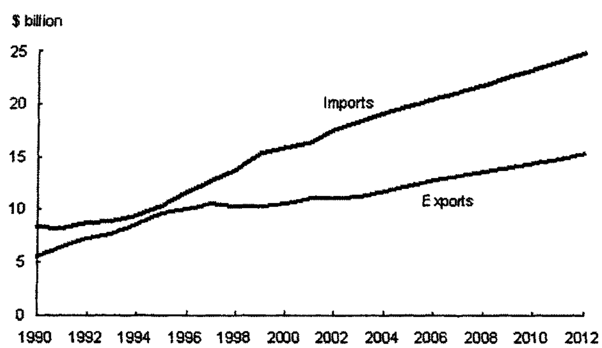
Developing and transition economies' GDP growth



Source: *USDA Agricultural Baseline Projections to 2012*, February 2003.
Economic Research Service, USDA.

Horticulture is one sector in which rising GDPs in emerging markets could affect both U.S. imports and exports. USDA projections indicate that, while U.S. export growth potential for many bulk commodities is expected to be constant or slightly negative, U.S. horticultural exports, as well as imports, are likely to increase over the coming decade.

Value of horticultural trade



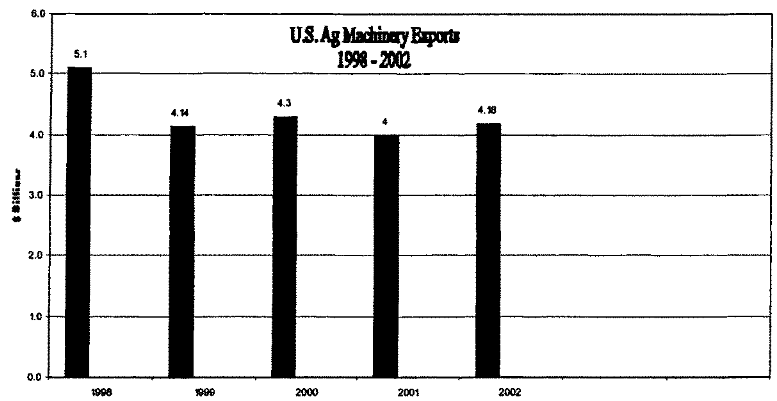
Source: *USDA Agricultural Baseline Projections to 2012*, February 2003.
Economic Research Service, USDA.

Our cursory analysis of U.S. agricultural export trends suggests opportunities for Ex-Im financing of agricultural commodity transactions will be focused on non-Japan Asia and Latin America.

Equally as important, this review of increasing agricultural production in other countries suggests where there is potential for exports of U.S. agricultural equipment, machinery and products, such as tractors, harvesters, sprayers, irrigation, refrigeration and storage facilities and systems, greenhouses, and other inputs. Very generally, these countries include Brazil, the former Soviet Union, Central and Eastern Europe, China, Japan, Argentina, Thailand, Mexico, Canada, Indonesia, sub-Saharan Africa, Australia and the European Union. (For further details on this data, see Appendix I.)

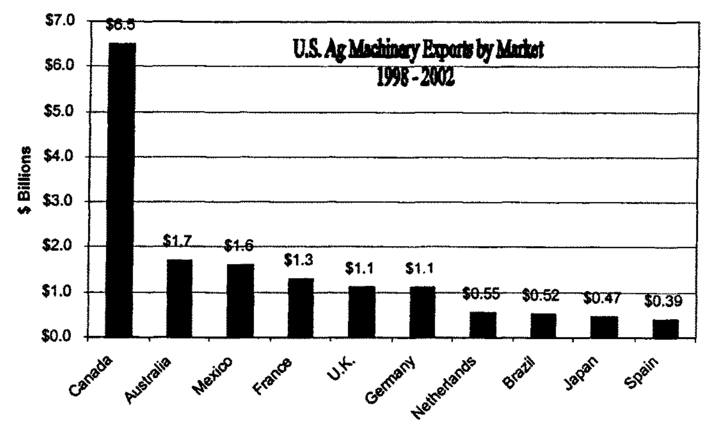
Current and Potential Growth Markets for U.S. Goods to Support Global Agricultural Production

Statistics compiled by the U.S. Department of Commerce, U.S. Department of Treasury and the U.S. International Trade Commission provide a detailed breakdown of U.S. exports of agricultural machinery, which is analyzed in Appendix II. The overall level of U.S. agricultural machinery exports declined 18 percent over the past five years. U.S. agricultural machinery exports for 2002 were $4.2 billion, off from the 1998 export level of $5.1 billion. After a marked decline between 1998 and 1999, agricultural machinery exports from the U.S. have held relatively constant, averaging $4.3 billion over the 1998-2002 period. Overall agricultural machinery shipments are up about one percent for the first six months of 2003, when compared with the same period in 2002.



A review of individual markets for agricultural equipment reveals where most of this decline has occurred. While exports of agricultural machinery tend to track overseas agricultural production reasonably closely, economic performance in important producing regions is equally influential. Where economic performance has remained stable, namely in the developed, Western economies, U.S. agricultural machinery exports have been sustained. And where fiscal and monetary problems have persisted, such as in the emerging former Soviet economies and in Latin America, the challenges to sustaining market development for agricultural machinery exports are much greater.

Over the five-year period 1998-2002, Canada, Australia, Mexico, France, United Kingdom, Germany, Netherlands, Japan, Brazil and Spain were the largest export markets for U.S. agricultural machinery. Exports to Canada lead this group at $6.5 billion, with $1.3 billion in 2002. For 2002, China and Saudi Arabia supplanted Brazil and Spain among the ten largest export markets for U.S. agricultural machinery.



From the trends in agricultural machinery exports over the past five years, it is evident that the most significant and sustainable exports markets for U.S. exporters will continue to be those of Canada, Australia, Mexico and the EU. Not surprisingly, these nations represent the most efficient agricultural producing countries outside the U.S. As the emerging countries of the former Soviet Union and Central and Eastern Europe continue to develop their agricultural economies, they will also be important and growing markets for U.S. exports of production inputs and equipment. Taken together, the former Soviet Union states accounted for $556 million in exports for the 1998-2002 period (ranking it seventh among export markets), while Central and Eastern Europe together accounted for $327 million in U.S. exports. Their ability to sustain themselves as viable markets for U.S. exports, however, will also depend on improved fiscal and monetary performance and economic growth. This will also be true for the major agricultural producers of Latin America.

In addition to economic performance and agricultural production, in-country manufacturing of machinery and equipment can also influence the development of export markets for U.S. goods. Yet it is true that of the most sizable markets for U.S. machinery exports, all have significant in-country manufacturing of machinery and equipment. Further market liberalization in the emerging economies that enables competition among goods manufacturers will also be an important factor in the growth of machinery exports.

COMPARATIVE ANALYSIS OF EX-IM BANK AND USDA PROGRAMS

Both Ex-Im Bank and USDA offer short and medium term export financing and insurance programs for exporters of US agricultural products. The USDA offers such programs through its federal corporation: the Commodity Credit Corporation (CCC).

Overview of Export Credit Programs

The USDA's programs encourage exports to buyers of U.S. agricultural products in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. Ex-Im Bank's programs focus on enhancing rather than competing with USDA programs in the agricultural sector. In fact, Section 2(b)(8) of the Ex-Im Bank charter explicitly states that Ex-Im Bank may not compete with either private capital or CCC's agricultural commodity programs. As a result, the terms offered by Ex-Im Bank generally tend to be more restrictive than those of CCC.

In particular, USDA's short-term agricultural commodity program offers very attractive terms when compared to those offered by Ex-Im Bank. Among the medium-term programs offered, however, Ex-Im Bank offers relatively more competitive terms. This is true, for example, when one compares end use requirements. USDA's program is limited to goods that establish or improve agricultural facilities in emerging markets, whereas Ex-Im Bank's programs is open to all US capital goods and services.

Two CCC programs underwrite credit that is extended by the U.S. private banking sector (or, less commonly, by the U.S. exporter) to approved foreign banks, in cases where dollar-denominated, irrevocable letters of credit are provided to foreign buyers purchasing US food and agricultural products. These programs, administered by the Foreign Agricultural Service (FAS), do not provide financing, but guarantee payments due from foreign banks. The purpose of the short-term Export Credit Guarantee Program (GSM-102) is to expand or maintain US share of world agricultural export markets. GSM-102 offers credit terms of up to 3 years on guarantees to US exporters who may assign coverage to eligible US financial (lending) institutions. Eligible buyers are foreign private and public importers of all US origin agricultural commodities. Eligible debt service coverage is based upon the defined "port value" of export and is typically 98% of eligible principal and a fixed interest rate on eligible principal as set by CCC. Coverage of up to 100% of debt service is possible in some cases.

Comparable short-term agricultural programs offered by Ex-Im Bank are its Letter of Credit Policy (ELC) and various Short-Term Policies for small business, umbrella, financial institution, buyer credit, short-term single-buyer, and multi-buyer. The purpose of these policies is to assist exporters and financial institutions in financing exports of bulk agricultural commodities. Under the ELC and Short-Term Policies, Ex-Im Bank offers credit terms of up to 360 days on insurance to US banks and exporters who may then assign coverage to US financial institutions. For its ELC program, eligible buyers are foreign private and public financial institutions that have a correspondent relationship with the insured. For Ex-Im Bank's Short-Term Policies, eligible buyers include both foreign private and public importers as well as foreign financial institutions. Eligible debt service coverage is based upon the gross invoice value of commodity plus freight, insurance and other charges plus interest and is typically for 98% to 100% of eligible principal and interest.

The USDA offers short to medium-term financial support through its Facility Guarantee Program (FGP). FGP provides US exporters who may assign coverage to eligible US financial institutions with credit terms of up to 8 years. The purpose of the FGP is to establish or improve agricultural facilities in emerging markets, which will primarily benefit US agricultural exports. Qualified buyers are importers located in targeted markets of eligible goods up to the lesser of 85% of Net Contract Value or $8.5 million. Up to 95% of debt service is eligible for cover.

Ex-Im Bank offers medium-term support in the form of guarantees, loans, and insurance policies. The purpose of these programs is to assist exporters and financial institutions in financing exports of capital goods and services of US origin to create and maintain jobs. US exporters and financial institutions can generally receive credit terms of up to 5 years based on the contract value of eligible goods. Qualified buyers are foreign private and public importers and banks. Eligible insured or guaranteed portion is the lesser of 85% of contract value or total US amount. For its insurance products, the amount is capped at $10 million. Up to 100% of debt service is eligible for cover.

Please see Appendix III for more information on the programs and a comparison between CCC's and Ex-Im Bank's programs.

Agricultural Participation in Ex-Im Financing Programs

Given that USDA can extend preferential short-term credit, most U.S. government and assisted commodity financing is provided through USDA's CCC program. U.S. and bulk commodity exporters contributing to this report suggested USDA credit programs have worked well for their industries. USDA terms are more favorable with 5.5 years and the option of semi-annual payments. The cost of USDA programs and fees for coverage are less than Ex-Im Bank. However, some representatives suggested Ex-Im Bank programs might be more appropriate for higher value products that are further processed abroad (such as yarn or fabric). Such exporters want revolving credit facilities for repaying and restocking. If such a line could be maintained with reliable distributors, it would facilitate more efficient business operations.

Very informal, anecdotal information collected indicates that many commodity organizations are somewhat aware of the programs and financial products available to them through the Export-Import Bank, but have the misimpression that Ex-Im programs are only available for large financial transactions. Given that some of the future growth of U.S. agricultural exports is in the horticultural and high value food sector, and given that these transactions are not always for large sums relative to bulk commodity sales and contracts, this might be a misunderstanding the Bank should correct.

Such outreach to agriculture in general and to high value, consumer oriented exporters in particular could become more important if USDA Commodity Credit Programs are adjusted per terms negotiated in the World Trade Organization. Such a development is considered in the next section of this report.

ISSUES FOR CONSIDERATION

WTO Negotiations

If the eventual outcome of current WTO negotiations on agricultural subsidies/trade distorting supports includes new restrictions on the terms of government assisted export financing and credits, it could force USDA and Ex-Im Bank to reevaluate and adjust some of their agricultural related financing programs.

Recent position papers tabled in the WTO by major trading members call for eventually eliminating export subsidies. In turn, there is recognition that limits and disciplines on export credits and financing terms will also need to be considered. As a result, it is possible sometime in the next few years CCC program terms might need to be revised. Depending upon the outcome of the negotiations, this could result in increased demand by agricultural commodity exporters for Ex-Im services and products. This would be likely if the Commodity Credit Corporation was no longer able to provide preferential short-term credit terms vis-à-vis those provided by the Bank. On the other hand, given that the Bank may not compete with the CCC, if the CCC were forced to adjust its terms so that they were similar to those currently provided by Ex-Im, the Bank might be required to overhaul of the products and services it currently extends to agricultural customers.

In order to improve the competitiveness of US agriculture, Ex-Im and USDA should continue and strengthen their collaboration on program outreach and possible program modification.

Emerging Markets

The working group cautions Ex-Im Bank that the analysis in this report is largely based on data and projected baselines that analyze current trends and policies. Emerging opportunities may not be as readily apparent unless one considers the range and impact of potential domestic and international trade policy changes. For example, India as an export market is not often addressed in the discussion provided in this report, and yet if it were to liberalize its food and agricultural sector it might emerge as a significant customer for both U.S. agricultural commodities and inputs. To this extent, while this report identifies markets for U.S. food and machinery, a list of such markets should be revisited as policies in emerging economies change.

SUGGESTED MODIFICATIONS

These suggestions come from a variety of sources including one-on-one input from exporters of agriculture products from meetings held in Washington, D.C. on July 16, 2003 and in Chicago on July 24, 2003. The D.C. meeting was hosted by Deere & Company and included representatives from commodity organizations, equipment manufacturers, agricultural chemicals manufacturers, food processors, and providers of agricultural credit. The Chicago meeting was hosted by Wells Fargo HSBC Trade Bank and had several Trade Bank personnel in attendance, plus representatives from several manufacturers (and exporters) of agricultural equipment ranging in sales size from small to medium to large corporations. Also in attendance at both meetings were representatives of the Export-Import Bank.

Credit Issues

There are situations that are not entirely addressed by either USDA or Ex-Im. Such areas should be carefully considered, in collaboration with USDA, as Ex-Im reevaluates its role in the agricultural sector. One such situation is when local (foreign) banks will not extend credit to their own sectors because the buyers may be considered too small. In such situations Ex-Im might not have the internal information it usually needs to appropriately assess a transaction and its risk. Compounding this challenge, some have suggested that the USDA's Foreign Agricultural Service (FAS) agency is not always that interested in helping U.S. exporters obtain financial and credit information in support of small deals.

Ex-Im Bank needs to improve its outreach to those inclined to be involved in $50,000 - $200,000 transactions and offer more variable finance programs to distributor/dealers and work with USDA/FAS to explore how financial and credit information could best be acquired in support of smaller transactions.

Ex-Im Bank should reevaluate its request for sovereign guarantees. This is not always practical when the export is equipment and the buyer is a farmer. Once again if the Ex-Im Bank is to increase its activity in the agricultural sector, it needs to focus on how it might adjust its services and requirements to better accommodate smaller and less secured transactions.

As a high percentage of US agricultural equipment manufacturers fall into the small to medium size company range, their opportunity to attract bank supplied export finance services is often limited. Fewer than thirty-five commercial banks within the US offer a range of international financing for cross-border trade. That number is further constricted when one eliminates those institutions that only offer this product to very large corporate customers and for very sizable minimum amounts (over USD5,000,000). Ex-Im should address these market realities by creating incentives that encourage small to medium sized exporters and their banks to aggressively pursue new export sales.

Ex-Im might consider having one of their independent directors add the "Agricultural Promotion" responsibility to their portfolio. This director could then act as an internal promoter for information or recommendations as well as new business opportunities that assist the agricultural export community.

Improvement of Underwriting Turnaround Time

This is a rather basic premise but an important one with respect to the export of agricultural products. This is consistent with recommendation Number 7 of the 2002 Advisory

Committee Report that called for a streamlined and simplified underwriting process, in order to provide faster and more transparent service.

Used Equipment

The agriculture equipment sector is, and could be more active, in both the used and new equipment market. Instances were cited of applications going to Ex-Im for the sale of used agriculture equipment. The underwriting process resulted in several queries to the exporters that were subsequently answered. Sometime after this, additional queries came back to the exporter from the Engineering Division of Ex-Im concerning the technical aspects of the used equipment. Underwriting and engineering groups should coordinate on applications for used equipment so that the all questions by Ex-Im are posed upfront by both departments. This should shorten the process.

Entities to Issue Guarantees to Ex-Im

Many agricultural equipment exporters sell directly to end-users. These end-users in many cases are small to medium sized enterprises and require medium term credit. Ex-Im has made improvement in the transparency of the medium term underwriting process with the publication several years ago of the Medium Term Credit Standards. However, this process can still be somewhat daunting. Credit information and resulting questions/answers move back and forth between a foreign country and Washington, DC consuming important time and efficiency. The "Bundling Facilities" used in the past by Ex-Im did not alleviate this problem due to a reluctance of the foreign guaranteeing bank (usually large commercial institutions with a limited interest in the agricultural sector) to underwrite small and medium sized agriculture related customers. Ex-Im should try to remove some of these obstacles by identifying and developing credit relationships with foreign financial institutions heavily involved in the country's agricultural sector, with foreign credit unions specializing in the agricultural sector, cooperatives and other such foreign entities that have special interest in the agricultural sector.

Ex-Im Guarantee Program

There seems to be a market perception that this program is for only larger deals and is subject to more complex underwriting standards. Ex-Im should work to correct this market perception. Many US banks are most willing to finance using the Medium Term Insurance Programs that can create advantages for US exporters selling in amounts less than $500,000 where Buyer Credits are less attractive for financing banks.

Enhanced Ex-Im Support for the Agriculture Sector

Any modifications that simplify the Ex-Im process would help facilitate exports of U.S. agricultural equipment. To make the process more user-friendly, Ex-Im should consider applying the enhancements now used for the medical equipment to the agriculture sector. Those enhancements could include among others: 1) automatically allowing "covered" financing of a foreign buyer's local cost up to 15% of the contract price when supporting a U.S. agriculture equipment sale; 2) allowing the maximum repayment terms extend up to seven years for medium term financing; 3) allowing capitalization of interest during the construction/erection period for agriculture construction or expansion and 4) continuing to adopt flexibility when considering individual transactions in the agriculture sector.

Local costs and interest capitalization during construction are certainly applicable when an agricultural importer is buying (for example – including but not limited to) grain handling and storage equipment to be assembled in a local project, irrigation equipment to be installed and made operational, and/or poultry equipment for the establishment or expansion of a poultry operation.

Seasonality is a particularly important factor in the agricultural industry. Due to the planting, growing and harvesting process, revenue generation, in most situations, happens once at the end of the production period and well after all expenses have been incurred. The seasonality issue complicates the repayment timing (especially the first installment payment). The capitalization of interest should be considered as an allowable feature when seasonality of agricultural revenue is evident, whether it is a project with an extended completion period or a free standing unit of equipment going to work immediately.

Co–Financing/Insuring Agreements

These Ex-Im agreements can be beneficial to certain agricultural equipment exporters. Ex-Im should continue establishing new ones, enhance existing ones and streamline such agreements. The Ex-Im/EDC Co-Finance/Insuring agreement has been beneficial to the agricultural and non-agricultural industries in the past. Currently, this agreement is affected by an internal negotiation between Ex-Im and EDC. In addition to pursuing new co-finance/insuring agreements, swift action should be taken to resolve operational issues with existing arrangements. Recommendation #3 as reported in the 2002 Advisory Committee Report (December 2002) highlighted the need for the Bank to review its co-financing policy.

Relationship Managers

Under a recent Ex-Im reorganization, the primary customer contact is to be a relationship manager ("RM"). It appears that only a limited number of the largest Ex-Im customers have an assigned RM. If all customers are to have an assigned RM, Ex-Im should act to fulfill this goal as soon as possible. Additionally, Ex-Im should consider grouping RMs by industry sector. Thus, there could be a RM or group of RMs that would specialize in agriculture. This RM, or group of RMs, could then develop a more in depth knowledge of the agriculture industry and serve as the contact and resource for Ex-Im's customers exporting agriculture equipment.

Dealer/Distributor Financing by Ex-Im

Ex-Im is currently reviewing the dealer/distributor programs it offered in the past. Such consideration includes a lease/rental option allowing the dealer to lease/rent the equipment combined under the dealer/distributor program. This type of option is of interest to the agricultural sector. As this product is being considered, Ex-Im should elicit input from a variety of interested exporter sectors (including the agricultural sector).

Other issues that should be examined in formulating a new "dealer" policy:

- Realistic collateral requirements
- Risk sharing by the distributor or by the exporter
- Floor planning options/costs, administration and credit standards
- "Switch" option and approval implications (delegated authority)
- Remarketing and resale conditions
- Premium reductions for credit enhancements
- Use of both the Guarantee and Insurance Programs options
- Allowing underwriting credit for new revenue, as opposed to only recognizing expenses, when forecasting equipment acquisitions.

Country limitations

Even the smallest importer of agricultural equipment is as affected by world commodity prices as they may be by local country conditions. This could create a situation where an agricultural sector is strong despite a poor or struggling overall economy. Ex-Im needs to take into account that agricultural customers (importers) operate on the basis of world commodity prices, and offer services and products to healthy agricultural sectors even in less credit worthy economies.

For example, currently Ex-Im is off cover in Argentina. However, the agricultural sector in Argentina is doing well. It is one of the sectors that will help lead Argentina out of its current economic crisis. With the entire country of Argentina being off cover, their agricultural sector is deprived of needed financing for the additional production equipment that will provide a much-needed source of hard currency revenue. Ex-Im should consider making cover available for the agricultural sector in Argentina even if they are choosing to remain off cover for other sectors in the country. If the Argentine government can assure Ex-Im that exporters of commodities will be able to control hard currency receipts for exports and thus can pay off their external obligations, this appears a sound reason for a limited "opening."

Acknowledge Established and Experienced Borrowers

When borrowers have positively distinguished themselves from others, Ex-Im should consider acknowledging that achievement by expediting their underwriting process and/or reducing their fees. One agricultural exporter who uses short-term policies related that he has a variety of customers who apply for coverage at Ex-Im. He noted that he has some customers that have used Ex-Im coverage repeatedly for over ten years and paid on time without a problem for this entire period. The exporter noted that anytime he submits that customer for new coverage at Ex-Im, the customer is subjected to the same underwriting process and the same fees as a first time importer application. This long-time repeat customer receives no credit for his previous exemplary performance.

In another situation for medium term credit the coverage requires the exporter to secure a valid lien on the equipment. This enhances the credit package with a valuable lien that takes time and money to obtain. Ex-Im should consider expedited underwriting and/or reduced fees when such credit package is enhanced with a lien.

Transmittal

On behalf of the Ex-Im working group this draft paper is being submitted to the Export Import Bank full Advisory Committee for their consideration and adoption.

Bill Bryant
Working Group Chair

Appendix I

U.S. Agricultural Imports and Exports

To get a basic snapshot and an indication of the trends in these commodities, the analysis focuses on the top 10 countries from, or to which, the U.S. imports or exports. The focus was further narrowed, as appropriate, when nearly all (i.e., greater than 98%) of the total amount imported from, or exported to, these top 10 nations in 2002 was concentrated in only a handful of countries. For example, since more than 98% of U.S. imports in 2002 of wheat & meslin came from France, UK, and Canada, the illustration of wheat and meslin import activity is limited to these three countries.

The main agricultural commodities imported to the U.S., are wheat and meslin; oats; corn; rice; starches & inulin; wheat gluten; and soybeans. Of these key imports, rice was the only commodity that showed a consistent, annual volumetric increase from 2000 through 2002. Wheat and meslin, corn, wheat gluten, and soybeans all experienced a large jump in U.S. import volumes from 2001 to 2002 after experiencing a significant drop between 2000 and 2001. U.S. imports of oats increased from 2000 to 2001, but decreased in 2002. U.S. imports of starches rose in 2002, but were still less than import volumes in 2000.

Major U.S. agricultural commodity exports include wheat and meslin; oats; corn; rice; grain sorghum; cereal flours; cereal groats, meal pellets, grains, and germs; flour, meal flakes, granules and pellets of potatoes; malt; and soybeans. Of these, only U.S. exports of rice, and of the commodity grouping "cereal groats, meal pellets, grains and germs," showed a consistent, annual increase in each of the past three years (2000 to 2002). Cereal groats, meal pellets, grains, and germs grew significantly (113 percent) from 2000 to 2001, and again (436 percent) from 2001 to 2002.

Oats and cereal flours exports rose over the three year period, although exports in 2001 were down from the prior year. U.S. exports of grain sorghum remained nearly constant from 2001 to 2002, and still below 2000 levels. While corn saw a slight decrease in exports from 2001 to 2002, the sale of this commodity to other countries remained fairly steady over the three-year period. U.S. soybean and malt exports declined in 2002 compared to the previous two years. Only wheat and meslin, and the commodity "flour, meal flakes, granules & pellets of potatoes" have steadily declined each year during the 3-year period.

Growth Trends and Baseline Projections

USDA has projected growth trends in agricultural trade through its annual Baseline Projection. USDA analysts anticipate average economic growth rates in the developing countries of 4.5 percent 2003, and then increasing to an average annual rate of 5.2 percent over the period 2006-12. Long-term growth in the "transition economies" (former Soviet Union, Central and Eastern Europe) is projected at 4 percent annually, a significant reversal from the contraction of their economies in the 1990s.

Rising GDP and income growth, as suggested by this data, indicate these markets, and in particular the transition economies, will become increasingly important players in agricultural trade over the coming decade. Some of these countries will become significant markets for U.S. agricultural goods. As their own agricultural economies develop, some of these countries will also likely become markets for U.S. agricultural- related equipment/imports.

Horticulture is one sector in which rising GDPs in emerging markets could affect both U.S. imports and exports. Horticultural products include fruit and nuts, vegetables, and greenhouse and nursery products. Grapes, oranges, apples, fresh and processed potatoes, and processed tomatoes are among the leading U.S. horticultural export commodities. These U.S. products are sent to markets such as Canada, Mexico, Japan, and Southeast Asian nations. Major U.S. horticultural imports include bananas, grapes, frozen concentrated orange juice, potatoes, and tomatoes from Mexico, Chile, Canada, and Brazil. Despite growth in U.S. horticultural exports, USDA projects that the U.S. will remain a net importer of these products. This suggests that there could be increasing opportunities for the Bank to facilitate U.S. horticultural exports to emerging markets as well as opportunities to assist in the export of machinery[1] and input exports to these countries.

USDA also projects that global trade in more traditional bulk commodities will increase, despite relatively flat U.S. export growth. The Baseline Projections offer the following specific observations about future global trade in bulk agricultural commodities. In sum, it is expected that:

- Ukraine, Kazakhstan, Russia, and Hungary, will "emerge as steady suppliers of wheat to international markets".
- The United States will "dominate" global commodity trade. Competition is expected from Argentina, Central and Eastern Europe.
- While Brazil could surpass the U.S. as the leading exporter of soybeans, the U.S., Brazil and Argentina will continue to account for about 90% of world soybeans.
- USDA predicts the U.S. will remain the leading cotton exporter but anticipates continued competition from Central Asia and new aggressive competition from Sub-Saharan Africa.
- Thailand and Vietnam remain the leading rice exporters.
- According to USDA projections, the U.S. encounters increasing competition in international poultry markets from Brazil, the EU, and several CEE countries.

These USDA Baseline Projections provide a useful guidepost for understanding where U.S. export sales are likely to be concentrated and where the potential demand for financing future U.S. agricultural exports sales might exist. These guideposts suggest that the most promising markets for U.S. commodity sales overseas are Canada, Japan, Australia, non-Japan Asia, and Latin America. To this extent, cursory analysis of U.S. agricultural export

[1] Refrigeration capacity in ports and throughout the distribution chain, production, harvesting, packing, processing and shipping equipment

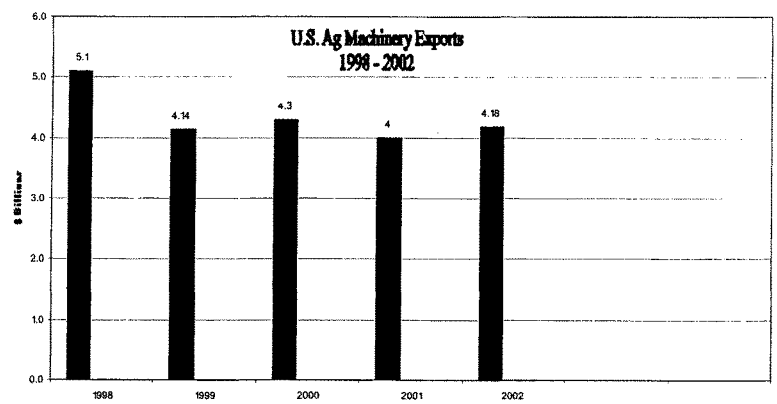
trends suggests opportunities for Ex-Im financing of agricultural commodity transactions will be focused on non-Japan Asia and Latin America.

Equally as important, this review of increasing agricultural production in other countries suggests where there is potential for exports of U.S. agricultural equipment, machinery and products, such as tractors, harvesters, sprayers, irrigation, refrigeration and storage facilities and systems, greenhouses, and other inputs. Very generally, these countries include Brazil, the former Soviet Union, Central and Eastern Europe, China, Japan, Argentina, Thailand, Mexico, Canada, Indonesia, sub-Saharan Africa, Australia and the European Union.

Current and Potential Growth Markets for U.S. Goods to Support Global Agricultural Production

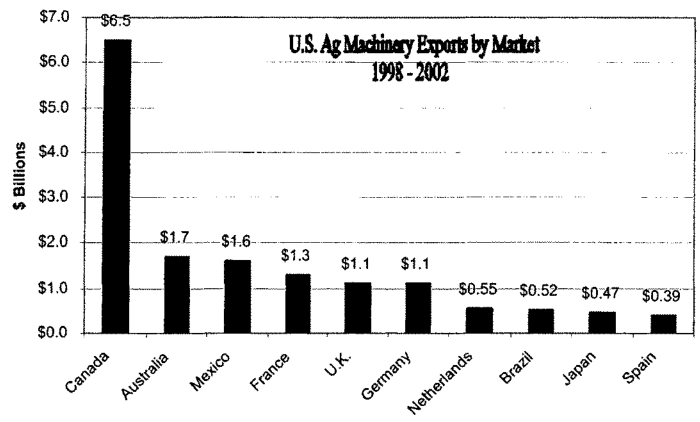
According to statistics compiled by the U.S. Department of Commerce, U.S. Department of Treasury and the U.S. International Trade Commission, U.S. exports of agricultural machinery have declined 18 percent over the past five years. (The ITC reports data separately for agricultural machinery exports and spray airplanes. For purposes of this analysis, agricultural machinery and spray airplane export data are aggregated into a single "agricultural machinery" category.

U.S. agricultural machinery exports for 2002 were $4.2 billion, off from the 1998 export level of $5.1 billion. After a marked decline between 1998 and 1999, agricultural machinery exports from the U.S. have held relatively constant, averaging $4.3 billion over the 1998-2002 period. Overall agricultural machinery shipments are up about one percent for the first six months of 2003, when compared with the same period in 2002.



A review of individual markets for agricultural equipment reveals where most of this decline has occurred. Notwithstanding that exports of agricultural machinery tend to track overseas agricultural production reasonably closely, economic performance in important producing regions is equally influential. Where economic performance has remained relatively positive, namely in the developed, western economies, U.S. agricultural machinery exports have been sustainable. And where fiscal and monetary problems have persisted, such as in the emerging former Soviet economies and in Latin America, the challenges to sustaining market development for agricultural machinery exports are much greater.

The top ten foreign markets for U.S.-made agricultural machinery in 2002 were, in descending order, Canada, Australia, Mexico, France, United Kingdom, Germany, China, Netherlands, Japan, and Saudi Arabia. Given that the value of U.S. exports in a given year may reflect only episodic rather than sustained investment in agricultural machinery, a more useful measure for analyzing market potential is the five-year trend. Over the five-year period 1998-2002, Canada, Australia, Mexico, France, United Kingdom, Germany, Netherlands, and Japan were joined by Brazil and Spain as the largest export markets for U.S. agricultural machinery. Exports to Canada lead this group at $6.5 billion, with $1.3 billion in 2002.

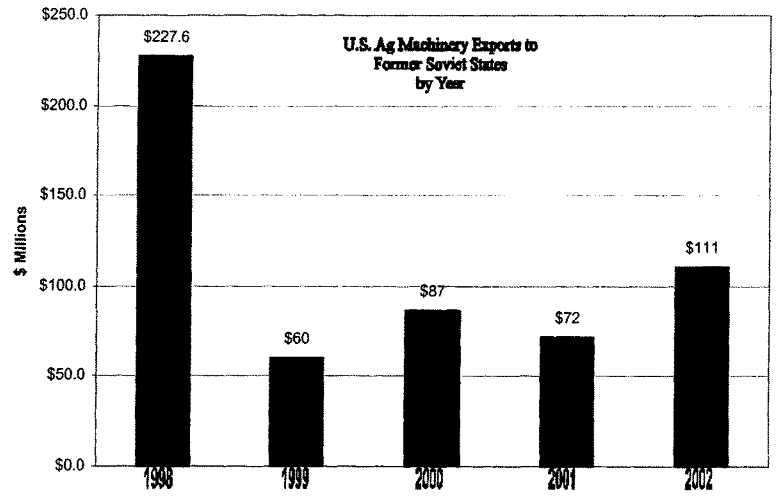


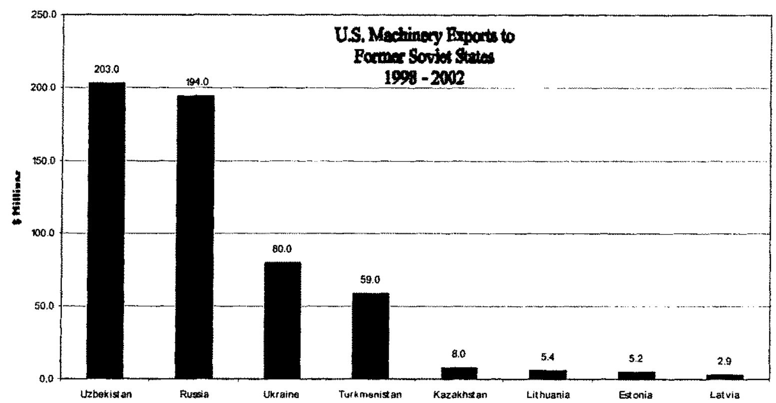
Looking at the changes between 2001 and 2002, a number of countries experienced significant increases in imports of U.S. agricultural machinery. Among these were China (41%), Turkmenistan (223%), Hungary (68%), Uzbekistan (264%), Czech Republic (65%), and Ukraine (63%). Again, these year-to-year increases should be viewed in light of their absolute values and the possibility that a relatively few sizable "one off" transactions may comprise the majority of the increase. Nonetheless, they demonstrate significant new investment in agricultural machinery, met through U.S. exports.

At the same time, these individual country data fail to fully portray the regional potential for U.S. agricultural machinery exports. Further analysis of aggregated country data for the former Soviet states (Estonia, Kazakhstan, Latvia, Lithuania, Russia, Turkmenistan, Ukraine, and Uzbekistan) and Central and Eastern Europe (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, Turkey, and Yugoslavia) better indicate the extent of these regional markets.

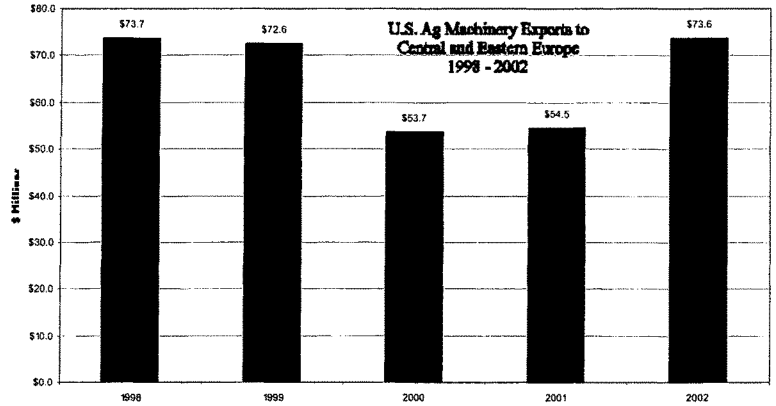
In 2002, the former Soviet states collectively accounted for $111 million in U.S. agricultural machinery exports, which would have ranked them in aggregate as the eighth largest export market for U.S. machinery manufacturers. Yet this level was less than half the $227 million in U.S. machinery exports to the region back in 1998. With the region beset by Russia's fiscal and monetary crises in 1998, U.S. machinery exports dropped 74%, to $60 million in 1999.

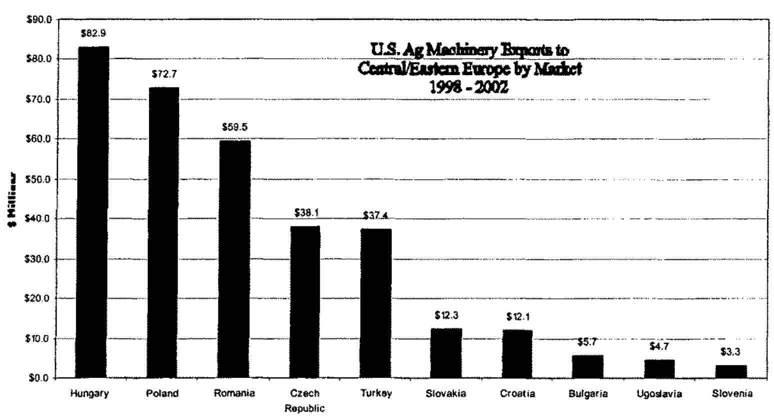
U.S. agricultural goods exports have since risen but not to levels previously achieved. Still, for the five-year period 1998-2002, agricultural machinery exports to the former Soviet states were $558 million, which places the region sixth among export markets and only behind Canada, Australia Mexico, and the EU.



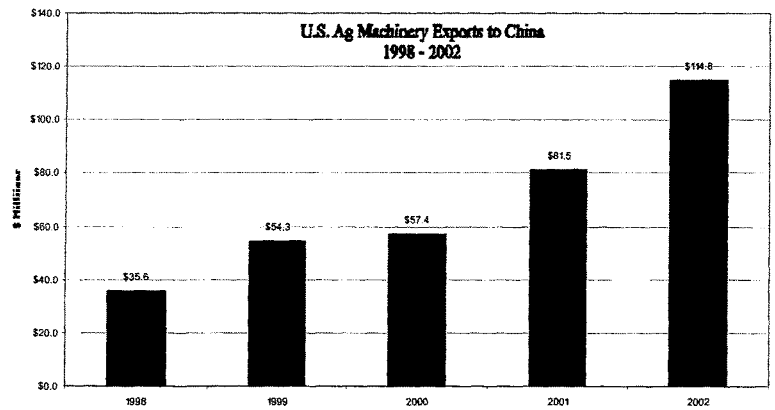


Likewise, aggregated data for Central and Eastern Europe show that these countries collectively accounted for $73.6 million in U.S. exports of agricultural machinery in 2002, led by Hungary ($24.7 million) and Poland ($18 million). This is relatively unchanged from the 1998 level of $73.7 million in exports. Over the 1998-2002 period, however, exports to the region first declined and then began to rise, with significant growth (35%) between 2001 and 2002. The Central and Eastern Europe Region absorbed $327 million of U.S. machinery exports from 1998 through 2002.





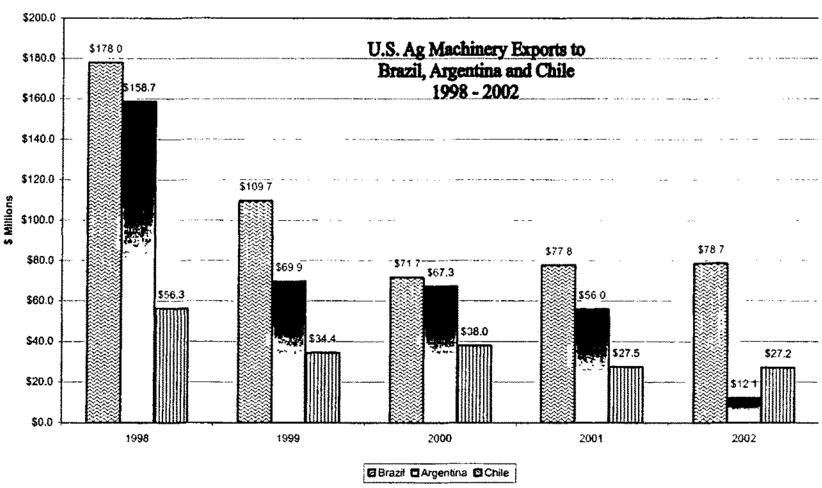
Other critical export markets for this sector include China, Argentina, and Chile. Exports to China saw a substantial boost in 2002 from the previous year, and have seen steady growth in each of the past five years. Over this period, China was the 14th largest export market for U.S. machinery but one of the fastest growing markets. Equipment exports to China have risen 222% from 1998 levels, averaging 35% growth per year.



Argentina, once a significant agricultural machinery market for U.S. exporters, has seen a dramatic collapse. From $158 million in 1998 to $12 million in 2002, agricultural machinery exports to Argentina have fallen 92% over the period. Exports have risen through the first six months of 2003, compared to the same period in 2002, suggesting that its economic condition is improving, and that agricultural development will contribute to Argentina's recovery.

Exports to Chile have seen a fairly steady year-to-year decline, from $56 million in 1998 to $27 million in 2002 (-52%). Exports to Chile were relatively flat between 2001 and 2002.

The trend for Brazil has been more promising. Although off significantly from their 1998 level of $178 million, U.S. machinery exports to Brazil remained steady in 2002 from 2001 levels, and are up 29 percent through the first six months of 2003.



Exports to Sub-Saharan Africa have also declined over the period but represent a sizable market in the aggregate. Agricultural machinery exports to the region for the five-year period were $454 million, on par with the Japanese market. Not surprisingly, South Africa ($325 million) was the largest single market over this period for U.S. exports in the region. U.S. exports to the region declined from $111 million in 1998 to $93 million in 2002.

Within Asia, the Indonesian and Thai markets provide important potential for U.S. agricultural machinery exports as growing commodity and horticultural producers. U.S. exports to Thailand have shown steady year-to-year growth, from $6.4 million in 1998 to $24 million in 2002. The Indonesian market has not shown quite the potential as Thailand, but has also shown steady growth: from $2.4 million in 1998 to $5.8 million in 2002 (although down from $8 million in 2001). The recent growth rates for these markets suggest they should be watched closely for opportunities to support future U.S. exports.

From the trends in agricultural machinery exports over the past five years, it is evident that the most significant and sustainable exports markets for U.S. exporters will continue to be those of Canada, Australia, and the EU. Not surprisingly, these nations represent the most efficient agricultural producing countries outside the U.S. As the emerging countries of the former Soviet Union and Central and Eastern Europe continue to develop their agricultural economies, they will also be important and growing markets for U.S. exports of production inputs and equipment. Their ability to sustain themselves as viable markets for U.S. exports, however, will also depend on improved fiscal and monetary performance and economic growth. This will also be true for the major agricultural producers of Latin America.

In addition to economic performance and agricultural production, in-country manufacturing of machinery and equipment can also influence the development of export markets for U.S.

goods. Yet it is true that of the most sizable markets for U.S. machinery exports, all have significant in-country manufacturing of machinery and equipment. Further market liberalization in the emerging economies that enables competition among goods manufacturers will also be an important factor in the growth of machinery exports.

Comparison of Major Features of Programs Offered by Ex-Im Bank and Commodity Credit Corporation for Support of Bulk Agricultural Commodities

	Ex-Im Bank		**Commodity Credit Corporation**
Purpose	To assist exporters and financial institutions in financing exports of bulk agricultural commodities.		To expand or maintain U.S. share of world agricultural export markets; to assist in providing credit on commercial credit terms to meet export market development objectives.
Eligible Applicants	U.S. exporters and financial institutions such as commercial banks, Edge Act Corporations or branches or agencies of foreign banks. Exporters may assign coverage to financial institutions.		U.S. exporters - who may assign coverage to eligible U.S. financial (lending) institutions.
Eligible Products	Bulk agricultural commodities - 100% U.S.		All **U.S. origin** agricultural commodities are origin. eligible for consideration under the program. Each commodity and country situation is reviewed on a case by case basis.
Eligible Markets	All markets for which short-term insurance available per the Ex-Im Bank Country Limitation Schedule.		Markets in those countries for which coverage is USDA/FAS has announced availability of guarantee coverage.
Name of Program	**Ex-Im Bank Short-Term Policies** includes the following: Small Business,* Umbrella,* Financial Institution Buyer Credit,** Short-Term Single-Buyer,** and Multi-Buyer.*** * Split Cover Only. ** Equalized Cover Only. *** Split or Equalized Cover available.	**Ex-Im Bank Bank Letter of Credit Policy (ELC)**	**Export Credit Guarantee Program (GSM-102)**
Form of Coverage	Insurance	Insurance	Guarantee
Value Covered	Gross invoice value of commodity plus freight, insurance and other charges plus interest.	Gross invoice value of commodity plus freight, insurance and other charges plus interest.	Eligible principal and interest is based upon defined "port value" of export. Freight coverage may be available as per individual country-specific USDA or FAS press announcement detailing coverage and credit terms.

	Ex-Im Bank Short-Term Policies	Ex-Im Bank Bank Letter of Credit Policy (ELC)	Export Credit Guarantee Program (GSM-102)
Maximum Principal and Interest Coverage	**Principal:** Class I: 100%. Class II and III: Split: 98% for commercial losses and 100% for political losses; or, Equalized: 98%. No differentiation between political and commercial losses. **Interest:** Class I, II and III: Wall Street Journal Prime at date of disbursement less 0.5%.	**Principal:** Class I: 100%. Class II and III: 98%. No differentiation between political and commercial losses. **Interest:** Class I, II and III: Wall Street Journal prime at date of disbursement less 0.5%.	Typically 98% of eligible principal and a fixed per annum rate of interest on eligible principal as set by CCC announcement (currently 3.5%); however, regulations permit maximum coverage of up to 100% of principal and interest cover not to exceed 52 week Treasury bill equivalent for a period of up to 36 months. No differentiation is made between commercial or noncommercial risk.
Form of Payment	Open account, drafts and irrevocable letters of credit.	Irrevocable letter of credit opened by foreign bank in favor of U.S. exporter.	Irrevocable letter of credit opened by CCC-approved foreign bank in favor of U.S. exporter.
Eligible Buyers	Foreign private and public importers and financial institutions.	Foreign private and public financial institutions which have a correspondent relationship with the insured.	Foreign private and public importers.
Commencement of Coverage	Earlier of date of shipment or date U.S. bank commits itself to finance the transaction.	At option of bank, either on date it commits itself to finance the transaction or on date documents are presented for payment.	On date of export.
Product Limit	None	None	Not to exceed annual allocation established by FAS. Allocation may vary during fiscal year as per public announcements.

<table>
<tr><th></th><th>Ex-Im Bank Short-Term Policies</th><th>Ex-Im Bank Bank Letter of Credit Policy (ELC)</th><th>Export Credit Guarantee Program (GSM-102)</th></tr>
<tr><td>Country Limit</td><td>None set; decision to take on exposure function of country and foreign bank or buyer creditworthiness.</td><td>None set; decision to take on exposure function of country and foreign bank creditworthiness.</td><td>Not to exceed annual allocation established by FAS. Allocation may vary during fiscal year as per public announcements.</td></tr>
<tr><td>Credit Limit</td><td>Internal exposure limit with foreign buyer or bank established on basis of creditworthiness.</td><td>Internal exposure limit with foreign bank established on basis of creditworthiness.</td><td>Internal exposure limit with foreign bank established on basis of creditworthiness.</td></tr>
<tr><td>Repayment Term</td><td>Up to 360 days.</td><td>Up to 360 days.</td><td>Up to 36 months.</td></tr>
<tr><td>Uninsured Portion of Risk</td><td>Must be retained for account of exporter.</td><td>U.S. bank has option to pass back up to 100% of uninsured amount to exporter.</td><td>Retained by U.S. exporter or assignee.</td></tr>
<tr><td>Fees</td><td>Multi-buyer policies have a composite rate based on spread of risk with the insured; paid per $100 of gross invoice value.

Single-buyer policy premiums are based on the Class of buyer, repayment term and country of importation, range from $0.03 to $3.10 per $100 of gross invoice value.</td><td>Class I: Premium ranges from $0.03 to $3.10 per $100 of gross invoice value depending upon length of credit period and country of importation.

Class II: Premium ranges from $0.04 to $3.10 per $100 of gross invoice value depending upon length of credit period and country of importation.

An additional pre-presentation premium is charged if cover is effected as of date bank commits itself.</td><td>Fee varies with length of credit period, repayment interval and extent of coverage. Fees for typical 98% guaranteed coverage per $100 guaranteed value and 3.5% interest, as follows:
<table>
<tr><th>Length of Credit</th><th>Repayment Interval</th><th>Fee</th></tr>
<tr><td>6 months</td><td>Semiannual</td><td>0.153</td></tr>
<tr><td>12 months</td><td>Semiannual</td><td>0.209</td></tr>
<tr><td>12 months</td><td>Annual</td><td>0.315</td></tr>
<tr><td>18 months</td><td>Semiannual</td><td>0.308</td></tr>
<tr><td>18 months</td><td>Two installments: one annual and one semiannual</td><td>0.368</td></tr>
<tr><td>24 months</td><td>Semiannual</td><td>0.388</td></tr>
<tr><td>24 months</td><td>Annual</td><td>0.480</td></tr>
<tr><td>30 months</td><td>Semiannual: 1/5 at 6-month intervals</td><td>0.470</td></tr>
<tr><td>30 months</td><td>Annual: 2/5 at 12 months; 2/5 at 24 months; 1/5 at 30 months</td><td>0.544</td></tr>
<tr><td>36 months</td><td>Semiannual</td><td>0.556</td></tr>
<tr><td>36 months</td><td>Annual</td><td>0.663</td></tr>
</table></td></tr>
<tr><td>Cargo Preference Limit</td><td>Not applicable.</td><td>Not applicable.</td><td>Not applicable.</td></tr>
</table>

	Ex-Im Bank Short-Term Policies	Ex-Im Bank Bank Letter of Credit Policy (ELC)	Export Credit Guarantee Program (GSM-102)
Claim Filing Waiting Periods	90 days only after each of	Claims may be filed 10 days of non-payment. the following three requirements have been met: 1. After failure of the issuing bank to pay or reimburse the insured bank, the insured bank must make the same efforts to obtain payment or reimbursement from the issuing bank that it would make if the transaction were uninsured; 2. Within 30 days after the failure of the issuing bank to pay or reimburse, the insured bank must make formal written demand on the issuing bank; 3. The issuing bank has failed to pay or reimburse for more than 60 days.	Exporter/assignee must **notify** CCC within Exporter/assignee must file claim(s) no later than 6 months from non-payment date, i.e. original principal and/or interest payment due dates.
Information and Applications	Contact Ex-Im Bank, Insurance Division, 811 Vermont Ave., N.W. Washington, D.C. 20571 (202) 565-3630		Contact Assistant General Sales Manager, USDA, FAS, 14th and Independence Ave., S.W. Washington, DC 20250. (202) 720-3224.

Notes:

Ex-Im Bank: Export-Import Bank of the United States (Ex-Im Bank).
USDA: United States Department of Agriculture.
FAS: Foreign Agricultural Service.
Class I: Sovereign, or transactions with a sovereign guarantor (offers full faith and credit of country of importation).
Class II: Non-sovereign public entities, banks and transactions with a bank guarantor.
Class III: Private entities.

Prepared October 1992, revised November 1994

Comparison of Major Features of Financial Support Programs Offered by Ex-Im Bank and the USDA Foreign Agricultural Service for Export of Capital Goods and Services

	Export-Import Bank of the U.S.	Foreign Agricultural Service
Name of Programs	**Insurance Policies, Guarantees and Loans**	**Facility Guarantee Program**
Purpose	To assist exporters and financial institutions in financing exports of capital goods and services of U.S. origin to create and maintain jobs.	To establish or improve agricultural facilities in emerging markets which will primarily benefit U.S. agricultural exports.
Amount Available	Determined annually by the U.S. Congress.	Determined annually by the USDA/FAS.
Eligible Applicants	U.S. exporters and financial institutions such as commercial banks, Edge Act Corporations or branches or agencies of foreign banks. Exporters may assign coverage to financial institutions.	U.S. exporters - who may assign coverage to eligible U.S. financial institutions
Eligible Products	Capital goods and services with U.S. content in the Contract Value.	Capital goods and services with at least 51% U.S. content in the Contract Value that establish or improve agricultural facilities or improve the handling, marketing, processing, storage or distribution of agricultural commodities.
Eligible Markets	All markets for which support is available per the Ex-Im Bank Country Limitation Schedule (see Information).	Markets in those countries for which USDA/FAS has announced availability of Facility Guarantee Program coverage (see Information).
Eligible Buyers	Foreign private and public importers and banks.	Importers located in a targeted market.
Eligible Obligors	Foreign private and public importers and banks.	"Eligible" foreign banks.
Credit Limit	Credit limit with foreign importer or bank established on basis of creditworthiness.	Credit limit with foreign bank established on basis of creditworthiness.
Value Covered	Contract Value **including** "eligible" foreign content (i.e., integrated in the U.S.) but **excluding** "ineligible" foreign content (i.e., not integrated into the product in the U.S.) Certain local costs may be included.	Same.
Cash Payment Required	15% of Contract Value	15% of Net Contract Value (i.e., excluding "eligible" foreign content, or U.S. content only)
Maximum Insured/Guaranteed Portion	Lesser of 85% of Contract Value, or total U.S. portion only if less than 85% of Contract Value (Insurance limited to $10 million)	Lesser of 85% of the Net Contract Value, or $8.5 million
Maximum Principal Cover	100%.	95%
Maximum Interest Cover	100% fixed or floating. No restriction on interest rate cover.	95% fixed or floating. Interest cover limited to 80% of the "applicable" T-Bill rate, i.e., the average 52 week rate at auction prior to export, reset at each principal payment.
Form of Payment	Promissory Note	Letter of Credit and related obligation.
Commencement of Cover	At shipment. Insurance "pre-shipment" cover also available.	At export from the U.S. No "pre-shipment" cover.

Repayment Term	Contract Value / Maximum Term less than \$80,000 — 2 years \$80,000 - less than \$175,000 — 3 years \$175,000 - less than \$350,000 — 4 years \$350,000 or more — 5 years (over 5 years is subject to OECD guidelines)	OECD guidelines up to 8 years.
Uncovered Portion of Risk	No restrictions.	Must be retained by guaranteed party.
Application Fee	None for Insurance; \$100 for Guarantees & Loans	\$200.
Commitment Fee	None for Insurance; .0125% for Guarantees	None.
Exposure Fee (Premium)	Based on the buyer, repayment term and country of importation, per \$100 of the Guaranteed (Insured) Amount See Fee Calculator at www.exim.gov	Same.
Cargo Preference	Not applicable to transactions under \$10million. Requires U.S flag vessel unless waiver obtained.	Not applicable.
Information and Applications	Ex-Im Bank, Business Development 811 Vermont Ave., N.W. Washington, D.C. 20571 1-800-565-EXIM (3946) www.exim.gov	Mark Rasmussen/William Hawkins Operations Division Foreign Agricultural Service U.S. Department of Agriculture 1400 Independence Ave., SW, Rm453-S Washington, DC 20250 (202) 720-1537/(202) 720-3241 www.fas.usda.gov/excredits/facility

Notes: USDA: United States Department of Agriculture.
FAS: Foreign Agricultural Service.

(2/01)

THE EXPORT-IMPORT BANK OF THE UNITED STATES 2003 ADVISORY COMMITTEE SUBCOMMITTEE REPORT SERVICES INDUSTRY

Philip Merrill, Chairman, The Export-Import Bank of the United States

"We want to continue to do business with the old economy – tractors, planes, pipelines and so on. We care a lot about these companies. But there is also another economy – biomedical, cyber and knowledge-based industries, where a lot of new jobs are coming from and where there are exports of services based on human capital and entrepreneurship and venture capital/free market economy, mobility of capital and management. It's in the knowledge-based industries where we are most competitive in the 21st century and so we want to focus a little more on that."

Global Trade Review, May/June 2003
www.gtreview.com

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SCOPE

The 2003 Export-Import Bank of the United States (Ex-Im Bank) Advisory Committee was asked to focus on two major industries, Services and Agriculture, and provide recommendations to Ex-Im Bank for enhanced support relating to these sectors. Subcommittees of the Advisory Committee were formed and charged with the task of researching each of these and reporting back to the full Committee for final consideration. This report concerns the Services sector. The current growth trends regarding the shift off-shore of U.S. service jobs has significant implications for Ex-Im Bank's business, today and in the future. The Subcommittee recommendations are conveyed with a sense of urgency, for the benefit of the services industry, Ex-Im Bank, and the U.S. workforce.

While Ex-Im Bank has long supported services exports, historically most of this support was provided for services that were directly associated with capital goods transactions. Increasingly today, services are offered as a discrete product apart from goods or projects. Other ECAs are beginning to tackle the challenge of service exports and we encourage Ex-Im Bank to keep pace. The Subcommittee recommendations concern the immediate need for Ex-Im Bank to focus on adapting traditional products (and processes) to services and devising new products to meet the specific and unique needs of service exporters while preserving and creating jobs at home.

This report is the culmination of three months' effort by t he Subcommittee on Services, including:

- Two workshops focused on two subsectors within the Services industry: (a) engineering and design services, including environmental services, and (b) information technology integration, including software services. (Note: the workshops included both large and small firms, trade associations, Ex-Im Bank observers, and U.S. Department of Commerce staff.
- Input and participation in the workshops from interested trade associations.
- Discussions with ECGD, JBIC, and EDC to better understand those ECAs activities with respect to services financing for their customers.
- Discussion and input from the U.S. Department of Commerce, Deputy Assistant Secretary for Service Industries, Tourism and Finance regarding education and tourism services.

As services encompass a larger portion of U.S. exports, U.S. exporters are voicing greater needs for financing. In order to stay relevant and customer-centric, the Subcommittee believes that Ex-Im Bank must focus on adapting its traditional insurance and guarantee products or devising new products (and processes) to meet the needs of all service exporters.

SUBCOMMITTEE RECOMMENDATIONS

There were a number of common themes and recommendations discussed in both the Engineering/Environmental Services workshop and the Information Technology/Software workshop. One subject in particular emerged as an underpinning of each: under Ex-Im Bank financing, U.S. exporters face significant competitive challenges and conditions of support that other ECAs do not require or impose. While historically applied to capital equipment exports, these broad public policy issues will have to be adapted for services in such a way that preserves their intent. It is important to understand the conditions and costs that some exporters believe these policy elements place on then when they seek Ex-Im Bank support.

The Subcommittee's r ecommendations are as follows:

- Formulate a general working definition of services as well as definitions for specific services (IT, engineering, environmental, etc).

- Designate specific staff and management with responsibility for developing services sector products, and support and business, much like Ex-Im Bank has done over the years for environmental services, aircraft financing, and medical equipment exports. Develop a cadre of Ex-Im Bank staff that become expert in services exports and that have the capability to interface with the industry as knowledgeable financial advisors.

- Formulate a policy for financing to support the exports of pure services. Although Ex-Im Bank is supporting services within larger projects involving trade in goods it should also harmonize its policies with growing volume and importance of trade in pure services. Ex-Im Bank's efforts must address inherent differences between equipment exports and services exports, such as intangibility, communication of offer, and the means of service delivery. The creation of framework for increasing exports of services requires relevant changes in the language of legal documents used in Ex-Im Bank transactions.

- Many rules were initially formulated for capital goods. Ex-Im Bank should undertake a review of its policies as they may relate to the services industry, considering the nature of services, the specific modes of services delivery, and the nature of such policies.

- Improve, update, and encourage the active use of the Engineering Multiplier Program. Some of the components of the Program can be changed to meet customer expectations and needs more efficiently. Additionally, consideration should be given to adapting the program to stand-alone service exports without the implicit requirement that it be tied to an equipment export. Ex-Im Bank could use this medium-term program for a whole host of services exports.

- Analyze and review potential financing terms with consideration of useful life of services. Ex-Im Bank should consult the commercial banking industry to define terms of financing. Similarly, Ex-Im Bank should take into account protections afforded under intellectual property (IP) law as a benchmark for useful life considerations. IP rights are very often a significant component of IT projects and in developing markets the value of projects involving software/IT may be longer-term.

- Develop an effective mechanism that encourages real continuity between TDA funding for feasibility studies and further Ex-Im Bank financing. Ex-Im Bank should consider financing feasibility studies that have been rejected by TDA for lack of budget or the size of the study. In general, Ex-Im Bank should be trying to build stronger inter-agency and intra-departmental cooperation to better serve its customers. This reinforced cooperation is expected to lead to better products and options for engineering and environmental services exporters by performing feasibility studies and pre-construction works within export deals.

- Provide more support to small business exporters of services. The Services industry is increasingly represented by small businesses and this trend cannot be underestimated in the policies and procedures of Ex-Im Bank.

- Design an effective information program to advertise financing products available for the services sector, including training in products being offered by Ex-Im Bank. Present case studies as a training and information tool.

- Build a solid understanding of services and translate it into new policies and products. Experience of competitive ECAs may be a good source of ideas for new products and better customer service. Special attention should be paid to long term insurance products offered by competitive ECAs and their attractiveness for exporters vs. Ex-Im Bank's foc us on guarantee products. Even as it strives to meet new challenges and create new products for services, Ex-Im Bank should analyze and work to eliminate impediments for the successful use of existing products.

- Ex-Im Bank should launch a marketing effort to announce programmatic changes when they are agreed. Ex-Im Bank should actively use its internet site to announce the changes and to elicit comment from the Services industry.

- Develop an cadre of Ex-Im Bank staff that become expert in services exports and that have the capability to interface with the industry as knowledgeable advisors.

STATISTICS SNAPSHOT

The Subcommittee recommendations are provided in complement to internal discussions within Ex-Im Bank and various interagency working groups such as the Trade Promotion Coordinating Committee and its *2002 National Export Strategy*. All of these efforts recognize basic statistical drivers behind the need for Ex-Im Bank to enhance its support of services. For example,

- The United States leads the world as the premier provider and exporter of services.
- In 2001 services accounted for more than 79 per cent of U.S. private-sector output and 83% of private non-farm employment (a record 95 million jobs).[1]
- According to the U.S. Department of Commerce, by 2006 almost half the U.S. workforce will be employed by industries that are either major producers or intensive users of information technology products and services.
- In 2001 U.S. cross-border trade in services was 20.8 percent of total foreign trade volume.[2]
- Since 1990, U.S. services exports have more than doubled from $137.2 billion in 1990, to $278.6 billion in 2000. Export growth has remained strong in recent years, notwithstanding the global economic slowdown, increasing 9% in 2000, following a 5% increase in 1999.[3]
- Current international trade policy developments within Doha WTO negotiations are pushing for broad market access in services. The content of current negotiations reflect global trends in the growing amount of trade in services and the financial needs of services exporters and importers.
- Forrester Research, a high-technology consulting group, estimates that the number of service sector jobs newly located overseas, many of them tied to the information technology industry, will climb to 3.3 million in 2015 from approximately 400,000 this year. This shift of 3 million jobs represents an estimated 2 percent of all American jobs.[4]
- The accelerating trend of outsourcing white collar and IT jobs is the subject of testimony by Mr. Paul Almeida, President, Department of Professional Employees, AFL-

[1] U.S. Department of Commerce, Services Exports and the U.S. Economy, March 2003.
[2] U.S. Department of Commerce, International Trade Administration, Services Exports and the U.S. Economy, March 2003.
[3] U.S. Department of Commerce, International Trade Administration, Services Exports and the U.S. Economy, March 2003.
[4] New York Times, *Technology; IBM Explores Shift of Some Jobs Overseas, July 22, 2003.*

CIO before the U.S. House of Representatives Committee on Small Business on the Globalization of White Collar Jobs. See Annex 4.

EX-IM BANK HISTORY IN THE SERVICES SECTOR

Perhaps Ex-Im Bank's Policy and Planning Division best described the Bank' s historical support for services as "ad h oc." (See Annex 2). Although Ex-Im Bank's charter was amended in 1983 to include services within Ex-Im Bank's mandate, the sector has served largely as ancillary to capital equipment exports.

The limitations and challenges faced by Ex-Im Bank over time (as described in Annex 2) reflect the workshop discussions. The core challenge revolves around the intangibility of services. As a result, the threshold evaluations to determine Ex-Im Bank eligibility such as foreign content and useful asset life are not easily demonstrated for service exports.

It is the hope of the Subcommittee that these recommendations will serve to invigorate internal Ex-Im Bank efforts to find near-term pragmatic solutions for the services industry. The industry requires financial solutions and products and at very least, introductory product efforts that can be modified and improved over time.

COMPETITIVE ECA SUPPORT OF SERVICES EXPORTS

During the workshop discussions, U.S. services sector representatives stated that their foreign competitors often get highly attractive financing support from other ECAs. The representatives of engineering and IT service industry mentioned three major ECAs offering competitive products to their customers: Export Development Corporation of Canada (EDC), ECGD of the U.K., and JBIC of Japan.

To begin the review, the Subcommittee undertook an initial web-based survey of all the major ECA's for programs related directly to services. In addition, the Subcommittee talked with representatives of EDC, ECGD and JBIC. We encourage Ex-Im Bank to undertake a more thorough review, particularly with other leading ECAs such as Euler Hermes that appear from their annual report to cover services. The programs and experience of these ECAs could be quite valuable as Ex-Im Bank extends its support for services.

In summary, EDC was by far the most creative and involved of the three ECAs with respect to new products and marketing to service firms. We recommend that Ex-Im bank visit EDC to better understand their services offerings, documentary procedures, and marketing plans.

Highlights from conversations and research with EDC, ECGD, and JBIC follow:

EDC

- In terms of organization, EDC supports the services business under its Mining, Infrastructure Development and Services Team. With more than 300-500 clients annually, the vast majority are in services and the vast majority are small sized firms.

- The Services Team works with construction, engineering, financial services firms as well as with pure services-related businesses such as education, institutional development, tourism and film.

- EDC's 2 002 Annual Report emphasizes the critical importance of the services sector, and services exports in particular, for the Canadian economy. The main emphasis is placed on services related to mining exploration (including environmental consulting), environmental technologies, railway services, electric power, and oil and gas services. EDC also identified potential growth in entertainment and tourism services, which currently constitute 30 percent of total Canadian exports.[5]

[5] EDC website http://www.edc.ca/corpinfo/pubs/report/2002/index_e.htm.

- EDC supports the entertainment and tourism industries. Receivables insurance and pre-shipment financing are most attractive for services exporters due to the nature of services provision and specific trade needs of the industry.

- EDC can provide support to service exporters in obtaining additional operating capital. This support can take the form of accounts receivables insurance that can be used to secure additional lines of credit from a commercial bank by pledging collateralized insured receivables with the bank.

- EDC offers a stable of products related to contract insurance and bonds. One is multi-annual contract insurance, tailored to banks, covering political and commercial risk, and offering a counter guaranty on any call against a performance bond. EDC may also offer wrongful call insurance to the exporter.
  Bonding products are offered by EDC to service exporters in the form of collateral for a letter of guarantee to be issued by a commercial bank to the buyer and in the form of insurance against buyer's wron gful call.

- EDC provides a Working Capital Guarantee Program that may prove helpful during the early phases of an export transaction. EDC's export credit insurance products may also be critical in securing financing during the pre-shipment period.

- EDC takes a pragmatic approach to defining an "export" and to setting the repayment term.

- EDC provides information on success stories in services trade financing through presentation of Exporter Showcases. Industry Canada, a Department of the Federal Government, launched *Strategis* - Canada's B usiness and Consumer website – in March 27, 1996. The site opens a special portal for services exporters entitled: " Take a World View. Export Your Services" with information and guidance on services exports promotion including specifics of financing services exports. *Strategis* and Industry Canada also developed the International Project Development Roadmap, which includes a comprehensive discussion of financial structuring.

- Several teams at EDC work with the services industry including the Mining, Infrastructure Development and Services Team, the Advanced Technology Team, the Aerospace Team, the Civil Works and Professional Services Team, the Oil and Gas team, and the Telecom team.

ECGD

- In terms of defining services, ECGD has a very broad definition for services components in large projects and refers to them as consultancy services.

- ECGD does not target any particular services sectors although it receives applications for funding mainly involving telecommunications services, oil/gas exploration, engineering services, and manpower and training services. However, ECGD noted a decreasing amount of these services coming to their Agency for export support. Royalty and licensing is another type of services exports increasingly supported by ECGD.

- ECGD does not offer programs or products specially designed for stand-alone service deals. ECGD products tend to be associated with the provision of goods within large-scale projects. Services components in large-scale projects are sometimes very substantial and significant in amount, however, as a rule, the services are smaller than the capital or light capital goods components.

- In 1991 ECGD short-term programs were privatized. Exclusive services contracts are commonly in this category of exports and thus qualify for short-term support (up to 90 days), which is currently provided by the private sector. ECGD continues supporting exports services within large - scale projects. ECGD estimated the frequency of services-only contracts (such as oil/gas exploration or IT) as occasional and emphasized that, in their experience, services rarely attract credit in their own right in these areas. ECGD also noted a general trend in smaller size services contracts.

- ECGD provided the following terms that are normally provided for services projects:
  £500000 - 3 years
  £750000 - 4 years
  Over £1,000,000 - up to 5 years

JBIC

- JBIC uses the term, "t he exports of goods and technology," rather than the phrase "services."

- In the past 50 years, there were a total of seventy-one (71) exports of services, all related to the export of plant and equipment. In the post-Ex-Im Bank of Japan era, there have been only eight (8) examples of services projects being supported by JBIC. According to JBIC, all of these instances were related to export of plant and equipment.

- JBIC traditionally supports large customers, therefore it could be worthwhile to also talk with NEXI for matters related to short-term coverage and smaller exporters.

- The procedure for handling exports of services and the export of plant is the same within JBIC.

- JBIC had not received any requests for support for services as a stand-alone export during its history.

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SECTOR SNAPSHOT: Engineering and Environmental Services Workshop

Architectural, engineering and construction services are provided internationally predominantly by affiliates of U.S. firms operating in foreign markets. Generally, U.S. firms establish some type of subsidiary, joint venture, or representative office in important foreign markets, as local presence is often a crucial factor in contract awards and contract performance. Thus the "physical" cross-border trade in this type of services is currently limited to transporting items such as blueprints and designs across national boundaries via mail, telecommunication networks, or other means.[6]

It is a very significant trend that computer-assisted design techniques and electronic communications have allowed U.S. firms to expand their use of foreign workers offering good skills and quality work at lower cost. Another important trend in the development of architectural, engineering and construction services is the growing demand of emerging market economies in these services in the context of public infrastructure projects privatization.

Environmental services include a wide range of services involving air, water and soil, including environmental testing and analytical services, wastewater treatment works, solid waste management, hazardous waste management, remediation and industrial services and environmental consulting and engineering.

For the purposes of U.S. trade statistics engineering services include architectural, construction, engineering and mining services, including oil and gas field services. Data are reported for services purchased in connection with proposed projects (i.e., feasibility studies) as well as projects contracted or underway, but exclude contractors' expenditures on merchandise and labor.[7]

According to the U.S. International Trade Commission 2002 Annual Report on trends in U.S. services, in the environmental sector U.S. firms are most competitive in the analytical services, consulting and engineering, hazardous waste management, and redemption and industrial services segments. U.S. competitiveness in the solid waste management segment has declined in recent years and European firms dominate the global market for water and wastewater operations services. In recent years, European companies have acquired many of the largest U.S.-owned water/wastewater services firms. Consolidation is also occurring in other industry segments and it will likely continue in the future, as environmental firms react to slower industry growth.[8]

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[6] Recent Trends in U.S. Services Trade, 2002 Annual Report, United States International Trade Commission.
[7] Recent Trends in U.S. Services Trade, 2002 Annual Report, United States International Trade Commission.
[8] U.S. Industry and Trade Outlook 2000, USDOC, ITA.

Recent regulatory developments have significantly influenced the environmental services industry. Environmental regulation, the main source of demand for environmental services, is increasingly focused on pollution prevention.[9] This has led to a decrease in demand for basic equipment and an increase in demand for environmental services such as consulting, auditing and environmental engineering.[10]

In many instances U.S. engineering firms are faced with significant obstacles in developing large infrastructure projects internationally. These difficulties include substantial competition from European, Canadian and Middle Eastern firms that are often heavily subsidized by their governments. Also, with the notable exception of the United States Trade and Development Agency's (US TDA) program, funding for " up-front" project development and conceptualization is not readily available. USTDA's program does provide this type of funding but its availability is severely limited by budgetary constraints.

Comments during the discussions at the workshop focused on a role for Ex-Im Bank in making available funding that could be used for the "u p-front" services and then rolled into the implementation funding at the appropriate time. This type of program would need to have an accelerated approval process in order to be effective. In theory, U.S. engineering firms would be able to market this funding approach to foreign clients for projects that are concepts and need to be defined before a "des ign/build" or traditional implementation process is commenced. The Subcommittee noted that Ex-Im Bank's "Engi neering Multiplier Program" was originally designed to fill this gap, but for various reasons it appears that the Program was rarely, if ever, used. One of the recommendations of the Subcommittee is for a revised, or enhanced, Engineering Multiplier Program to be established by Ex-Im Bank.

[9] U.S. Industry and Trade Outlook 2000, USDOC, ITA.
[10] Recent Trends in U.S. Services Trade, 2002 Annual Report, United States International Trade Commission.

SECTOR SNAPSHOT: IT Services Including Software Services, Systems Design and Integration

The United States is the world's larg est market for computer and data processing services. The industry provides very diverse services, and while some of the major participants may offer similar services, they often work to differentiate themselves to increase value added and gain market share. According to the Bureau of Labor Statistics in terms of number of firms and employee distribution the industry is very fragmented. Approximately 80 percent of the industry's fir ms have fewer than 10 employees.

Computer and data processing services include software implementation services such as systems and software consulting, systems analysis and design, systems maintenance, integration, and custom programming services, data processing services, including input preparation, data entry, and tabulation, consultancy services related to the installation of computer hardware, maintenance and repair of computer-related equipment, and other computer-related services such as timesharing. In 2001 computer services became the leading sector within the information technology (IT) industry with worldwide spending on IT services exceeding expenditures on IT hardware for the first time.[11]

With simplified and more economical computer and data processing, firms have been able to increase the volume and diversity of their cross-border transactions. However, U.S. workers within many segments of the IT services industry are facing wage and employment pressures as firms take advantage of these technological improvements to hire employees or purchase services from firms in low-cost markets abroad. Worldwide, computer and data processing firms are facing difficult market conditions including fewer customers, disappointing revenues, employee cutbacks, and a scarcity of capital.[12]

In 2001, U.S. cross-border exports of computer and data processing services (IT services) totaled $2.6 billion and created a trade surplus of 1.6 billion over imports. After increasing by an average of 17 percent per annum during 1996-2000 U.S. exports decreased by 13 percent in 2001, reflecting the general economic weakness in foreign markets and emerging problems of the U.S. high-tech industry.[13]

Growing needs of public sector in emerging markets, such as financial reform, tax administration, education, land cadastre projects, social services and pension management create the increasing export opportunities for IT services providers. For many IT companies this trend determined the shift in trade from hardware to product and there is a general perception that IT sector may be missing the opportunity.

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[11] USITC, Recent Trends in U.S. Services Trade, 2003 Annual report, May 2003.
[12] Ibid.
[13] Ibid.

EXAMPLE OF EX-IM BANK'S S PECIALIZED INDUSTRY SUPPORT

As noted earlier, Ex-Im Bank has developed unique financing products, processes, and expertise for several discrete industries, such as the environmental, the medical equipment, and the aircraft sectors. The Environmental program was cited in both workshops as proof positive that where there is a will, there is a way. The existence and features of the tailored environmental program are instructive starting points for creating a dedicated focus on services across the Bank.

For example, the Environmental Enhancement Program, created by Ex-Im Bank in 1996 created a "Me dium-Term Credit for Environmental Services" product which includes:

- Medium-term repayment terms for environmental services such as feasibility studies, energy services contracts, and environmental remediation, monitoring and assessment services.
- Eligible services are those performed by personnel headquartered in the U.S. or by U.S.-based personnel temporarily assigned to a buyer's co untry.
- Local cost coverage equal to 15 percent of U.S. contract price.
- Service contracts must be able to be capitalized by the buyer to be eligible for medium-term support.

These features could be readily adapted to a full-featured program in support of all services.

EDUCATION, HEALTHCARE AND TOURISM

In addition to the engineering/environmental and IT services efforts, the U.S. Department of Commerce (DOC) Deputy Assistant Secretary for Services Industries, Tourism and Finance, met with the Subcommittee and outlined DOC's i nterest in the services sector. At the invitation of the Subcommittee, and in response to the growing market for education and training, DOC prepared a paper for inclusion in the Subcommittee report with ideas related to financing of education and tourism services.

It is interesting to note that EDC of Canada is financing education and tourism. As Ex-Im Bank expands its offerings in the services sector, we encourage a closer look at EDC's activities in this arena.

The Subcommittee is appreciative of the thinking, effort, and initiative shown by DOC. We are pleased to provide DOC's sugg estions in Annex 5 of this report.

Annex 1

ENGINEERING, ENVIRONMENTAL, AND OTHER DESIGN AND CONSTRUCTION-RELATED SERVICES WORKSHOP JUNE 16, 2003

PARTICIPANTS

Russell Adise	International Trade Administration Department of Commerce
Peter Bowe	Chairman Liquid Waste Technologies, Inc.
Woodraw Hitchcock	Director Parsons Brinckerhoff International
Susan R. Houser	External Affairs Liaison Export – Import Bank
Jacqueline Kaiko	Senior Vice President JP Morgan Chase
Karl Kendall	Dep. Vice President, Engineering and Environment Export – Import Bank
Michele Kuester	Vice President Policy Analysis, Export –Import Bank
Craig O'Co nnor	Environmental Liaison Officer Export-Import Bank
William J. Parente	Vice President, International Wilbur Smith Associates
Arthur Pilzer	Vice President Bechtel Enterprises, Inc.
Edmund Rice	Coalition for Employment through Exports, Inc.
David M. Roebuck, PE	President Armentrout Roebuck Matheny Consulting Group, PC
James Thrash	Senior Vice President The Parsons Corporation
Diane Willkens	President and CEO Development Finance International, Inc.

IT SERVICES INCLUDING SOFTWARE SERVICES, SYSTEMS DESIGN, AND INTEGRATION SERVICES WORKSHOP JUNE 23, 2003

PARTICIPANTS

Jon Boyens	Senior Industry Analyst Office of Information Technology and Electronic Commerce, International Trade Administration Department of Commerce
John Brooke	Vice President Business Strategy Oracle Financing Division
Samuel Carnegie	Engineer Engineering and Environment Export – Import Bank
Donald Haig	Vice President Oracle Corporation
Susan R. Houser	External Affairs Liaison Export – Import Bank
Mary Irace	Vice President National Foreign Trade Council
Michele Kuester	Vice President Policy Analysis, Export –Import Bank
Irene Hsieh	Policy Analysis Export –Import Bank
Luba Labunka	Senior Project Manager Structured Trade Finance-Emerging Markets IBM
Arthur Pilzer	Vice President Bechtel Enterprises, Inc
Edmund Rice	President Coalition for Employment through Exports, Inc.
Diane Willkens	President and CEO Development Finance International, Inc.

Annex 2

OVERVIEW OF EX-IM BANK ACTIVITIES IN THE SERVICES SECTOR

Specific transactions and requests from the service sectors have helped fuel the impetus within Ex-Im Bank to develop an organized approach to examine, address, and draft policies that meet the needs of service sector exporters. Underscoring Ex-Im Bank's initiatives has been the amendment of its charter by Congress in 1983 to explicitly include services as an industry sector eligible for Ex-Im Bank support. Action plans developed to tackle the topic of services have generally entailed selecting an appropriate definition, outlining relevant Ex-Im Bank criteria, identifying potential industries, and developing simple, easy to understand and administer policies and financial products. There have been challenges at each stage of the process.

Ex-Im Bank's sup port for services has typically been for those considered part of the capital costs of a project, which require medium and long-term financing. Examples include services related to feasibility studies and the maintenance of a facility such as product transportation services and training for plant personnel. Ex-Im Bank has had limited experience with services that constitute ongoing operating expenses, which tend to utilize short-term financing. While the push within Ex-Im Bank for the explicit support of service exports has had an uneven history, the effort can be characterized as being circular and iterative between two discrete areas: requests by the services sector and Ex-Im Bank initiatives.

Although Ex-Im Bank has played a more active role within the services sector over the last decade, the support has been largely a niche within specific sectors. Four service industries were identified as potentially good candidates for Ex-Im Bank support: entertainment (broadcast rights), equipment leasing, engineering/consulting, and software/computer services. Ex-Im Bank officers from various departments have interviewed professionals within the targeted industries and met internally to discuss ideas and relevant transactions. Numerous services initiatives were established including a medium-term credit program in 1996 for environmental services such as feasibility studies, energy services contracts, and environmental assessment services, a Y2K initiative in 1999, and a film production loan guarantee program in 2000 to back the production of exported U.S. independent films. While various transactions have received Ex-Im Bank support under these initiatives, it has become clear that the lack of growth in Ex-Im Bank support of services has stemmed from the fundamental fact that a service, unlike a capital good, is not a tangible item with a physical location. Intangibility means that foreign content is not readily quantifiable, which makes determining eligibility for Ex-Im Bank support an onerous task (e.g. content, tenor, economic impact). Furthermore, lack of a physical location means that the documentation normally required by Ex-Im Bank is difficult to produce.

The effort to develop policies and products to support services exporters has been slowed by lack of resolutions on these issues. Until such concerns are satisfactorily addressed, Ex-Im Bank transactions and overall support for services continues on an ad hoc basis.

Annex 3

DRAFT

Updated ENGINEERING MULTIPLIER AND PROJECT-RELATED SERVICES PROGRAM OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The Updated Engineering Multiplier and Project-Related Services Program helps stimulate exports of U.S. engineering, construction management, architectural, industrial design, financial and other project related services and thus increases the potential for future U.S. exports. It aims, in the short term, to expand the sales of project-related feasibility studies including financial planning and pre-construction engineering services by offering fixed-rate loans and guarantees to foreign buyers of these services. In the long term, the program is designed to generate additional overseas sales of U.S. goods and services (the "multiplier effect"), since the foreign buyer is more likely to order U.S. equipment and services for a project on which U.S. engineers, designers, financial consultants, construction managers and architects provided the initial project planning, feasibility and design work. The program allows U.S. exporters to provide their customers with a simple and fast method of obtaining financing for the "u pfront" services necessary to define a project and develop the parameters for implementation. The ability of U.S. exporters to provide this financial product to foreign buyers may be the difference between the success and failure in obtaining the contract.

Ex-Im Bank will utilize this Updated Engineering Multiplier Program as a tool to assist U.S. firms in obtaining international work. Because of the Program's inte nt and its significant potential as a deciding factor in foreign buyer' s selection of a U.S. firm in competitive international environment, Ex-Im Bank will attempt to facilitate approvals of these applications whenever possible.

Program Description

The Updated Engineering Multiplier and Project-Related Services Program will finance feasibility studies, project financial planning and pre-construction design, engineering, and architectural services.

If the project goes forward with U.S. goods and services, Ex-Im Bank may extend a loan and/or guarantee for the project. The Updated Engineering Multiplier and Project-Related Services Program financing can then be rolled into the later financing. Transactions that cannot meet the eligibility requirements of this program may be eligible for support under Ex-Im Bank's standard Direct Loan and Guarantee Programs.

The buyer must be a creditworthy entity and the potential project must be acceptable to Ex-Im Bank. Ex-Im Bank will base its approval only on the amount of the actual loan and not the potential implementation project amount. The buyer must be in a country eligible for Ex-Im Bank financing assistance. The approval process for the Updated Engineering Multiplier and Project-Related Services Program will be streamlined by Ex-Im Bank to provide a quick response to the U.S. exporter who can then advise the potential foreign buyer of the benefit in selecting the U.S. firm.

Financing Terms

Ex-Im Bank will normally lend or guarantee 85 percent of the U.S. export value, and the foreign buyer makes a 15 percent down payment to the U.S. exporter.

In addition, Ex-Im Bank will guarantee all or part of a loan the foreign buyer obtains from a private lender for local costs incurred in the importing country. Ex-Im Bank will guarantee a commercial loan for local costs equal to 25 percent of the total contract amount.

Repayment terms normally range between two to five years. The foreign buyer must repay principal in equal semiannual installments, beginning six months after the completion date of the service contract. Interest is payable semiannually.

Usual repayment terms for loans under the Updated Engineering Multiplier and Project-Related Services Program, by contract price:

U.S. Costs Usual Repayment Terms

$100,000 or less: 2 years
$100,001 - $174,999: 3 years
$175,000 - $349,999: 4 years
More than $350,000: up to 5 years

Note: Ex-Im Bank reserves the right to adjust the usual repayment terms as stated above based on specific characteristics of each project.

Later Project Financing

If the proposed project goes forward, Ex-Im Bank will consider an application for financing the U.S. costs of the project. If it does undertake such financing, Ex-Im Bank can allow the foreign buyer to roll the outstanding balance of the Updated Engineering Multiplier loan into the final financing package. Ex-Im Bank support for pre-construction services, however, does not constitute a commitment to assist the final project.

Ex-Im Bank should also consider a special "Mul tiplier LI" which spells out the rollover.

Interest Rates and Fees

Interest rates and fees under the Updated Engineering Multiplier and Project-Related Services Program conform to those under the Direct Loan or Guarantee Program, whichever is used. In the case of a loan, interest will be fixed, based on Ex-Im Bank's lending rate at the time of final authorization of the loan. Interest rates on loans guaranteed by Ex-Im Bank are negotiated between lender and borrower.

Annex 4

TESTIMONY OF PAUL ALMEIDA, PRESIDENT, DEPARTMENT FOR PROFESSIONAL EMPLOYEES, AFL-CIO, BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS, ON THE GLOBALIZATION OF WHITE COLLAR JOBS, June 18, 2003

Mr. Chairman, Congresswoman Velasquez, Members of the Committee, thank you for the opportunity to testify today on behalf of the Department for Professional Employees of the AFL-CIO on this extremely important and urgent topic.

We are very alarmed at the recent trend of outsourcing of white collar and information technology jobs. This trend, which is clearly accelerating, is affecting workers all over the country, at every income and education level. Technology companies are laying off American workers from high-paying desirable jobs while they add thousands of jobs overseas. Corporations are shifting jobs in call centers, accounting, engineering, computer, and financial services offshore, among others. Some local and state governments have even begun to outsource administrative jobs, which is an outrageous misuse of taxpayers' dollars.

Based on a survey of the world's 1 00 largest financial services firms, Deloitte Research found that these companies expect to shift $356 billion worth of operations and about two million jobs to low-wage countries over the next five years. Forrester Research Inc. predicts that American employers will move about 3.3 million white-collar service jobs and $136 billion in wages overseas in the next 15 years, up from $4 billion in 2000.

The use of cheaper foreign labor has already had a negative impact on U.S. wages in certain sectors. According to Sharon Marsh Roberts, chair of the government relations committee of the Independent Computer Consultants Association, outsourcing has forced down hourly rates by 10 percent to 40 percent for many U.S. computer consultants[14].

Outsourcing may also have a disproportionate impact on African Americans, who are already under-represented in high-tech fields, according to the Coalition for Fair Employment in Silicon Valley. From 1998 to 1999, black engineering employment in the Pacific states dropped 20%, according to the Bureau of Labor Statistics. And African-American-owned technology firms will lose opportunities to compete for government contracts if more of them go overseas.

If these trends continue to accelerate, we will see even more dramatic job loss and wage erosion affecting workers throughout the income scale. This will severely impact the

[14] "Dis placed U.S. Employees Frustrated, Angry At Information Technology Industry," Hartford Courant, January 6, 2003.

wages and job security of the American middle class, in addition to depriving state, local, and federal governments of tax revenues. Policymakers must recognize and acknowledge the severity of the problem and act quickly to stem the job loss.

Short-sighted corporate policy focused on saving a few bucks in the short run will have an enormous deleterious impact on the entire U.S. economy if not checked soon. A recent Powerpoint presentation by a Microsoft senior vice-president urged managers to "pick something to move offshore today" as part of a "short-term project list." The "long-term project list" included evaluating "the cost advantage of adding offshore talent."

When manufacturing jobs started moving offshore, we were told not to worry, that the U.S. comparative advantage was in services and high technology. We were assured that the new global division of labor was both natural and benign: we would keep the high-paying, high-skilled jobs, while the developing countries would do the actual work of making things. For decades, American workers were told to simply acquire more skills and education in order to succeed in the U.S. job market.

Now engineers with Ph.D.s and recent college graduates alike are hearing that they are too expensive, that their job can be done more cheaply abroad. Meanwhile, the U.S. trade picture is also shifting in ominous ways.

The merchandise trade deficit hit almost half a trillion dollars last year ($485 billion), an all-time record. While the goods trade deficit has been growing steadily since the early 1990s, our trade surplus in services has traditionally offset some of that growth. The U.S. trade surplus in services grew from $46 billion in 1991 to a peak of over $80 billion in 1999. The services surplus fell somewhat in 2000 and in 2001. However, in 2002, the services surplus plunged by almost $20 billion, to only $49 billion. This enormous single-year decline is largely due to growth in imports of private services, which almost certainly reflects the outsourcing that has already been taking place. In 2002, the U.S. surplus in advanced technology products also plummeted, shifting from a surplus of $4 billion to a deficit of $17 billion.

These negative shifts have contributed to a record high current account deficit, the broadest measure of international activity, which includes trade in goods and services as well as investment income flows. Federal Reserve Chairman Alan Greenspan has warned that at almost 5% of GDP, the current account deficit is dangerously high and unsustainable.

The outsourcing is not spurred by a lack of skills or education here in the United States. In June 2003, an estimated 1,286,000 Bachelor's degrees were conferred, along with 436,000 Master's, 80,400 First Professional, and 46,700 Doctoral degrees. In addition, 633,000 Associates degrees were projected. Degrees in all these categories are up substantially since the mid-1980s, as young people have heeded the advice given them to acquire more education.

All these factors taken together should be setting off alarm bells for Congress and other policymakers. If an advanced degree, years of experience, and excellent work habits are not enough to land a job, and the U.S. comparative advantage in services and high tech has seriously eroded, what does the future of work look like for the United States? If these cost-saving job shifts are taken to their logical extreme, even American corporations should be wondering where their future consumers will be located, and how they will buy the goods and services that are offered.

Just as the labor movement has fought hard for trade and tax policies that will help the U.S. manufacturing sector thrive and survive, we also need to take a close look at the policies that impact service-sector and information technology jobs.

First, we should make sure that our tax policies are consistent and coherent – at the national, state, and local levels. Many of the companies rushing to outsource jobs have received and continue to receive tax breaks negotiated on the assumption that they would support local job creation. We need to target tax relief to companies that support their own communities with decent jobs.

Second, we can and should ensure that government tax dollars are spent to support strong communities and jobs domestically. State legislatures in Connecticut, New Jersey, Maryland, Washington, and Missouri are all considering legislation that would ban the outsourcing of government contracts to foreign countries. We support this legislation and would recommend that Congress consider steps to strengthen the positive domestic employment impact of federal procurement as well.

The New Jersey legislation was spurred by news reports that a company contracted by the state of New Jersey to administer electronic benefits to welfare and food stamp recipients had contracted the jobs fielding phone inquiries to Bombay, India. There, English-speaking workers, some with fake "American" names answered service calls. Legislators pointed out the irony of using taxpayer dollars to send entry-level service jobs overseas to administer a program aimed at finding domestic entry-level service jobs for welfare recipients.

Third, we should support both more transparency and openness on the part of companies that are outsourcing and more research to understand better the scope of the problem. We have asked Congress to request a General Accounting Office (GAO) study into these trends and their impact on U.S. jobs.

State legislators in New Jersey have recently introduced a bill (State Assembly Bill No. 3529) that would regulate certain call center communications. The bill would require employees of inbound call centers to identify their name, their employer, and their location in phone calls or e-mail communications.

This seems like a pretty minimal requirement that ought not to be impossibly onerous. However, some of the affected companies are opposing the bill and arguing that it would violate U.S. obligations under the World Trade Organization (WTO). Companies ought not to assume they can only do business if their customers are in the dark as to their operations. Customers have a right to know who is answering their call and where that person is located, just as they have a right to know the ingredients in a box of cereal. Furthermore, this legislation is entirely in compliance with our WTO obligations in this case. It treats foreign and domestic companies equally and simply requires truthful disclosure on the part of companies providing services to the U.S. market.

Finally, we need to reexamine our trade policies to make sure they are reflecting the concerns and interests of American workers, as well as U.S.-based corporations.

In conclusion, I' d like to thank the Committee for holding this hearing and for inviting me here to testify today. I look forward to working with you to craft effective policy responses to the very great challenges facing us in this area.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

AUG 14 2003

MEMORANDUM FOR Diane Willkens
Chair, Subcommittee on Services
Ex-Im Bank Advisory Commitee

FROM: Douglas B. Baker DBB
Deputy Assistant Secretary
for Service Industries, Tourism, and Finance

SUBJECT: Ex-Im Bank Support for Service Industries

Per our discussion, following are some thoughts and suggestions for your consideration as the subcommittee explores ways to enhance Ex-Im Bank support for U.S. services exports.

Education

- Ex-Im Bank could explore whether foreign governments would be willing to provide a sovereign guarantee through their Ministry of Education to back an Ex-Im Bank credit facility that would provide financing for foreign students to receive U.S. education services, either in the United States, at U.S. campuses overseas, or via distance learning.

Healthcare

- The bulk of exports in the healthcare sector consist of foreign patients seeking treatment at U.S. medical facilities. Ex-Im Bank could explore whether foreign governments would be willing to back an Ex-Im Bank credit facility that would provide financing to enable foreign patients to receive government-supported treatment in the United States. The United Kingdom, for instance, is currently considering whether to allow its citizens to receive treatment in the United States under its national health program.

- Such a credit facility could also support foreign physicians and medical personnel seeking to receive training and /or telemedicine consulting services from U.S. medical facilities.

- U.S. providers of both education and healthcare consultancy services might also benefit from transaction-based Ex-Im Bank working capital guarantees in support of their sales to foreign buyers.

Tourism

- Ex-Im Bank could explore whether it could assist in financing foreign government-supported cultural exchanges and education-related travel to the United States. A credit facility for this purpose might be established with foreign governments with repayment based on a sovereign guarantee.

- Ex-Im Bank could consider making its working capital guarantees available to U.S. tour operators, which consist largely of small- and medium-sized enterprises. These firms promote travel to the United States and in some instances market and sell tours to foreign visitors. They may benefit from working capital support to assist in financing marketing campaigns aimed at foreign audiences and for other equipment and services needs.

My office would be pleased to provide additional background on these, or other, U.S. services sectors if they would be helpful to your ongoing work in these areas.

Attachment

Attachment:

Background on Ex-Im Bank Support for U.S. Services Exports

Mandate:

Ex-Im's Charter was amended by Congress in 1983 to explicitly include services as an industry sector eligible for support:

> 12 USC § 635 Sec. 2(b)(1)(D)(i) It is further the policy of the United States to foster the delivery of United States services in international commerce. In exercising its powers and functions, the Bank shall give full and equal consideration to making loans and providing guarantees for the export of services (independently, or in conjunction with the export of manufactured goods, equipment, hardware, or other capital goods) consistent with the Bank's policy to neutralize foreign subsidized competition and to supplement the private capital market.
>
> (ii) The Bank shall include in its annual report a summary of its programs regarding the export of services.

Support:

Ex-Im Bank's levels of support for services exports– mainly engineering, design, construction, oil drilling, training and consulting– as reported in its annual report over the past ten years has fluctuated from a low of $332.5 million (representing 2.6 percent of total exports supported that year) to a high of $1.6 billion (representing 10.5 percent of total exports supported), as follows:

Year	Services Exports	Total Exports	Percentage
FY 2002	$450 million	$13 billion	3.5 percent
FY 2001	$695 million	$12.5 billion	5.6
FY 2000	$823 million	$15.5 billion	5.3
FY 1999	$551 million	$16.7 billion	3.3
FY 1998	$332.5 million	$12.9 billion	2.6
FY 1997	$1,590 million	$15.1 billion	10.5
FY 1996	$603 million	$14.6 billion	4.1
FY 1995	$1,330 million	$13.5 billion	9.9
FY 1994	not reported	$17.1 billion	--
FY 1993	$1,000 million	$17.1 billion	5.8

Past Ex-Im Bank efforts:

- *Services policy*: In the early 1990s, Ex-Im Bank offered a special "services policy" to protect companies providing contracted services against failure of their customers to pay due to commercial or political reasons. It was designed for engineering, construction, management, architectural, and industrial design services performed by U.S.-based personnel or U.S. personnel temporarily overseas. It required the exporter to insure a reasonable spread of its overseas projects. This was essentially a "services" version of the short-term multibuyer insurance policy. We did not confirm whether the policy was ever used. It no longer appears in Bank literature.

- *Trade association policy*: In the early 90s, Ex-Im Bank also offered a "trade association policy" to insure the export credit sales of association members against political and commercial risks and relieve members of the burden of obtaining and administering the insurance. Services were eligible for coverage. Ex-Im Bank issued the policy to the association, which acted as the policy administrator and performed all administrative duties, including seeking buyer credit approvals, collecting premiums, reporting shipments, and filing claims. Associations could charge members for their administrative services. We did not confirm whether this policy was ever used. It now appears largely to have been replaced by the Trade Association Partners Program (TAPP), which offers fee incentives to trade associations for referring their members to Ex-Im Bank.

- *Working capital guarantees*: In 1996, Ex-Im Bank approved several changes to its working capital guarantee program that were designed to benefit U.S. services exporters. For service industries lacking traditional collateral, Ex-Im Bank agreed to disburse against actual contract-related costs incurred, such as engineering, design, and overhead allocable to the product or contract. Borrowers must have been in business for at least 3 years (versus 1 year for other industries). Ex-Im Bank guarantees repayment of secured, short-term working capital loans if additionality is shown. The financing can be used to purchase finished products or materials, products, services, and labor to produce goods and services for current or future export sales; market products, participate in trade fairs, or conduct other promotional activities aimed at developing new overseas business; cover standby LC s, bid and performance bonds. Loans must be collateralized, usually by export inventory and export accounts receivable; can also include domestic inventory, domestic receivables, and personal assets.

- *Film production guarantees*: Commerce supported several years of Ex-Im Bank efforts to develop a film production guarantee program in response to interest from the independent film industry. The program supports the financing of independent film production by assuming a portion of the payment risks associated with film distribution contracts, thus encouraging lender financing of independent films. The program also helps counter foreign government incentives to lure U.S. film production abroad. Unlike a standard working capital guarantee that is based on the borrower's financial statements, creditworthiness, and collateral, film production guarantees are based solely on the quality of the distribution contracts as collateral.

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 9, 2004

Mr. Norman Taylor
Director of Credit and Accounts Receivable
Avondale Mills, Inc.
P.O. Box 128
Graniteville, SC 29829-0128

Dear Mr. Taylor:

It was a pleasure speaking with you yesterday, and I hope that Bruce Hunt and I were able to help you with a program that will meet your needs as well as your buyers' needs. To recap, it appears that Ex-Im Bank's Letter of Credit Policy (ELC) would work the best for you. With it, a US bank (the ELC policyholder) will confirm a letter of credit issued by a foreign bank in favor of your buyer. Once you ship, the US bank will pay you, then could refinance the L/C with the foreign bank for 180 days at LIBOR plus some small percentage. In turn, the foreign bank could offer your buyer 180 days to pay, passing on the low interest rate it is receiving from the US bank. This will improve your cash flow along with that of your buyer.

It is my understanding that you intend to approach one or two of you customers to see if this is a program in which they would be interested. We here at Ex-Im Bank would be more than happy to work with you and your bank to set up a Letter of Credit Policy. Please let me know if I can be of any further assistance.

Sincerely,

Susan Riggs

Susan Riggs
Portfolio Manager
Mid-Atlantic Region
Export-Import Bank of the United States

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

TOP 23 EXPORTERS

Ranked by Amount Authorized for Loan/Guarantee, Working Capital, and Insurance Transactions

From: October 1, 2003 - To: September 30, 2004

Exporters	Amount Authorized
The Boeing Company	$1,535,228,281
Caterpillar Inc.	677,577,067
Halliburton Company	600,000,000
General Electric Company Inc.	570,134,243
Siemens AG	437,838,511
Ingersoll-Rand (Barbados) Ltd.	377,471,575
Global Industries Ltd.	300,000,000
Horizen LLC	300,000,000
Schlumberger Limited	300,000,000
Pride International Inc.	300,000,000
Skanska AB	300,000,000
Vallen Safety Supply Co.	300,000,000
Noble Drilling Corporation	300,000,000
BJ Services Company	300,000,000
Noble Mexico Limited	300,000,000
Mexico Drilling Limited LLC	300,000,000
M-I LLC	300,000,000
Diamond Services Corp.	300,000,000
Tidewater Inc.	300,000,000
Weatherford International	300,000,000
Nabors Industries Inc.	300,000,000
ABS Integrated Services, Inc.	300,000,000
Amclyde Engineered Products Co.	300,000,000

O