THE ADMINISTRATION'S NATIONAL EXPORT STRATEGY: PROMOTING TRADE AND DEVELOPMENT IN KEY EMERGING MARKETS

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THE ADMINISTRATION'S NATIONAL EXPORT STRATEGY: PROMOTING TRADE AND DEVELOPMENT IN KEY EMERGING MARKETS

WEDNESDAY, MAY 15, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 12:15 p.m. in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order.

We expect a vote shortly, but we are not sure when, and rather than just hang around in suspended animation, we thought that we would proceed with the hearing.

I am very pleased to welcome the Secretary of Commerce, Mr. Donald L. Evans, and senior officials from the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the Trade and Development Agency before our Committee for this hearing on the recently released report on the Administration's national export strategy. We will also have a second panel of experts representing a broad cross-section of American companies doing business abroad.

Mr. Secretary, thank you for your forbearance with the delayed start of this hearing. The President had asked to address a special meeting of the Republican Conference this morning on his supplemental spending request.

Now while the issue of export controls is not on our agenda for today's hearing, I would like to state that I look forward to working with you and your colleagues at the Bureau of Industry and Security in fashioning an export control measure that balances our commercial and security needs. That may be very Utopian, but we can always hope.

You will recall that we heard from your Under Secretary for International Trade in June of last year on the Commerce Department's trade policy agenda, and we look forward to hearing your views today on how this agenda can best be advanced in the context of your overall export strategy promoting trade and development in key emerging countries.

In the congressional delegations that I have had the pleasure of leading to South America and Asia since first becoming Chairman of this Committee, I have seen firsthand the importance of our promoting trade and commercial relations with our key friends and allies. We are well aware of the fact that exports continue to account for almost one-quarter of our annual economic growth and that they support more than 12 million jobs in this country.

In view of your most recent efforts to bolster U.S. economic security in the wake of the terrorist attacks of September 11th, it is all the more compelling, in my view, that we hear from you today on how we should best coordinate our assistance to frontline states and to regions in crisis. We need to get your insights on how our export strategy benefits not only U.S. companies and workers but also those developing countries that are trying to put in place market-oriented policies.

Looking back to Monterey, I would welcome your thoughts on how we should develop the trade and development agenda that was so dramatically set forth in Mexico by President Bush with the unveiling of the Millennium Challenge Accounts. Looking ahead to Johannesburg, your suggestions are no less important to us as we grapple with the challenge of putting scores of developing nations on the path to market-oriented development in the upcoming UN Conference on Sustainable Development in South Africa.

I would like you to share with us your vision on how we can focus our resources and programs on trade and development priorities on emerging market opportunities. In the export policy blueprint before us today, I would welcome new approaches and new perspectives from you and your colleagues at the Export-Import Bank, OPIC, and TDA on how we can boost our exports and investments abroad in the face of ballooning trade account deficits.

And, most importantly, I want to ensure that our Committee plays a role in helping to shape the implementation of some of the innovative concepts in your report, such as the leveraging of our aid dollars for key development projects, coordinating our policy in post-crisis situations, including Afghanistan, and putting our trade programs and resources to work with the goal of producing multilateral disciplines on untied aid.

And now with pleasure, I yield to Mr. Davis of Florida for his opening remarks. He is sitting in for Mr. Lantos.

Mr. Davis.

Mr. DAVIS OF FLORIDA. Thank you, Mr. Chairman, and I also welcome the witnesses and thank you for calling this hearing on the Administration's national export strategy and the effectiveness of the United States export promotion programs.

We spent most of our time in this Committee over the last year focusing on national security and fighting terrorism, and certainly an important ingredient of national security is economic security. I look forward to hearing testimony today about what we can do working together with State and local governments and the private sector as well as the not-for-profit sector to more effectively create opportunities for small and medium-sized business.

Mr. Secretary, as I believe you are aware, I am a strong supporter of the Trade Promotion Authority bill, and I am hopeful that it will be sent to the President soon. During your course of lobbying, I hope it became very clear to you from many Democrats and some Republicans that the politics of this issue are that we need to convince the American people this is not something just for Wall Street, it is for Main Street as well. That is why what you are doing is so important, in terms of demystifying the opportunities for small and medium-sized business, and convincing them to take that first step and hopefully the first of many steps.

My State, Florida, has an enormous number of people that are benefitting from trade, and I bear a heavy burden, as you do, in convincing more people that there are ways to expand the winner's circle.

As each of you testifies, I would also like you to comment on the fact that the President's budget proposal calls for cuts in both the Trade and Development Agency and the Export-Import Bank. If you are here to tell us we are going to do more with less, I think you can appreciate the skepticism, as we all agree upon the common goal of trying to do a lot more to open the doors of trade to small and medium-sized businesses.

I also want to point out that one of the many painful lessons of the Enron debacle is that OPIC and other agencies supported a venture in India that is now resulting in a claim on OPIC of $200 million. Perhaps there are some lessons we can learn from that in being even more careful than ever, Mr. Secretary, about our due diligence as we get behind proposals that are leaving this country and constituting what appear to be worthwhile investments with our help in other countries.

Let me just close by saying that I think there is genuine and broad interest on the part of many Members of this Committee and the Congress in giving each of you the tools you need to do your job and to support a very practical, aggressive approach to again opening the doors for more small and medium-sized businesses to take advantage of growing export opportunities. I look forward to your testimony.

Chairman HYDE. Thank you, Mr. Davis. I would like to request of my other colleagues that they submit any statements they might have for the record and to withhold any questions for our Administration witnesses until all have completed their remarks.

And I would plead with our witnesses to be as brief as possible in their oral remarks so we can complete this hearing hopefully before 2 p.m. Thank you very much.

And now, Mr. Evans, the Secretary of Commerce.

STATEMENT OF THE HONORABLE DONALD L. EVANS, SECRETARY, U.S. DEPARTMENT OF COMMERCE

Secretary EVANS. Thank you, Mr. Chairman, very much, and thank you for mentioning the Export Administration Act. We very much look forward to working with you on the passage of that bill. We both know how important it is to this country and to you and this President. So thank you for your mention of it. And, yes, we at the Bureau of Industry and Security [the office responsible for administering that act] look forward to continuing to work with you on that important piece of legislation.

Chairman, Members of the Committee, as Chairman of the Trade Promotion Coordinating Committee (TPCC), I am extremely pleased to be with you here today, along with my colleagues, to preview with all of you the nations, or the national export strategy.

I ask that you include my written testimony in the record, Mr. Chairman.

Chairman HYDE. Without objection.

Secretary EVANS. Thank you, sir.

There I outline our strategy, which boils down to making sure that all export-ready companies can participate in the global economy and fill in behind the agreements that we negotiate all around the world.

Let me just say at the outset how critical it is that Congress provide the President with trade promotion authority as soon as possible, so that we can implement his trade agenda. With TPA, the President can conclude agreements that might contribute to as much as $1.9 trillion to worldwide economic growth. Without TPA, those new markets will go to our trading partners, along with the investment and jobs that those markets would create.

I intend to focus my oral remarks on two basic points: One, how the national export strategy will support the President's foreign and economic policy objectives; and, two, the continuing role I expect the TPCC to play in implementing the President's strategy.

While the Trade Promotion Authority is a necessary condition for defending America's trade and economic interests, it is not sufficient. That is where our export promotion strategy and the TPCC comes in. I can summarize our approach in three words that lie at the heart of the President's agenda: Follow-through, results, and accountability.

First, when I say follow-through, I mean ensuring that the benefits of our trade agreements accrue to American exporters rather than our trading partners. Too often the United States has left its trade gains on the bargaining table. We aim to reverse that trend. And we have already begun to implement a strategy to do just that.

The most significant market opening initiative in recent years has been China's accession to the World Trade Organization. That is why I recently led a trade mission to Beijing and Shanghai. It is also why I will send a high level commerce official to China each month to ensure that China implements its WTO obligations, so that our small and medium-sized companies can reap the gains from China's compliance.

We have a number of initiatives in our export strategy that seek to level the playing field in major project competitions for U.S. exporters, including being involved when those opportunities first come downstream, providing more tools to our exporters when they compete against tied aid, or supporting them if the commercial environment changes once they have signed the contract.

It goes without saying that this strategy supports our broader foreign and economic policy objectives. Helping our companies take full advantage of overseas opportunities helps us, but it also helps the host countries, and makes them more stable economic and foreign policy partners.

I believe that the more U.S. companies are involved in the ground floor of a country's economic development, the more transparency and accountability in procurement decisions there will be. Citizens of that country will benefit more than from that country's economic development. Indeed, the missions of a number of TPCC agencies, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the Agency for International Development, and the State Department, are dedicated to capturing the important social benefits that spring from promoting U.S. trade and investment abroad. They go way beyond purely private returns to U.S. companies.

Second, when I focus on results, it is because that is what the President and I both expect. Our goal has been to ensure our export promotion programs are best in class when compared against our government counterparts abroad and with private industry.

Today, after 7 months of research and a true team effort, my colleagues and I are confident that we have laid the groundwork for achieving just that goal. That said, after 30 years of experience in the private sector, I can tell you that if you can't measure your progress, you won't make progress. That is why I will insist that our first step in implementing the recommendations set out in the President's report will be to define the results we want to achieve and develop the means to measure or progress toward those goals and toward those results.

The guideposts I intend to use to measure our progress include the following:

One, whether we have expanded the number of U.S. exporters, particularly small and medium-sized business;

Two, whether we have increased the number of exports that take place as a result of our efforts;

Three, whether we have met our customers' expectations.

All of this will ensure that our export promotion programs remain grounded in what our customers want, which is the surest way to guarantee results.

Third, I intend to emphasize accountability. My colleagues and I have assumed personal responsibility for making this work. We expect to be held to that standard. The President expects nothing less, nor should you.

The role that the TPCC will play in implementing our export strategy is straightforward. I expect the TPCC process to ensure that the agencies involved are, to name only a few of the recommendations contained in the report, as follows:

First, working together to discover the best project opportunities for U.S. companies sooner, including an early indication that will finance these projects if they go to a U.S. exporter. In pilot countries, China, Mexico, Russia, Turkey, South Africa, and Brazil, we will now have a coordinated team approach to bringing buyers and sellers together;

Taking a more active role in countering market-distorting uses of tied and untied aid and expanding the tools available to U.S. companies when they compete against it;

In addition, coordinating commercial strategies for crisis regions. We want the TPCC to serve as a coordinating entity available to national security policymakers for dealing with post-crisis situations so that our economic security objectives are quickly met and we can speed the involvement of U.S. industry in opportunities that might develop;

Also, developing a more coherent process of government support for U.S. companies throughout the life of a project. Exporters want a process that will facilitate government attention to transaction-related problems that result when other governments unfairly change the commercial environment that occurs after a contract is signed;

Also, presenting a single face to the exporter, tailoring agency programs to meet the exporters' needs by functioning as a one-stop shop or account managers to help a firm navigate the full array of government export promotion programs. Combining the marketing efforts of SBA, Ex-Im Bank and the commercial service to make sure lenders know how these programs can help their small business clients;

In addition, enhancing our use of the Internet as a communications tool, particularly our primary portal, *export.gov*, so that exporters can find the government's best information on trade leads in one place and in real time.

And, finally, reaching out to our State and local partners, elected officials and private sector representatives as a means for reaching small and medium-sized companies as multipliers of our services.

In closing, let me reiterate my appreciation to you, Chairman Hyde, and to the other Members of the Committee for your interest in and oversight of the export promotion process. What the TPCC really offers us is an avenue through which we can strengthen our programs, while supporting our broader foreign and economic agenda.

I welcome your thoughts and those of your colleagues on recommendations we are presenting today and would be pleased to answer any questions that you might have. Thank you.

[The prepared statement of Mr. Evans follows:]

PREPARED STATEMENT OF THE HONORABLE DONALD L. EVANS, SECRETARY, U.S. DEPARTMENT OF COMMERCE

Chairman Hyde, Members of the Committee, as chairman of the Trade Promotion Coordinating Committee (TPCC), my colleagues and I are extremely pleased to be here today to present you the Administration's first National Export Strategy. After seven months of research and a true team effort, we have developed 60 recommendations that we believe will result in a more coherent framework to support our exporters.

The overarching goal of the strategy is to make sure all of our export-ready companies can participate in the global economy and "fill in" behind the agreements we negotiate. Let me say at the outset how critical it is that the Congress provide the President with Trade Promotion Authority as soon as possible so that he can implement his trade agenda. With TPA, the President could conclude agreements that might contribute as much as $1.9 trillion to world economic growth. Without TPA, those new markets will go to our trading partners, along with the investment and jobs that those markets will create.

This strategy also supports our broader foreign and economic policy objectives. Helping our companies take full advantage of overseas opportunities raises our standard of living, but it also helps the countries we do business with. They benefit economically as well, and they grow to be stable economic and foreign policy partners. Indeed, the missions of a number of TPCC agencies—the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the Agency for International Development and the State Department—are dedicated to capturing the important social benefits that spring from the promotion of U.S. trade and investment abroad, which go beyond the purely private returns to U.S. companies.

This report is all about expanding the number of exporters—especially small and medium-sized businesses—and making sure they have the best tools available to take advantage of commercial opportunities. Small exporters count for just under 30 percent of the value of U.S. exports; yet our survey found that 30 percent of U.S. small companies that do not currently export would like to. Moreover, of those that do export, two-thirds are only exporting to one market. By improving customer service and providing new export opportunities, we can tap this unrealized export potential.

For the first time, we took a management approach, starting with our customers. The driving force behind all of these recommendations was customer needs. We talked to about 100 exporters in focus groups and one-on-one meetings, about half of which were smaller companies. We undertook a survey of more than 3,000 small and mid-sized U.S. firms. We asked them what works and what doesn't. We asked them how they would improve government service and to share their observations of other governments or state and local agencies that do a great job meeting their needs. And we asked non-exporters why they choose not to export.

From our survey and interviews, we came away with some important observations:

- Our clients are pleased with our products and services, but *want them to be even more streamlined and timely*. Time is critical to companies of any size.
- Our clients think *government agencies have an important role to play* in both trade and investment promotion. They see other governments helping their companies get the best shot at opportunities and providing high-level coordination of small business programs.
- U.S. companies *want more than export assistance*. They want a trained and skilled account manager to take them from their first transaction, to their first investment, through the life of a project.
- U.S. companies *want more coordinated government service*. They want us to operate as if we were one company—not a collection of individual agencies, including common requirements for our programs and coordinated client management among the agencies.
- U.S. companies *look to the government first for information on market opportunities*. The companies that don't export, would export, if they had more information about foreign market trends and trade leads.

We also took an in-depth look at the *programs offered by the governments of our major competitors:*

- We were particularly impressed by the high level of *support our trading partners give to small and mid-sized firms*. Here in the United States, we know that when these firms succeed in foreign markets, they achieve higher growth rates and pay better wages here at home. Our competitors appear to understand the promise of small business too. Several trading partners have coordinated, cabinet-level task forces dedicated to getting small companies into overseas markets. Korea is moving away from support for large conglomerates or chaebols, with a Presidential Commission integrating the programs and budgets of agencies that help small business exporters. France, Canada, Spain and the UK also coordinate high-level programs to promote small business exports.
- Our competitors *more actively generate opportunities for their exporters*. Many governments cultivate relationships with procurement officials in emerging markets and "cherry pick" projects—presenting their exporters with shopping lists of the best projects.
- Other governments take *a more holistic view toward export promotion*, combining export and investment promotion programs. Rather than focus strictly on export sales, they focus on their firms' international competitiveness.
- And many countries, including the Swedes, the French and the British have elaborate *e-business strategies that drive their trade promotion programs*. By next year, the British will have all of their export promotion services online. All of the trade promotion agencies and known exporters will be linked.

THE NATIONAL EXPORT STRATEGY

Our strategy, simply put, is to make sure our exporters have the best tools to take advantage of the commercial opportunities we negotiate. It boils down to three points. American companies need:—a more active U.S. government partner finding, winning, and keeping major projects;—better customer service through joint promotion, training, trade finance and information delivery; and,—a government that is working harder, through state and local partnerships, to educate potential exporters about opportunities and services.

Strategic Approach to Project Development.

One of the themes that came up repeatedly in our discussions was that companies want government to take a more coordinated and strategic approach, particularly for major project development, a commercial responses in crisis regions, and advocacy support before and after a project is won. Our competitors often have the upper hand in major project competitions well before the project is publically tendered. Other governments indicate that they can finance a particular project early on and then coordinate their response between the agencies responsible for on-the-ground market intelligence, technical assistance and financing. Ex-Im Bank, Commerce and a number of TPCC agencies are going to meet this challenge by working together to discover projects sooner, indicate early on the likelihood that we will finance these projects if they go to a U.S. exporter, and actively help U.S. companies through the bidding process. In pilot countries—China, Mexico, Russia, Turkey, South Africa and Brazil—we will use "Early Project Development Teams" to bring buyers and sellers together.

Exporters also told us they want to see the U.S. government more actively counter market distorting uses of tied and untied aid. As a result, we have expanded the tools available to exporters when they compete against it. This includes a more aggressive response to Japanese use of tied and untied aid. We are undertaking a pilot program that would enable the Trade Development Agency to fund engineering studies that often set the standards and specifications for future projects, and often determine who will be the winning bid. We are exploring the design of a pilot project that would provide mixed credits for specific developmentally sound projects.

We are hopeful this initiative, once it's launched, will advance our developmental objectives by leveraging TPCC agency resources so that we can do more projects in sectors like environment, renewable energy, health care, education and water. At the same time, it will create new opportunities for U.S. companies in markets like the Philippines, Egypt, Jordan, Indonesia and possibly Pakistan. In the markets and sectors that meet our developmental criteria for this initiative, OECD statistics indicate other governments' aid agencies financed more than 150 projects worth about $3.6 billion in 2000.

We are going to continue our coordination in crisis regions. As my colleagues will tell you, TPCC agencies have stepped forward with post-September 11 initiatives in Indonesia, Pakistan and Afghanistan. We want the TPCC to serve as a coordinating entity available to national security policymakers for dealing with post-crisis situations, so that our economic security objectives are quickly met and we can speed the involvement of U.S. industry in opportunities that might develop.

We also want to develop a more coherent process of government support for U.S. companies throughout the life of a project. Already we provide advocacy support for companies when they bid for major projects. Exporters told us they would like a similar process that would eliminate the need for multiple contacts with several agencies when they face a problem that unfairly changes the commercial environment that occurs after a contract is signed. This has been particularly true in the case of China.

Better Customer Service.

In the area of client service, we found that U.S. firms that export have an increasingly sophisticated understanding of what they need to be successful overseas. They are aware of competing government programs and have very high expectations about the quality of service that they get. Not surprisingly, more experienced exporters want better coordination among government agencies; in short, they want the agencies to operate as if they were part of the same U.S. government "company."

To respond to this concern, we are going to do a better job of promoting each others' programs. We are planning on training our Commercial Service officers so they can act as "account managers" that can help our companies with an overseas strategy, not just an export sale. That means a much greater emphasis on training across agencies than ever before, with the goal of creating agency staff that can function as "one-stop-shops," or account managers, that can help a firm navigate the full array of government export promotion programs.

Trade Finance:

Our survey told us that trade finance is still a major obstacle to getting small businesses into world markets. It also indicated that too many U.S. companies turned down sales because they had problems getting financial support, or limited their exports to those opportunities they could fund on their own. Too few small exporters are taking advantage of SBA and Ex-Im Bank working capital programs. While many companies know about these programs, they are unaware of how they work and are confused by the fact that there are two, apparently competing programs. We are going to address this by combining the marketing efforts of SBA, Ex-Im Bank and the Commercial Service to make sure lenders know how these programs can help their clients. We also want to integrate the programs to the extent we can—while still preserving the benefits of each. In the future, we will promote one government trade finance service to our customers, that can then be customized with SBA and Ex-Im Bank features, as appropriate, depending upon the resources of the bank and the needs of the client.

Information:

This came up again and again in our discussions with customers and was ranked in our survey as the most important service government provides and businesses need. We learned that more than half of the exporters we surveyed use a government source to gather information on potential trade opportunities, and that they want a single site where they can get trade leads and information about specific markets. At the same time, they are unaware of the full range of government assistance that is currently available. In response, we are enhancing Export.gov—our one-stop web portal—so that exporters can find all of the government's best information on trade leads and markets in one place, in real time. We will use our BuyUSA product—which links buyers and sellers directly—to link foreign affiliates of U.S. multinationals abroad with U.S. suppliers, who are often small and medium-sized exporters looking for project opportunities.

Outreach, Education and Partnering.

We can develop the best programs in the world, but if no one knows about them, we won't get very far. We need to do a better job of letting companies know what's available and make it easier for them to participate. Although our study found that awareness is better today than it was five years ago, we can certainly do a better job of connecting with business people that want to take advantage of new trade opportunities. We propose working more closely with state and local trade groups, as well as elected officials, to expand awareness and increase outreach. We will also be leveraging technology to offer simpler Internet solutions for companies looking for help.

We will distribute packages of our export promotion services to the states to prevent duplication and leverage state resources. We will encourage joint strategy sessions on outreach and trade events. We will dedicate more resources to training our state partners in TPCC programs. We will develop joint TPCC agency marketing materials for our state and local partners. We will do a better job of leveraging the information provided by elected officials, who are often the first point of contact for companies seeking government assistance. And we plan to expand education for new-to-export firms and develop a strategy to use trading companies as multipliers of our services.

To *sum up*, we are placing a much greater focus on what our customers need; we are taking a comprehensive approach to making our companies competitive in the world market; we are actively developing opportunities for our companies; we are building programmatic bridges across the agencies; and we are using training and joint promotional efforts to improve coordination and our effectiveness.

Congressman, in many ways I believe we have gone farther than ever before with the TPCC. There are a number of initiatives that break new ground, not only by providing our companies with new tools to succeed in the competitive environment they face, but by making us more effective where our commercial and developmental objectives intersect.

Now that we have a sense of what we need to do to get our programs in tune, our next step will be to turn our attention on how we can focus them on the markets where our commercial opportunities are greatest. China is a good example. Having spent 14 years negotiating with them to get them into the WTO, we want to make sure we are the first to capitalize on this new market. We will put together a strategy that will give our exporters the best possible shot. Already I have doubled our staff in China, and just returned from a trade mission there last month. I plan to return again in the fall.

This is really just the starting point of our work. I feel strongly that we follow through on all of our recommendations and are held accountable for what we have said we are going to do. We expect to measure our progress. We will consult with the Committee as we implement these initiatives, and report how far we have come next year.

Again, Congressman, I appreciate your great interest in the importance of strengthening our trade promotion programs. I intend to continue to use the TPCC not only to coordinate our future efforts, but to generate new initiatives that will help keep America the most competitive exporting nation in the world.

Chairman HYDE. Thank you very much.

Mr. BROWN. Mr. Chairman, a point of personal privilege, if I could. I would like to express some dissatisfaction that Members were not allowed to give even a 3-minute opening statement, especially in light of the fact that I know that important Administration officials are here, but we have hearings often with that being the case, and in my other Committees, we have always allowed all Members to do that, with rare, rare exceptions.

And I see this panel and the next panel as having little ideological balance. Mr. Davis talked about how we need to convince Main Street, not just Wall Street, of these views on trade, when, in fact, almost every major newspaper in the country and this whole Administration has one position on trade. But polling shows the public is not so convinced that free trade is the savior for this country on economic issues and on the global economy.

And because I see so little balance in either panel, and because none of us that might disagree with the Administration or with the positions perhaps of the Chair, and the substitute Ranking Member, not the real Ranking Member—no disrespect, Mr. Davis, it just bothers me that none of us was given an opportunity to say some things about our trade policy and our export policy and fast track and some of the issues that are very hotly debated in this country and very hotly debated, I would hope, in this Committee and in this Congress.

To listen to the hearing today with the two opening statements and the panelists and the second panel, you would think that there was no real debate on the whole issue of trade. I just wanted to register that concern, Mr. Chairman.

Chairman HYDE. Well, I thank you. And you have had the opportunity to make an interesting political opening statement. And when we are through with the witnesses and the questioning, if you still have something that you think we should hear, we will recognize you and you can fulfill your desire to make a statement. It will be a closing, not an opening, but I am sure it will be nonetheless trenchant.

Mr. Secretary, I cheated you out of a really first-rate introduction. And let me add the cart after the horse, or before the horse by suggesting that you are the 34th Secretary to lead the Department of Commerce, the voice of business in government. You oversee a diverse Cabinet agency of 40,000 workers, and a $5 billion budget, focused on promoting and advocating for American business both at home and abroad.

Your department gathers vast quantities of economic and demographic data, issues, patents and trademarks, helps set industrial standards, forecasts the weather—we have someone else to blame now, I didn't know that—researches the oceans and oversees telecommunications policy.

You are a key member of President Bush's economic team, advising the President on many issues, including trade, business concerns, energy policy, and overall U.S. economic policy. That is an abbreviated recitation, but gives you a little context.

Now I would like to introduce our other distinguished witnesses. I would like to welcome Ross Connelly, Executive Vice President and Chief Operating Officer for the Overseas Private Investment Corporation.

Mr. Connelly is a native of Maine, was CEO of Bechtel Energy Resources Corporation prior to joining OPIC, and brings with him extensive experience in its senior level management and development of oil and gas exploration operations as well as a significant background in the company's investments and financial management. We welcome you today, Mr. Connelly.

Following Mr. Connelly will be Eduardo Aguirre, who is Vice Chairman and First Vice President of the Export-Import Bank of the United States. Prior to his nomination to join Ex-Im, Mr. Aguirre was President of the Bank of America's International Private Bank at the pinnacle of a 24-year career that saw his participation in many corporate-wide leadership initiatives. He has been appointed by President Bush to the National Commission for Employment Policy, and he still serves as the Chairman of the Board of Trustees of the Texas Bar Association.

Mr. Aguirre is a graduate of Louisiana State University, and the American Bankers Association's National Commercial Lending Graduate School. We welcome you here today, Mr. Aguirre.

To complete panel 1, I would like to introduce Thelma Askey, Director of the Trade and Development Agency. At the time of her nomination as director, Ms. Askey had more than 20 years experience in the trade field, and has been a principal influence in the development of U.S. trade policy since the 1980s.

She served most recently as a commissioner on the International Trade Commission. Prior to her appointment as commissioner—and I believe that was by President Clinton, is that correct?

Ms. ASKEY. That is correct.

Mr. CHAIRMAN. I wonder if Mr. Brown took note of that.

You served as staff director of the Trade Subcommittee of the House Committee on Ways and Means. You hold a BA from Tennessee Technological University, and you have completed graduate work in law, history and international economics. We welcome you, Ms. Askey.

I ask each of you to summarize your statements within 5 minutes. Your full statement will be placed in the record.

Mr. Connelly, please proceed.

STATEMENT OF THE HONORABLE ROSS J. CONNELLY, EXECUTIVE VICE PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. CONNELLY. Thank you very much, Mr. Chairman.

Mr. Chairman and Members of the Committee, I am pleased and honored to be here today on behalf of Dr. Peter Watson, OPIC's President and CEO. Dr. Watson regrets that he could not be here in person due to previously scheduled travel to Africa.

Mr. Chairman, because this is our first opportunity to come before the Committee, in addition to speaking about the important work of the Trade Promotion Coordinating Committee, I want to briefly report on the new Administration's efforts over the last year to refocus the agency on its core developmental mission.

No other public or private organization in America today invests in developing countries with the scope and focus that OPIC does. Over the agency's 31-year history, OPIC has supported $138 billion worth of investments in over 3,000 projects in some 129 countries.

The same projects have generated $64 billion in U.S. exports, and created nearly 250,000 U.S. jobs. The projects OPIC has supported are as diverse as the countries that host them. They have played a key role in the development of host country economies, by our calculation creating some 674,000 host country jobs.

OPIC is a self-sustaining agency. Through retention of user fees and prudent risk management, OPIC has financed its own activities at no net costs to the American taxpayer and, in fact, generates annual surpluses.

Our principal strategic objective during the last year has been to refocus the agency on the development mission that Congress originally gave OPIC by offering relevant products and services in regions and in countries and in ways not available in the private sector.

Our agency, in essence, assumes risks that the private sector is unable or unwilling to take, thereby encouraging investments in the development of fundamental U.S. policy interests overseas, like free markets, private property, and the rule of law.

In the process we look to assess the investments that OPIC supports by more than simply dollar flows; that is, to critically examine and to benchmark the added value of a particular investment or, as we say, to assess the additionality that the project represents.

A good example of this new policy has been a sustained OPIC focus in sub-Saharan Africa, where the development challenges are very great and the opportunities for OPIC to act as a catalyst for private sector development are promising. We see housing as a critical sector where we think OPIC can make a difference there.

Another priority has been small business. We recognize that both overseas development and U.S. economic growth are increasingly dependent on the vital role of small and medium-sized enterprises. OPIC is committed to improving and expanding the access of small business to OPIC programs.

With regard to the TPCC, Mr. Chairman, OPIC is committed to working with our sister agencies to meet the objectives the TPCC report sets out. I am pleased to be seated here with my colleagues from the other trade promotion agencies, with all of whom we have developed good and productive working relationships.

Mr. Chairman, not only have the agencies reached consensuses on those recommendations, but many of us are already implementing them. I spent 25 years in the private sector. Policy-setting and goals are important. But at the end of the day, success in the private sector is measured by tangible results, and in that regard I am pleased to report on specific actions we have taken in support of TPCC objectives, some of which you have already mentioned.

The TPCC report calls for greater cooperation among the agencies in early project development, as well as better coordination in crisis regions. This has been a major objective of mine over the last 10 months at OPIC. In the company of my friends, Eduardo Aguirre of Ex-Im Bank and Carl Kress of TDA, our three agencies conducted an investment assessment mission to Pakistan this past February that has helped to develop a significant volume of U.S. investment opportunities in that country.

More recently, OPIC and TDA have been working closely to develop opportunities in the telecommunications and hotel sectors in Afghanistan, which we think can be brought to fruition shortly.

There are other areas where we have made a more proactive role, sub-Saharan Africa, as I mentioned, and the Caspian region. I want to state for the record that based on my own experience, early identification and development of market opportunities is a role that OPIC can, in the context of its overall development mission, perform quite effectively for the benefit of U.S. businesses and taxpayers.

Regarding the TPCC's call for better customer service for U.S. businesses, through an internal reorganization, OPIC is working to empower its individual line departments, working directly with U.S. businesses to take ownership of a project as it works its way through the agency approval process, and to utilize new internal structures to resolve disputes and bottlenecks quickly and to streamline the application process so that we can provide a more efficient and less costly service.

As a small agency, OPIC is also looking for ways to leverage its resources with other agencies. In this regard, OPIC soon hopes to conclude an agreement with the Small Business Administration that will provide a vehicle to seamlessly connect interested U.S. companies currently doing business with the SBA with the tools and products OPIC offers in order to help these firms expand internationally.

Through these efforts and through the implementation of the recommendations of the TPCC report, we will have better coordination, improved customer service, and more aggressive outreach and advocacy for U.S. businesses, particularly U.S. small business.

We at OPIC are confident that the TPCC recommendations have placed us on the right track. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Connelly follows:]

PREPARED STATEMENT OF THE HONORABLE ROSS J. CONNELLY, EXECUTIVE VICE PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

Chairman Hyde, Mr. Lantos, and Members of the Committee, it is a special privilege for me to appear before this Committee today to review the work of the Trade Promotion Coordinating Committee (TPCC) in support of President Bush's National Export Strategy. We deeply appreciate your past interest and support of OPIC activities, and look forward to continuing to work with you, your Committee and your staff.

I am here on behalf of Dr. Peter Watson, OPIC's President and CEO. Dr. Watson deeply regrets he could not be here in person due to previously scheduled travel to Africa as part of OPIC's special initiative to spur development and promote investment in sub-Saharan Africa.

Because this is our first opportunity to come before the Committee, in addition to speaking about the important work of the Trade Promotion Coordinating Committee, I want to briefly take this opportunity to report on OPIC generally and the improvements and refocus Dr. Watson has brought to OPIC since joining the agency last year.

OVERVIEW ON OPIC

No other American public or private organization invests in developing countries with the scope and focus that OPIC does. OPIC currently operates in 150 countries—financing economic development projects large and small, and mitigating economic and political risk. Through its work, OPIC plays an uncommon and indispensable leadership role in developing emerging markets, expanding global commerce and fostering rule of law worldwide. The unprecedented events of 2001 have brought fresh relevance to our work.

Over the agency's 31-year history, OPIC has supported $138 billion worth of investments in 3,000 projects from Algeria to Zimbabwe. These same projects have generated $64 billion in US exports and created nearly 250,000 U.S. jobs. The activities of these projects are as diverse as the countries that host them, and have played a key role in the development of host country economies.

Through the use of user fees and prudent risk management, OPIC has achieved these results at no net cost to the American taxpayers. Over its history, OPIC has built up reserves of over $4 billion.

MISSION

The world has changed significantly since OPIC was founded more than three decades ago, but our mission has not: "To mobilize and facilitate the participation of the United States private capital and skills in the economic and social development of less developed countries and areas . . . thereby complementing the development assistance objectives of the United States."

Our objective since coming to OPIC has been to re-focus on our statutorily mandated mission, by aligning our products and services in a manner that supports the mission, while also recognizing a robust and growing private market that has developed since OPIC's founding.

As such, we have concentrated on, among other areas: refocusing OPIC on its core, developmental mission; rededicating our commitment to small business; and ensuring that OPIC's products are complementary, not competitive, with the private sector. Each of these reforms will also contribute importantly to meeting the goals of the TPCC report.

DEVELOPMENT & ADDITIONALITY

We are working actively to strengthen OPIC's consciousness of its historical developmental mission. In the process, we look to assess the investments that OPIC ultimately supports by more than simple dollar flows; that is, to critically examine and benchmark the added value of a particular investment to the host country, or as we say, to assess the additionality the project represents.

Our goal is to ensure that OPIC's participation "adds value" by measuring the extent to which there is a market failure, the degree to which OPIC can leverage its resources for a broader economic impact, and the extent to which the project in question contributes to the overall economic development of the host country.

A practical result of this new policy has been a sustained OPIC focus in sub-Saharan Africa where the development challenges are great and the opportunities for OPIC to act as a catalyst for private sector investment are promising.

SMALL BUSINESS

Recognizing that both overseas development and US economic growth are increasingly dependent on the vital role of small and medium sized enterprises, OPIC has been committed to improving and expanding the access of small businesses to OPIC programs.

Given its small staff, OPIC has done well in reaching out to small and medium-sized (SME) businesses. Of the 37 new insurance and finance projects that OPIC supported in FY 2001, approximately 57 percent involved American small businesses. In addition, thousands of SME's participate as suppliers to OPIC supported projects.

But more needs to be done, and in this regard, I am pleased to report that one of OPIC's key priorities under the presidency of Peter Watson is to establish an innovative framework agreement between OPIC and the Small Business Administration (SBA). This important cooperative relationship will provide a new dimension for American small businesses currently working with the SBA by providing a vehicle to seamlessly connect interested companies with the tools and products that OPIC offers to invest internationally. We hope to formalize this relationship in the near future.

COMPLEMENTARITY

OPIC's ability to refocus on the developmental nature of its projects is made possible in part by the growth and success of private market financing and insurance mechanisms. This growth allows OPIC, with its unique strengths as a government agency to complement the private markets by working in countries that the private sector would otherwise not participate but for OPIC's involvement.

The President's FY 2003 budget to Congress recognized this fact when it noted that, "OPIC also will implement new procedures to direct its activities toward filling important gaps in the private market and not undercut private finance or insurance."

OPIC recognizes that the private sector is in the best position to recognize and respond to business opportunities and risks in developing and emerging markets. OPIC therefore needs to work in tandem with private business to leverage private sources of financing and insurance to the maximum extent possible, while functioning as a "market of last resort" for projects that private investors and insurers would not or could not support on their own. We will continue our work in this important area.

OPIC AND THE TPCC

Mr. Chairman, in his introductory letter to the TPCC report, President Bush makes clear the central goal of his unified U.S. trade policy: providing American companies the information, expertise and financing they need to take full advantage of the opportunities which exist in international markets. The President expects that the TPCC agencies and departments will achieve this goal by providing customer service that is responsive, streamlined and results-oriented. While the report contains many specific recommendations, they are all in service of a single objective: providing investors and exporters "with the tools they need to compete". OPIC is committed to working with our sister agencies to meet this worthy objective.

What is so promising with many of the recommendations of the TPCC report is how far agencies have already gone in implementing them. Taken as a whole, these actions represent demonstrable progress toward better coordination between OPIC and its sister agencies; improved customer service; and more aggressive outreach to the American business community, particularly small and medium sized enterprises.

AGENCY COORDINATION

The TPCC report calls for a strategic approach in early project development as well as better coordination for crisis regions. I am pleased to report that many of the agencies are already putting together a track record.

In September 2001, OPIC, the Export Import Agency of the United States (EX–IM) and the US Trade and Development Agency (TDA) joined together to support a joint trade and finance initiative to promote US investment in Indonesia, a key US foreign policy priority.

In October 2001, OPIC announced a $300 million special line of credit for Pakistan to support US investment. This was followed in February 2002, by a joint OPIC, EX–IM, TDA investment mission to Pakistan to promote economic development with this key ally.

And finally, in January 2002, OPIC announced a $50 million line of credit for Afghanistan. Since that time, OPIC has been working closely with TDA to promote investment opportunities in Afghanistan in the telecom and construction sectors. We have made significant progress thus far, and expect that within a reasonable period of time, we can fulfill our promised line of credit.

BETTER CUSTOMER SERVICE FOR US COMPANIES

The TPCC report calls for better customer service for US companies, with a strong cross-promotional effort across all agencies. OPIC strongly supports this recommendation. No better example of this recommendation can be found than our ongoing efforts to cooperate with the SBA, referenced above.

In the same spirit as our SBA cooperation, OPIC looks forward to creating a new relationship with the Commercial Service (CS) that will similarly leverage the products and services OPIC promotes with the global reach of CS officers.

OPIC has an excellent working relationship with the EX–IM Bank and as the TPCC reports recommends, will initiate discussions to ascertain whether there are process improvements that we can jointly administer that can provide meaningful savings and time reductions for clients of both organizations.

These efforts will compliment ongoing, internal OPIC activities aimed at increasing responsiveness to clients and streamlining business processes to minimize red tape and reducing cycle time from application to contract signing.

CONCLUSION

In conclusion Mr. Chairman, the recommendations of the TPCC report represent a course that will significantly enhance progress toward better coordination among our agencies, improved customers service and a more seamless and strategic approach to a national export strategy; all in support of US business, especially small business.

I would be remiss in closing without noting that the recommendations in the report were based on a survey of US exporters, which identified their expectations and needs. It is vital for our agencies to always keep in mind the investors understanding of the global marketplace, its vagaries and opportunities, in formulating our unified trade program. In that context, we at OPIC have more to accomplish before we have made our full contribution to this process, but we are confident that our attention to investors' needs has placed us on the right path.

Thank you, Mr. Chairman

I will be pleased to respond to your questions.

Chairman HYDE. Thank you, Mr. Connelly. Mr. Aguirre.

STATEMENT OF THE HONORABLE EDUARDO AGUIRRE, VICE CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. AGUIRRE. Mr. Chairman, if I may. My name is pronounced Eduardo Aguirre.

Chairman HYDE. You certainly may. And I stand very much corrected.

Mr. AGUIRRE. No, thank you, sir.

Chairman HYDE. We had a great basketball player named Mark McGwire, whose name was very similar to yours, and perhaps that was flashback to his playing days.

Mr. AGUIRRE. No. Mark McGwire just doesn't know how to pronounce his last name. But he played great basketball.

Chairman HYDE. Please proceed.

Mr. AGUIRRE. Thank you, Mr. Chairman.

Thank you for the opportunity to appear before you today in my role as Vice Chairman of the Trade Promotion Coordinating Committee to present the national export strategy.

We are pleased to share our collective strategy on how to increase U.S. export competitiveness through collaborative government support. In the interest of brevity, with your indulgence, a more extensive testimony is being provided for the record.

My testimony focuses on the Ex-Im Bank and the export finance arena. The Export-Import Bank of the United States is in step with the Administration's commitment to free and fair trade. Ex-Im supports American jobs by assisting U.S. exporters to compete fairly and successfully in the world marketplace. U.S. businesses rely on Ex-Im to facilitate the financing of exports that would otherwise not take place. We attempt to level the playing field for U.S. businesses by offsetting the market imperfections and trade-distorting subsidies that disadvantage U.S. exporters.

Last year alone Ex-Im Bank supported $12½ billion worth of U.S. exports. Of all bank transactions, 90 percent were in direct support of small businesses, representing $1.7 billion or 18 percent of the exports supported. In fact, 383 new small businesses utilized the bank for the first time last year to support their exports.

And Ex-Im does not compete with private sector financing. Ex-Im Bank's export financing role does not take place in a vacuum. We interface within the Bush Administration to be in sync with trade policy, foreign policy, and economic stimulus teams. Ex-Im is a tool supporting exports to new international markets.

Alternately our charter mandates that we determine reasonable assurance of repayment for each transaction brought before the board.

We also step up in times of crisis, as we did during the 1997/1998 Asian financial crisis, and as we did this past fall in supporting the airline industry in the wake of the September 11th attacks. In so doing, we foster stability and economic growth within the U.S. exporting community, as well as in emerging markets across the world. The bank is working in support of new and growing U.S. industry segments. For example, consistent with President Bush's recommendation, we established the Renewable Energy Exports Advisory Committee. This Committee will provide the board with suggestions to better support exporters of market-ready U.S. technologies that provide efficient sources of energy and maintain a clean environment. The Committee is made up of U.S. exporters and representatives of related trade associates and nongovernmental organizations, NGOs, and will meet several times a year to develop recommendations that will benefit U.S. exporters in renewable energy industries.

The bank works closely with other U.S. Government agencies to capture possible efficiencies and to protect the interests of the taxpayers.

Let me briefly review some of the initiatives that involve Ex-Im Bank and what Ex-Im is doing to currently address them.

The bank maintains 8 regional offices across the country. Six are located within the United States Export Assistance Centers.

For the past 2 years, the bank has delivered direct marketing material jointly with the Department of Commerce. We are doing more education seminars outside of Washington and reformatted them into efficient 1-day mini courses. We actively participate in trade association shows, and just 2 weeks ago the bank hosted 1,500 participants at our annual conference who came to learn about the bank and to network.

Participants included exporters, bankers, brokers, foreign buyers, and U.S. and foreign government officials. The recommendations of the national export strategy were developed in close coordination among TPCC agencies and with significant input from the U.S. export community.

From the dialogue the TPCC developed the recommendations, I would like to highlight 5 of the recommendations that pertain to Ex-Im Bank.

One, technology: Employ technology to maximize customer service, creating processing efficiencies and leverage-scarce human resources through automation. We have several upgrading programs in place. We aim to provide faster turnaround time and more up-to-date management information.

Two, tied aid: Develop a multiproject approach to address the trade-distorting effect of commercially driven tied aid.

Three, Ex-Im and the Small Business Administration (SBA), are coordinating to integrate our working capital guarantee programs. Last week, Administrator Hector Barreto of the SBA and I signed an agreement to coordinate marketing efforts and work together to identify additional opportunities to integrate our programs.

Four, market windows: Commission a study to assess the impact of market window activity on U.S. exporter competitiveness.

And, lastly, five, the service sector: Assessing the unique servicing needs of the services sector and develop procedures and programs to address those needs.

In conclusion, Mr. Chairman, since last year when President Bush's Administration reenergized the TPCC, we have been working hard to identify innovative ways to serve our combined customers, the nation's exporters.

I look forward to working with you and the other TPCC agencies in implementing those critical steps to improve U.S. exporter competitiveness. Mr. Chairman, throughout my 34-year banking career, I have always tried to make decisions on what is right for the customer. In the private sector, it was a matter of survival, aligning your organization around your customers and expanding your services through strategic alliances. These were and still are one of the best ways for companies to expand market share. In the public sector, the principles of TPCC are fundamentally issues of efficiency and providing our exporters the best unified and simplified government support possible.

Our exporters need the best their government can offer. The best will only be realized through collective and coordinate actions. While the TPCC has made progress in the past few years, we recognize we have more to do in several areas, and we are committed to this effort.

I appreciate your leadership on these issues and look forward to answering questions that may come to me.

[The prepared statement of Mr. Aguirre follows:]

PREPARED STATEMENT OF THE HONORABLE EDUARDO AGUIRRE, VICE CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Thank you for the opportunity to appear before you today. As Vice Chairman of the Export-Import Bank (Ex-Im Bank), I also serve as Vice Chairman of the Trade Promotion Coordinating Committee (TPCC), the body designated by Congress to coordinate interagency efforts on trade promotion.

Working in partnership with business and labor, we support exports in order to create and sustain jobs here in the United States. That means the Bank must be in tune with the Administration's trade and foreign policy objectives, as well as the needs of U.S. companies to compete abroad.

I appreciate the efforts of all the agencies represented here today, in addition to others both inside and outside the government, who contributed time and energy in pursuit of our common goal—to make U.S. trade promotion efforts second to none by being effective, coordinated and user-friendly.

In keeping with the Administration's firm commitment to free and fair trade, the Ex-Im Bank assists U.S. exporters in competing fairly and successfully in the world marketplace. Participation in foreign trade is a critical component of the nation's economy. In 2001, exports represented about 10% of the nation's GDP and supported approximately 12 million jobs (Department of Commerce, U.S. Trade Facts), including one-in-five manufacturing jobs. Moreover, medium- and small-sized companies represented 97% of U.S. exporters. These companies are an important source of U.S. employment. Moreover, jobs in the export sector on average pay wages that are 13 to 18 percent higher than the national average of non-export jobs (Department of Commerce, U.S. Trade Facts).

Market imperfections and trade distorting subsidies frustrate U.S. exporters' ability to compete and win business in new markets. The Ex-Im mission is to meet both of these challenges head-on. When foreign governments subsidize the financing of products and services sold by their companies, we step in to level the playing field. These unfair practices distort free trade, and we are committed to providing the U.S. exporters a competitive environment where the market drives the process; in other words, the best product at the best price wins the sale, and not government-subsidized financing. Eventually, the hope and the efforts are to eliminate any government trade distorting subsidies.

Capital always moves to its best risk-adjusted rate of return. Especially in dynamic emerging markets, capital tends to be jittery even during the best of times. When these markets begin to slow or experience difficulty, capital flight is swift and can be crippling. Sometimes, especially in the short-term, this phenomenon is counter to the Bank's broader, long-term financing strategy. These sharp market movements most affect small companies. South Korea's economic turmoil during the Asian Financial Crisis was a good example of this phenomenon. When the private market collapsed in 1997–1998, Ex-Im Bank stepped up to the plate and supported almost $2 billion dollars in exports during that critical period. The Bank didn't lose taxpayer dollars, and in fact Ex-Im Bank played a key role in keeping trade relations and businesses open for U.S. exports. Now that the economy has stabilized in South Korea, the private sector has re-entered the market, and the Bank has appropriately scaled back its support. What was Ex-Im Bank's role? The Bank stepped into the breach and covered appropriate short-term risk. We to some degree insulated potential financial contagion from that crisis.

In carrying out its mission in 2001, Ex-Im Bank supported approximately 4% of all U.S. exports to emerging markets and 6% of all U.S. capital goods exports to emerging markets. One of Ex-Im Bank's missions in this changed world is to take the lead in the U.S. commercial effort to penetrate risky emerging markets.

The Bank also steps up in times of crisis—as Ex-Im Bank did during the 1997–98 Asian financial crisis, and as the Bank did this past fall through supporting the airline industry in the wake of the September 11 attacks. Ex-Im Bank decided not to exercise its requirement that airlines must have the previously agreed amount of third party war risk insurance coverage. This effort was in coordination with other nations. The goal was to keep the airlines of the world flying, until such time as the airline and insurance industries are able to develop a solution that will reinstate liability insurance to the previously agreed levels. The process was successful, aircraft were not grounded, and international commerce continued without any hitches. The Bank and the U.S. government fostered stability and economic growth at home and abroad.

Last year alone, Ex-Im Bank supported $12.5 billion worth of U.S. exports. Of all Bank transactions, 90% were in direct support of small businesses, representing $1.65 billion or 18% of the US exports by dollar volume supported. In fact, 383 new small businesses utilized the Bank for the first time last year to support their exports. Ex-Im Bank is proud of its record and intends to continue these efforts.

The Bank played an important role in supporting U.S. goods and services to key markets such as Mexico, where Ex-Im Bank financed nearly $1 billion of U.S. exports; Brazil, where the Bank supported over $700 million; Korea, to which the Bank supported over $650 million; Algeria, where Ex-Im Bank financed over $500 million; and Russia, where the Bank financed over $150 million. Ex-Im Bank's financing touches nearly every industry sector including exports related to oil and gas, transportation, capital goods, consumer products, telecommunication, environmentally beneficial exports, high-tech software and hardware and a host of services. It is in all of these areas where commercial and developmental interests intersect with overarching TPCC objectives; for example when TDA does a feasibility study in an emerging market and Ex-Im supports the U.S. related exports. As for Ex-Im Bank's Sub-Saharan initiative; the Bank considers financing for transactions in 47 sub-Saharan markets, including 14 countries where, absent the Sub-Saharan Africa program, Ex-Im Bank financing would not be available. Our efforts are paying off, as reflected by recent transactions in the region supported by the Bank: the sale of $450 thousand in cement bagging equipment to Nigeria, a transaction valued at $769 thousand for construction equipment to Senegal and a $1 million sale of road construction equipment to Uganda. These transactions are illustrative of the joint trade and developmental benefits that accrue to both the U.S. and developing country economies made possible by Ex-Im Bank financing programs

At the same time, the Ex-Im Bank has several other mandates:

The Bank is required to ensure that issues such as human rights, international narcotics control, chemical and biological weapons sanctions, and environmental concerns are carefully considered as the Bank reviews transactions. For all of these issues, cooperation and information sharing among U.S. government agencies is key as well. And finally, we have specific advisory committees of private sector representatives to work with and advise the Bank in 3 key areas:

- A Bank-wide Advisory Committee, now in its 19th year, helps Ex-Im Bank review policies and programs by providing input from various sectors of the economy.
- Consistent with the President Bush's recommendations, the Bank has established the Renewable Energy Exports Advisory Committee to provide sugges-

tions to the Board as to how to increase its support for US firms selling market-ready U.S. technologies that provide efficient sources of energy and maintain a clean environment. The committee is made up of U.S. exporters and representatives of related trade associations and a non-governmental organization (NGO) and will meet several times to develop recommendations that will benefit U.S. exporters in renewable energy industries.

- A special advisory committee on Sub-Saharan Africa to provide expert guidance to Ex-Im Bank in developing policies to further strengthen the Bank's support of U.S. exports to Africa.

EX-IM BANK ACTS

Ex-Im Bank promotes private sector financing. Where there is not a private sector alternative and there is a creditworthy transaction, the Bank steps up and ensures that U.S. exporters can compete and are not at a disadvantage. In short, Ex-Im Bank's role is to provide official financing support that levels the playing field for U.S. exporters until agreements can be reached to eliminate market-distorting practices.

Ex-Im Bank does not perform this vital job in a vacuum. The Bank works closely with other United States government agencies to capture possible efficiencies and to protect the interests of the taxpayer. The TPCC plays a critical role, as illustrated by the recommendations in the National Export Strategy Report.

Allow me to briefly review some of the prior TPCC initiatives involving Ex-Im Bank and our sister trade agencies and what Ex-Im Bank is already doing to address some of these key needs.

- The Bank maintains offices eight regional offices across the country. Six of these offices are located with the United States Export Assistance Centers (USEACS) with the Department of Commerce (DOC) and the Small Business Administration (SBA). Co-location allows our respective staffs to co-market, pursue, and share trade leads and market information. The Bank has placed offices in strategic locations (Miami, FL, Washington, District of Columbia, New York, New York, Chicago, Illinois, Houston, Texas, and three in California). The states in which these offices are located are home to approximately 65% of the exporters in the U.S. Where we are not co-located, Ex-Im Bank employees cross-train with DOC and SBA employees in the remaining USEACs to ensure that DOC and SBA professionals are kept up-to-date on new initiatives at the Bank.

- For the past two years, the Bank has delivered joint direct mail with the Department of Commerce's Foreign Commercial Service and the Census Bureau's Foreign Trade Statistics Division. This year Ex-Im Bank will deliver close to 50,000 pieces of direct mail. Not only is this partnered approach cost-effective, (it reduces the Bank's costs by two-thirds) it gives the recipient a comprehensive view of the menu of services offered by our respective institutions. Ex-Im Bank's direct mail initiative has been a huge success.
- Educational seminars have long been a primary approach of many of the trade agencies. So what's new? First, the Ex-Im Bank is doing more seminars. Second, the Bank has taken them outside of Washington and reformatted them into efficient one-day mini-courses. Third, Ex-Im Bank almost always either partners with Department of Commerce, a City/State Partner, or one of Ex-Im Bank's sister trade agencies. For example, this spring OPIC participated in a well-received exporter seminar in Indianapolis, and three weeks ago Ex-Im Bank's business development team co-presented with Department of Commerce in Lubbock, Texas. This year Ex-Im Bank executed over 50 of these type seminars, all with some form of sister agency involvement.
- Trade Associations: Attending trade association shows where hundreds, sometimes thousands, of exporters and buyers are gathered is a very cost-effective outreach tactic for Ex-Im Bank. Partnering with DOC and the Census Bureau makes Ex-Im Bank's approach even more effective. The Bank will continue this successful enterprise with DOC and the Census Bureau and expand upon it.
- Ex-Im's Annual Conference: Just two weeks ago, the Bank had 1500 participants in Washington DC to learn about the Bank and to network. Participants included exporters, bankers, brokers, foreign buyers, U.S. government officials and foreign government officials.

NATIONAL EXPORT REPORT

Turning to the National Export Report, these recommendations were developed in close coordination among TPCC agencies and with significant input from the U.S. export community. The TPCC listened to the concerns of our customers, U.S. exporters. The TPCC listened to those that distribute and market our services, trade finance lenders. From this dialogue, the TPCC developed the recommendations continued in the report.

Highlights of the recommendations that pertain to the trade finance arena include:

(1) Employ technology to maximize customer service, creating processing efficiencies, and leveraging scarce human resources through automation;

- The TPCC recognized we could never substantially expand our support, especially for small business exporters unless and until we developed automated tools that made our processes faster. We have several upgraded programs currently in place that will assist us with providing faster turn around time and more up to date information and statistics.
- Earlier I mentioned the Ex-Im Bank's direct mail initiatives. The Bank's direct mail, which also includes periodic email contact, is all initiated and managed from customer management tools. Inquiries from direct mail are sent electronically to the Bank's eight field offices for prompt follow-up. When Ex-Im Bank started direct mail two years ago, the Bank used existing database software and low-cost customer management software. Ex-Im Bank is a victim of its own success. The Bank has now outgrown its own database and software system. The database the Bank uses was designed for 50,000 records; Ex-Im now has over 300,000 records. The Bank is now in the process of upgrading this system.

(2) Develop a multi-pronged approach to address the trade-distorting effect of commercially driven tied aid, the means by which other countries provide partial grants and/or concessional loans either alone or combined with export credits and linked to procurement from the donor country, and to add tools to the U.S. cache by combining the resources and expertise of one or more TPCC agencies to address the problem.

- Work with Treasury negotiators to use the Tied Aid Credit Fund (TACF) resources to advance the U.S. position in the Organization for Economic Cooperation and Development (OECD) to establish disciplines on the use of untied aid. The goal here is to ensure that untied aid financing is truly untied, and not defacto tied to procurement from donor country suppliers. Thus, the Bank would utilize the TACF to provide a negative incentive that would bring other untied aid donor ECA's to negotiate greater discipline in their use of those funds. For example, as cited in the new TPCC report, the OECD recently notified Japan that a power project they wanted to support in China was not eligible for Tied Aid because it was deemed commercially viable. Within ten days, Japan converted its support from Tied to Untied Aid, thereby raising the question: did the Japanese really change the financing arrangement, or just change what policy they state it falls under?
- Begin a pilot program where the Trade Development Agency would selectively finance FEED (front-end engineering and design) studies until there are multilateral rules that prevent governments from using these studies to promote exports;
- Ex-Im Bank, Treasury, USAID, TDA, and the Commerce Department will work collaboratively to design creative financing arrangements for developmentally sound projects for which commercial financing is not available, achieving Administration trade and aid goals; and
- Use the Tied Aid Credit Fund to defend U.S. exporters from patterns of use of tied aid that effectively (whether intentionally or not) represent a threat to long-run U.S. market share or access to emerging markets.

(3) In response to concerns raised by the small business community, better integrate Ex-Im Bank's and SBA's Working Capital Guarantee Programs, where appropriate. Toward this end, last week Administrator Barreto of the SBA and I signed an agreement where the two agencies would begin to coordinate marketing efforts. We have also directed our respective staff to work together to identify additional opportunities to integrate these programs;

(4) Commission a study to assess the impact of market window activity on U.S. exporter competitiveness, which is also a topic of interest in the Bank's re-authorization bill; and

(5) Examine the unique financing needs of the services sector and develop programs and procedures that address those needs.

Since last year when President Bush's administration re-energized the TPCC committee, we have been working hard to identify innovative ways to serve the TPCC's combined customers—the nation's exporters. And now, I look forward to working with you and the other TPCC agencies in implementing these critical steps to improve U.S. exporter competitiveness.

Mr. Chairman, throughout my 34 years in banking, I have always tried to make decisions on what's right for the customer. In the private sector, it was a matter of survival—aligning your organization around your customers needs, expanding your services through strategic alliances—these were and still are one of the best ways for companies to expand market share. In the public sector, the principles of the TPCC are fundamentally issues of efficiency and providing our exporters the best unified and simplified government support possible. Especially in these tough times, our exporters need the best their government can offer. The best will only be realized collective and coordinated actions. While the TPCC has made progress in the past few years, we recognize we have more to do in several areas. The TPCC is committed to this effort. Thank you for your leadership on these issues, and I am now prepared to answer any questions you may have. Thank you.

Chairman HYDE. Thank you, Mr. Aguirre. Ms. Askey.

STATEMENT OF THE HONORABLE THELMA ASKEY, DIRECTOR, TRADE AND DEVELOPMENT AGENCY

Ms. ASKEY. Thank you, Chairman Hyde, Congressman Davis, and Members of the Committee, for providing this opportunity for TDA and other members of the TPCC to come before you today. It is a pleasure to be before the International Relations Committee to discuss the President's export initiative. I always enjoy getting back on the House side. I feel at home here after so many years on the Ways and Means Committee, as a staffer, of course.

Now, 6 months after September 11th, I think it is even more obvious to everyone that trade promotion efforts such as those we are discussing here today are vital to U.S. and global economic and political security. In particular, our ability to foster development in and trade with the frontline states, with countries in South and Southeast Asia, and with struggling markets in Africa, will go a long way toward promoting international stability.

To begin, let me first express my appreciation to Secretary Evans, Under Secretary Aldonas, and their staffs for the tremendous amount of work they have put into the TPCC process in the last 7 months. They are to be commended for their proactive efforts to discern the needs of the exporting community and to develop specific strategies to respond to those needs.

The report contains a number of specific proposals pertaining to TDA and I will outline them in a moment. But I would like to quickly take a moment to reiterate TDA's mission and activities. As directed by statute, TDA promotes American private sector participation in developing and middle income countries, with special emphasis on economic sectors that represent significant U.S. export potential. U.S. TDA is a small, nimble agency that partners with U.S. companies and assists them in building mutually beneficial relationships with overseas project sponsors and government officials. The result is increased U.S. export in jobs as well as the completion of high quality, successful projects and other solutions that address priority developmental needs in host countries.

TDA's operations put it at the forefront of U.S. foreign and trade policy, where it works in concert with a wide array of other U.S. Government agencies, including the Departments of State, Commerce, Treasury, Agriculture, Energy and Transportation, the U.S. Trade Representative, the Export-Import Bank of the United States, and, of course, the Overseas Private Investment Corporation.

Turning to the TPCC report, there are a number of recommendations that involve TDA. Since my colleagues have already identified some of them, I will simply highlight a few key recommendations.

First of all, we will continue to focus on developing coordinated strategies in crisis regions as called for in the TPCC report. For example, TDA has been working closely with OPIC in developing potential projects in Afghanistan, particularly in the telecom sector.

In fact, TDA is already providing funding for an advisor to the communications ministry in Afghanistan to assist them with evaluating proposals for the sector. They viewed it as such a successful arrangement, they have asked for additional assistance in that regard.

We also have been working closely with Commerce and the FAA in developing a technical assistance program for the aviation sector in Afghanistan that will support U.S. commercial interests there.

In addition, as proposed by Treasury and other TPCC agencies, U.S. TDA will explore opportunities to fund front-end engineering and design studies which are commonly referred to as FEED studies. Other countries sometimes fund such studies as part of aggressive efforts to win large developmental projects, and TDA will initiate a pilot program, along with Ex-Im, in support of U.S. companies who are confronted with this type of competition.

TDA also looks forward to continuing its efforts in the area of biotechnology. We continue to work with the USDA, USTR, and the Department of State to support public-private partnerships that help promote sound regulatory environments overseas for American biotech products. These efforts are crucial for ensuring that our trading partners continue to allow the import of American pharmaceutical and agricultural products.

Additionally, TDA will continue to develop strategies for supporting efforts in the services sector, such as insurance, banking, finance, tourism and e-commerce. For example, TDA has been supporting feasibility studies and technical assistance for projects around the world involving e-commerce. Most recently, 2 weeks ago TDA signed a grant with SINOPEC, China's leading petroleum and petrochemical company, for a feasibility study to help develop an e-trade platform putting all of the company's procurement activities on line. Of course, U.S. companies will benefit by seeing these opportunities more easily.

We are also holding a conference this month on tourism in Istanbul. It will involve many of the countries in that region, including the front-line states and Afghanistan. Of course, the tourism industry isn't just for visitors who are vacationing, but also for business people who need accommodations while they are traveling for business purposes.

In sum, TDA will continue to work closely with the TPCC and its member agencies in making sure that U.S. policy objectives are supported by concrete results and that U.S. companies have the support they need to operate around the world. This obviously is a benefit to the U.S. economy as it supports exports and creates U.S. jobs. But, equally important, the disseminating of U.S. goods, technology, services and business practices around the world represents a cost-effective market-based means of effectuating the President's strategy of supporting economic growth and development in important regions around the world.

Again, I appreciate the opportunity to appear before you, and look forward to answering any questions you may have. Thank you, Mr. Chairman.

[The prepared statement of Ms. Askey follows:]

PREPARED STATEMENT OF THE HONORABLE THELMA ASKEY, DIRECTOR, TRADE AND DEVELOPMENT AGENCY

Thank you Chairman Hyde, Congressman Lantos and members of the Committee, for providing this opportunity for TDA and the other members of the TPCC to come before you today.

It is a pleasure to be before the International Relations Committee to discuss the President's export initiative. Now, six months after September 11, I think it is even more clear to everyone that trade promotion efforts, such as those we are discussing here today, are vital to U.S.—and global—economic and political security. In particular, our ability to foster development in and trade with the Front Line States, with countries in South and South-East Asia, and with struggling markets in Africa, will go a long way toward promoting international stability.

To begin, let me first express my appreciation to Secretary Evans, Undersecretary Aldonas, and their staffs for the tremendous amount of work that they have put into the TPCC process in the past seven months. They are to be commended for their proactive efforts to discern the needs of the exporting community and to develop specific strategies to respond to those needs. TDA has been an active participant in those efforts and we look forward to continuing this role as we face the future challenges and implement the many ideas contained in the report.

The report contains a number of specific proposals pertaining to TDA, and I will outline them in a moment, but since TDA does not regularly appear before this Committee, I would like to quickly take a moment to reiterate TDA's mission and activities.

As directed by statute, TDA promotes American private sector participation in developing and middle-income countries, with special emphasis on economic sectors that represent significant U.S. export potential. TDA is a small, nimble agency that partners with U.S. companies and assists them in building mutually beneficial relationships with overseas projects sponsors and government officials. The result is increased U.S. exports and jobs as well as the completion of high quality, successful projects and other solutions that address priority developmental needs in host countries.

Thus, TDA's goals are two-fold: helping American businesses export their products, and thereby creating jobs, while simultaneously promoting commercially viable economic growth in developing and middle-income countries. TDA's dual trade and development mission allows it to serve as an essential catalyst for priority development around the globe through support of key infrastructure projects and capacity building initiatives.

TDA's operations put it at the forefront of U.S. foreign and trade policy, where it works in concert with a wide array of other U.S. government agencies, such as the Departments of State, Commerce, Treasury, Agriculture, Energy and Transportation, the U.S. Trade Representative, the Export-Import Bank of the United States and the Overseas Private Investment Corporation. Thus, TDA works together closely with the other TPCC agencies on a regular basis, in the normal course of its business.

TDA's role is to ensure that there are early successful demonstrations that U.S. policies result in viable and mutually beneficial economic growth. This demonstration of U.S. support has the direct effect of increasing exports of U.S. goods, services, technology and expertise. TDA accomplishes its mission using a number of early project planning tools, including the funding of various forms of technical assistance, feasibility studies, detailed design and engineering, orientation visits, specialized training grants and conferences. TDA utilizes its tools creatively, tailoring its flexible resources to fit the particular needs of specific opportunities. The agency thereby achieves two results—assisting U.S. businesses as they compete for infrastructure and other development projects in highly competitive, emerging markets, and offering tailored solutions to foreign governments in need of effective commercial-sector development assistance.

Turning to the TPCC report, there are a number of recommendations that involve TDA. Since my colleagues have already identified many of them, I will simply highlight a few key recommendations.

First of all, we will continue to focus on developing coordinated strategies in crisis regions. For example, TDA has been working closely with OPIC in developing potential projects in Afghanistan, particularly in the telecom sector. In fact, TDA is already providing funding for an advisor to the communications ministry, to assist them with evaluating proposals for the sector. This work is also being coordinated with the State Department Office of International Communications and Information Policy and with USAID. We also have been working closely with Commerce and the FAA in developing a technical assistance program for the aviation sector in Afghanistan that will support U.S. commercial interests. Similarly, we have worked with Ex-Im Bank in identifying projects in Uzbekistan that can be supported by TDA at the feasibility study stage and later by Ex-Im Bank guarantees. We will continue to work with other TPCC agencies to develop coordinated strategies in Afghanistan and other crisis areas.

In addition, as recommended by the exporting community, TDA will explore opportunities to fund front-end engineering and design studies, which are commonly referred to as FEED studies. Other countries sometimes fund such studies as part of aggressive efforts to win large development projects, and TDA will initiate a pilot program to support U.S. companies who are confronted with this type of competition.

TDA will continue working with other TPCC agencies on designing a pilot project to support capital projects in traditionally commercially nonviable sectors, such as t he environment, renewable energy, health care and water. TDA is active in all of these sectors, and will coordinate with the other TPCC agencies to further expand opportunities for U.S. businesses.

TDA also looks forward to continuing its efforts in the area of biotechnology. We continue to work with USDA, USTR and the Department of State to support public-private partnerships that help promote sound regulatory environments overseas for American biotech products. These efforts are crucial for ensuring that our trading partners continue to allow the import of American pharmaceutical and agricultural products.

Additionally, TDA will continue to develop strategies for supporting efforts in the service sector, such as in insurance, banking/finance, tourism and e-commerce. For example, TDA has been supporting feasibility studies and technical assistance for projects around the world involving e-commerce. Two weeks ago TDA signed a grant with Sinopec, China's leading petroleum and petrochemical company, for a feasibility study to help develop an e-trade platform, putting all of the company's procurement activities online. The study would show Sinopec how to manage and finance its e-procurement investments, as well as how to prepare its management for the organizational requirements demanded by the new system's implementation. Not only will this lead to a potential of $23 million in direct U.S. exports associated with setting up the system, but will also make their procurement process more efficient and transparent, further increasing the likelihood that U.S. companies will be successful in doing business with Sinopec in the future.

The TPCC report identifies exporters' desire that the trade agencies provide better access to information and to streamline data collection, such as with the application process. TDA is currently revamping its computer system, moving to a web-based system that will both allow our staff to work with data more efficiently and provide better access for U.S. companies to TDA information and activities. We are scheduled to have this system operational later this year.

In sum, TDA will continue to work closely with the TPCC and its member agencies in making sure that U.S. policy objectives are supported by concrete results, and that U.S. companies have the support they need as they operate around the world. This obviously is of benefit to the U.S. economy, as it supports exports and creates U.S. jobs. But equally importantly, the dissemination of U.S. goods, technology, services and business practices around the world represents a cost-effective, market-based means of effectuating the President's strategy of supporting economic growth and development in developing countries.

Again, I appreciate the opportunity to again appear before you and look forward to answering any questions you may have.

Mr. CHAIRMAN. Thank you, Ms. Askey. Now we will do the questioning. Members will be recognized for 5 minutes. So if you can be succinct, it would be to everybody's advantage.

First, Representative Davis.

Mr. DAVIS OF FLORIDA. Thank you, Mr. Chairman. My question is directed to Secretary Evans and anyone else who would care to comment. Part of your proposal calls for combining both traditional development aid with more commerce-related export aid in an attempt to maximize results, which strikes me as a good concept, depending upon the details because the people in the private sector coming to you don't have to apologize for simply focusing on their bottom line. But, at the same time, we are trying to measure these projects against development criteria.

What safeguards, Mr. Secretary and others, do you intend to put into place to make sure we strike the appropriate balance there?

Secretary EVANS. Well, it is a pilot project. It is going to be learn-as-you-go. But, having said that, we understand the big picture goal of combining the development side of it with commercial opportunities and introducing into these development regions the private sector. And as the private sector gets introduced into those regions, they will bring the kind of standards and values that we think will help in those regions.

But, having said that, it will be a combination of USAID programs along with Ex-Im Bank, and Ex-Im Bank already has in place the same kind of criteria that any lending institution would have as to the credit-appropriateness of a project.

Within that, I don't know all of the details, or all of the specifics, but I know that there are certainly environmental standards that have to be met, and will be measured against. So when somebody comes in and talks about a commercial opportunity in a developing country, and somebody in the private sector is interested in participating in that, there are both government grants in the form of aid grants as well as government lending support in the form of Ex-Im Bank. There will be the traditional "does it meet the credit test that it ought to meet," plus Ex-Im Bank's standards as it relates to environmental standards. If those are the kind of concerns you have, if you are thinking about environmental standards and safety standards that you know might need to be met, you know that will be part of Ex-Im Bank's criteria.

Having said that, Eduardo might have a little more complete explanation as to what Ex-Im Bank will be looking at specifically.

Mr. AGUIRRE. Well thank you. Congressman, I think I will just add a couple of words. I think you may be referring to what we are calling mixed credit, which will be USAID and, say, the Ex-Im Bank participating in a mixed fashion. These programs are really driven by developmental objectives, and we look to USAID to actually determine the developmental objective feasibility of the project.

At any rate, when it comes to the Ex-Im Bank, we have to rely then on the reasonable assurance of repayment. We have to analyze the project itself, engineering studies and the like, to make sure that it is a sound transaction from the Ex-Im Bank's point of view. I am not sure if that—perhaps Ms. Askey will——

Ms. ASKEY. I will just add quickly, since TDA does a lot of business in this area, although we are not in the mixed credit business, because that has been under policy debate in this country for a long time, we do early-kind of commercially focused assistance for U.S. companies and development projects. And what we look to do is ensure that the projects are viable and needed in addition to the statutory criteria that we consider for the effect on U.S. jobs and the environmental impact. That is, whether or not the U.S. interest is viable, you know, can they actually implement the project when they complete the study. We also look for additionality that the U.S. Government can bring to the process. Could they do it without the U.S. Government's assistance, or in a very volatile market is it important to either have some U.S. money behind it in the face of subsidized competition or sometimes, even more importantly, some flag wrapping. Sometimes it is important just to show U.S. interest in a particular development project.

And then I think another important criteria is whether or not the country itself has highlighted it as an important developmental objective so that we can be sure and marry our U.S. export interest with projects that the country itself has identified and therefore will support. Many of these are public sector jobs, but even the private sector ones that receive a government nod that this indeed is a priority for the country is an important criteria.

Chairman HYDE. The gentleman's time has expired. Representative Davis of Virginia.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

First let me say I find myself in the awkward position of somewhat agreeing with my colleagues on the other side in that I would like to have heard possibly the opposite side of the free trade. It is a topic that in my district is very difficult to explain to the constituents as to why we should have free trade. They are not sure that they totally agree with it.

Based on that, I have a couple of question. Mr. Connelly, you said that with the exports we have gained roughly $64 billion in exports, 250,000 U.S. jobs, 674,000 host country jobs. How many jobs, do you know, did we lose in the U.S. by having the trade in the other countries?

Mr. CONNELLY. Well, in terms of the specific number, I am not aware that one exists. But under our operating guidelines, we will not support a project that results in a net loss of U.S. jobs.

Mrs. DAVIS OF VIRGINIA. Okay. Ms. Askey, you also said that it has resulted in increased U.S. exports and jobs. Do you have any idea how many jobs were lost?

Ms. ASKEY. We apply a very similar criteria as OPIC. We don't do the netting exercise, but we very much look at whether or not it adversely affects U.S. jobs. And in general that keeps us out of the manufacturing sector. We are not inclined to support development projects overseas that, in effect, would be competing with U.S. manufacturing jobs.

Mrs. DAVIS OF VIRGINIA. Is that the same criteria for you, Mr. Connelly? Do you support manufacturing?

Mr. CONNELLY. We do in some rare instances. But I think for the same reasons, because of the potential adverse job impact, we aren't as active in supporting manufacturing as we are in other sectors where the job creation benefits are quite demonstrable.

Mrs. DAVIS OF VIRGINIA. How do you determine the net loss? How do you determine if you are——

Mr. CONNELLY. We have a fairly extensive econometric evaluation that looks at the project in fairly rigorous analytical techniques. We will go through and evaluate what jobs are created by breaking off the specific project. It is quite detailed. I would be pleased to share it with you and your staff in some detail. But it is certainly an analysis that at the end of the day you can hang your hat on. It is an honest, deliberate effort to really identify what the job impacts are.

Mrs. DAVIS OF VIRGINIA. It would be beneficial, because that is the one thing that I have heard more than anything, why are we creating jobs overseas when we have people losing jobs here.

Mr. CONNELLY. We understand that.

Mrs. DAVIS OF VIRGINIA. Mr. Secretary, I appreciate you coming by my office and convincing me to support the President in TPA, which I did do, simply because I do believe he has the right to negotiate the trade agreements. Whether or not I agree with them will remain to be seen. But I do support trade. I am not so sure it is free trade as opposed to what I would like to see, fair trade. I am not sure I even know the difference in that. But any help you can give me in helping explain this to my constituents, I would certainly appreciate from you.

Thank you, Mr. Chairman.

Chairman HYDE. You are welcome, Mrs. Davis, and I would like to suggest that this is not a hearing on trade promotion authority. We hope to have one, and we will do what we always do, ask the opposite party, the Democrats, to suggest witnesses. I have no desire to have an unbalanced panel at all. We did so on this occasion, and they did not suggest any. But this is a hearing on this report, and we will get into trade preference authority—trade promotion authority as we near a conference committee once the Senate does its expected duty. And so we won't cheat you nor anyone else out of the other side of the coin.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

Chairman HYDE. All right.

Next, Mr. Brown. Not here.

And Representative Blumenauer is not here.

All right. Mr. Faleomavaega, who has a name, Mr. Aguirre, almost as tough as yours.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman, and I——

Mr. AGUIRRE. It is a good thing we are in a diverse society.

Chairman HYDE. That is right.

Mr. FALEOMAVAEGA. I certainly want to commend and thank Secretary Evans for his presence here in our Committee and also thank other distinguished members of the panel. By no means am I an economist, but I think there are some observations that I would like to share with Secretary Evans, and certainly the other members of the panel are welcome to comment.

Having to do with our national export strategy, I have somewhat said that our economic policy should coincide with our foreign policy, our trade policy and all these other policies that we have.

There has been a lot of criticism about our foreign aid. It has not been very much, and I kind of like to defend it by saying, well, we contribute a lot to the World Bank, to the International Monetary Fund, the Asian Development Bank, and through these institutions we do give assistance to those countries that have financial needs. But I think, as Mrs. Davis said, given earlier indications about our export policy, if I am correct in suggesting this—and this is a layman's view, Secretary Evans—we export products overseas, and this provides economic growth. It provides more jobs. That is one side of the balance sheet.

Then there is also the problem of U.S. companies leaving our shores, and for the simple reason of cheap labor costs. So they go to these foreign countries, and as a result, it means losses of jobs, and this is what I would like to dwell on, and the whole concept of our national export strategy, it is jobs.

I think we have had mixed feelings about the NAFTA, the results of the NAFTA situation that we have been involved. Some States benefitted, and other States, it was a disaster. I just want to ask Secretary Evans, how do we balance this, when we say that it is good for us to export our products, but at the same time many of our corporate community members would rather go overseas simply because of the cheap labor costs. Now, when this happens, it means thousands and thousands of job losses here in own country. Where do we find the balance in this?

And incidentally, I would just like to know, how many jobs have been lost because of many of our corporate community members going overseas simply for that reason?

Secretary EVANS. Congressman, thank you for the question. I think we balance it by letting the market forces balance it. It is clear to me that this world is continuing to become more integrated every day. It is clear to me that global trade is going to continue to grow every day.

And America, people marvel at America's ability to create jobs. I mean, if you look at the 1990s, we created 20 million jobs in America. That was in the middle of the Uruguay Round and NAFTA. And have there been changes in terms of where jobs may have shifted from a sector of the economy to another sector of the economy? Yes, there have been, and there will continue to be as this global economy continues to change.

And the question is, are our policies and the economic strategy of this country consistent with creating the kind of conditions that will allow this national economy to continue to grow not only higher-paying jobs, but more jobs? I would suggest that the results that are in make a very, very strong argument for the position that open trade and fair trade does provide the conditions for this economy to continue to grow and be one of the marvels of the world, quite frankly. That is why you see countries all around the world going toward a free market economy. They look at what this country has done, and they have said, hey, we need to structure ours in the same kind of way.

So I would agree with you that we need to be creating the conditions for creating jobs in this country, and I think that is what opening trade does for us. I think the other side of free trade is fair trade, making sure the playing field is level. We are all playing by the same rules. America is not afraid to compete with anybody in the world as long as we are playing by the same rules, and that is why it is so important that we are at the table when we negotiate these trade agreements.

Mr. FALEOMAVAEGA. I think that was one of the reasons why we had a very serious problem in the Seattle Round discussions, the fact that we want globalization of free trade and all of this. I don't want to get into free trade, Mr. Chairman, but the bottom line was that the Third World countries are complaining about the fact that industrialized countries are taking advantage of the cheap labor costs, so the industrialized countries get more prosperous at the expense of Third World countries's cheap labor. I don't know sometimes if it is different to define cheap labor and slave labor in terms of how the situation bears out, especially when so many of the corporate community members are from industrialized countries, taking advantage of the cheap labor that is available in Third World countries. So that is just a concern that I have.

Mr. Chairman, my time is up. Thank you, Mr. Chairman.

Chairman HYDE. Thank you, Mr. Faleomavaega. Sometime you and I will have a discussion as to whether those countries with the cheap labor have an employment problem. If they are all working, why are they being exploited? They are working. And they are making money, perhaps not enough, and we can have a worldwide minimum wage, I am sure. But anyway, it is a fascinating subject.

Mr. Cooksey, the gentlemen from Louisiana.

Mr. COOKSEY. I think my colleague from Michigan, Mr. Smith, is next.

Chairman HYDE. Just a moment.

Mr. COOKSEY. He was here and left, but I will defer to him.

Chairman HYDE. We have a staffer here whose job it is to keep track of when you come in and when you go. He gave me this list, and so Mr. Smith is after Mr. Cooksey.

Mr. COOKSEY. He actually was here before I was, Mr. Chairman.

Mr. SMITH OF MICHIGAN. Staff is sometimes wrong, I suspect.

Chairman HYDE. Well, then the staff has a problem, but let us——

Mr. SMITH OF MICHIGAN. Thank you, Mr. Cooksey, for being fair and honest with regard to the staff records.

Mr. Chairman, thank you.

I am quite concerned where we are going. I think there is no question that other countries in their effort to try to copy what we are doing have been challenging our manufacturers and our jobs. Competition is increasing. The September 11th events are increasing our cost of production because of the additional security for everybody that uses electricity in transportation, especially air transportation.

Let me ask you a question. Do you think reducing tariffs on products coming into the United States makes it easier for manufacturers in this country to relocate to other countries?

Secretary EVANS. Makes it easier to locate to other countries?

Mr. SMITH OF MICHIGAN. Look, if we have no tariffs in terms of an extra cost of bringing products back into the country, I think you have got to agree that it makes it easier for manufacturers to move to another country to benefit from chapter costs or fewer regulations.

Secretary EVANS. It depends if it is a tariff on a product that somebody is competing directly against, or if it is a tariff on a raw material or a product that somebody is using in a manufacturing process to then export, because there is a lot that——

Mr. SMITH OF MICHIGAN. Let me just tell you what appears to be happening in my congressional district. I am on I–94, which leads into Detroit. I am in the middle of Michigan, and so we have a lot of auto component suppliers in my district feeding the Big 3. The Big 3 has technically increased their productivity, but where they are getting this from is putting extra pressure on suppliers. They are telling the suppliers that, look, unless you can sell us those goods for 5 percent less, then we are going to import them from overseas, or we are going to get them from someplace else. So the productivity that appears to be increasing our competitive position actually is taking it out of the hides of some of the suppliers. That can only be a temporary increase in terms of our competitiveness. So I am just a little bit concerned.

I chair the Research Committee, and now we see other countries that are spending half of their federal research dollars finding out what we are doing in our basic research and the other half trying to get it applied. In contrast to our competitive position in the past where any additional trade was good, it seems to me we should scrutinize free trade and the use of government-funded research a little more. Mrs. Davis, thank you for coming to my office and giving me all of the details.

A question, as my time is wrapping up, for the Ex-Im Bank. What percentage of your support and efforts and loans goes to corporations with sales over $10 million or $20 million? My impression is that Ex-Im Bank gives most of your support to the very large corporations. Is that correct?

Mr. AGUIRRE. Congressman, 90 percent of the activity of the Export-Import Bank is to small businesses as defined by the Small Business Administration definition.

Mr. SMITH OF MICHIGAN. I am not sure what that is. Is that under 200 employees?

Mr. AGUIRRE. I think it is a million and a half. It varies industry by industry. You may have an industry that has a few employees or a lot of employees, depending on the process.

Mr. SMITH OF MICHIGAN. Ninety percent of your loans——

Mr. AGUIRRE. Ninety percent——

Mr. SMITH OF MICHIGAN. Of your dollar value?

Mr. AGUIRRE. No. Ninety percent of our transactions.

Mr. SMITH OF MICHIGAN. Oh, sure, but how about dollar value if most of the money goes to the big companies?

Mr. AGUIRRE. I was about to get to that.

Mr. SMITH OF MICHIGAN. Okay, sir.

Mr. AGUIRRE. Eighteen percent of our credit activity goes to support that ninety percent that I just described.

Now, beyond that——

Mr. SMITH OF MICHIGAN. Would there be an advantage to trying to shift that to encourage and make it easier for the smaller companies to get into the export business?

Mr. AGUIRRE. Well, sure. We are working extremely hard at making sure that our products are accessible to the small business community, and I will describe some of the things that we are doing, but I think it needs to go without saying that a lot of the larger products that we are supporting, say the large corporations that I think you were alluding to, are in many cases downstreaming to smaller businesses, a lot of the products that are going into their equipment, and that really never gets captured into the data, because it is almost impossible to do that.

But I don't think we are trying to favor one industry over another. We are trying to protect U.S. jobs, American jobs, off the products that are being manufactured in this country. That is really what we are all about.

Mr. SMITH OF MICHIGAN. Mr. Chairman, I want to yield the balance of my time to add to the 5 minutes for Representative Cooksey.

Chairman HYDE. I have bad news for you, Mr. Smith. You have no time left.

Mr. SMITH OF MICHIGAN. That is bad news for me.

Chairman HYDE. Mr. Cooksey.

Mr. COOKSEY. Thank you, Mr. Chairman. Thank you, Mr. Smith.

I support the policy of the Administration. I think it is a very worthy policy, and in a cursory look at the report, it is moving in the right direction.

I have a concern, though, about the policy of steel tariffs. I have my undergraduate degree at the same school that you do, Mr. Aguirre.

Mr. AGUIRRE. You look very smart to me, Mr. Congressman. I can see why.

Mr. COOKSEY. I took my economics courses in Austin. I won't tell you what school, but anyway, I would really like to ask the Secretary, but I know you probably shouldn't answer it. Was the decision on steel tariffs made by the Commerce wing of the Administration or the political wing? You don't have to touch that. With that question in the back of your mind, do you feel that the steel tariffs have helped or hurt small and medium-sized businesses that are intended to benefit from this program? And do you think the steel tariff policy has helped or hurt Third World countries that we want to do business with to help them pull themselves up by their bootstrap by economic development as opposed to direct aid, which is flawed? And I think that is accepted, and it was recently recognized by the honoree at the Cato Institute the other night. But anyway, I would like to get a response from both of you, Mr. Secretary and Mr. Aguirre.

Secretary EVANS. Sure. Congressman, I am absolutely convinced it has helped our economy over the long run. We have to demonstrate to the world that we are going to administer our laws, we are going to enforce our laws, we are going to work very hard to make sure there is a level playing field in the world, and that is certainly one way to deliver the signal.

With respect to the steel tariffs, the President made it very clear that this has been a problem of the steel industry that has gone through cycles over the last 3 or 4 decades. It has gone through a consolidation over the last 20 years that has taken the global steel industry that was 75 percent controlled by other governments some 15 years ago, to now when there is only about 22 percent of the steel capacity that is controlled by other governments. But in that process what has happened is there have been tens of billions of dollars, probably in the neighborhood of 60- or $70 billion, that was introduced into the steel industry in the form of subsidies to take away debt and legacy costs of other companies around the world—not here in America, but around the world. That is how other countries decided to deal with the problem in their own countries. Had they not dealt with it in that way, maybe some of that overcapacity that we are dealing with today, some of that inefficient overcapacity that we are dealing with today around the world wouldn't be there.

But the facts are, it is there, and so the President made it very clear that he was going to call for a comprehensive program to deal with this issue globally, which he has led on through structuring meetings of the OECD that focused on the international overcapacity of steel. People are talking about reduction of that inefficient capacity, also talking about market storing practices around the world that we are focused on, and then the 201 initiative that he instigated.

So, you know, I think it sends a very clear message to the world that when it comes to a level playing field, we are going to enforce our laws, we are going to administer our laws, we are going to do it fairly, we are going to do it even-handedly, and they need to know we are serious about it.

Mr. COOKSEY. Mr. Aguirre—is that the correct pronunciation, Mr. Aguirre?

Mr. AGUIRRE. You've got it right. Thank you very much. I know you went to LSU, and that proves it.

The steel issue for Ex-Im Bank is really related twofold. One, we are supporting the export of steel products from time to time. We are also interested in maintaining an economic impact process at the bank, where exports that might actually affect some of our industries back at home are going to be put through a process to determine that we are not adversely affecting the industry. Right now steel would be the one that would best serve that policy; and so we analyze an export that is current, not necessarily in the past Administration, but currently we are looking at any exports that could actually adversely impact, say, the steel industry, in which case we would then pass on financing that export. In the future it could be some other industry that is important to our country. In terms of tariff and in terms of that, Ex-Im Bank, of course, does not get involved in that process.

Mr. COOKSEY. Okay. Thank you. Those are both good answers, and I appreciate it. It gives me some more insight into the process.

Mr. AGUIRRE. Thank you, sir.

Mr. COOKSEY. Now you can have as much time as you want, Mr. Smith, since you are Chairman.

Mr. SMITH OF MICHIGAN. [Presiding.] Mr. Sherman, I understand you didn't have any questions, and we will excuse the panel.

Mr. SHERMAN. I have no questions at this time.

Mr. SMITH OF MICHIGAN. On behalf of the Chairman and the Committee, we thank the panel for your time and consideration. If staff might suggest later that we should have asked additional questions, we hope you would respond to those in writing. With that, I would like to introduce the next panel. Our second panel today is led by the President of the National Foreign Trade Council, Bill Reinsch. Mr. Secretary, good to see you.

With the permission of the Committee and the panel, I will proceed with the introductions. Mr. Reinsch has served as Under Secretary for Export Administration in the U.S. Department of Commerce. His prior experiences included 20 years on Capitol Hill as legislative assistant to Senators John Heinz and John Rockefeller, IV. Mr. Reinsch holds a BA from Johns Hopkins and a master's degree from its School of Advanced International Studies. We welcome you, Mr. Reinsch.

Dr. James Morrison is President of the Small Business Exports Association, the Nation's oldest and largest nonprofit organization of small and mid-sized exporting companies. SBEA represents relatively experienced exporters, and its members have served on advisory boards of the Export-Import Bank and other government agencies. Dr. Morrison has worked with the Committee on Small Business of both the Senate and the House of Representatives, and received his Ph.D. from the University of Minnesota, his BA from the University of Southern California. We welcome you, Dr. Morrison.

Finally, we would like to welcome back to the Committee Edmund Rice, who in 1998 was named President of the Coalition for Employment Through Exports, a nonprofit association comprised of 31 major U.S. exporters and banks specializing in issues of export controls, export financing and export promotion. Mr. Rice also chairs the Export Controls Working Group, a coalition of more than 130 specialists in export control policies, and has 31 years of Washington experience, working in both the Congress and the private sector. From 1990 to 1997, he served on the professional staff, and as Staff Director of the Committee on International Relations, Subcommittee on International Economic Policy and Trade. Mr. Rice is a native of Massachusetts, and holds a BA from Colgate University, where he was elected to the National Political Science Honor Society. He is a member of the World Trade Council, the Washington Export Council, and the Washington International Trade Association.

We look forward to your testimony and welcome you to our Committee, Mr. Rice.

And with that, we may proceed, and without objection, all of your written testimony will become part of the record. Mr. Reinsch, we will start with you.

STATEMENT OF BILL REINSCH, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. REINSCH. Thank you very much, Mr. Chairman. It is a pleasure to be back here, particularly at this time on a topic where I think we are all in agreement, as opposed to as the last three or four times I was here talking about sanctions and export controls and satellites and things like that.

As you might imagine, the NFTC strongly supports the recommendations in the export strategy report and urges their full implementation. The strategic approach outlined in the report is vital to American businesses large and small, and we strongly commend Secretary Evans and the other members of the TPCC who were just here for their leadership in this area.

To illustrate the need for the strategy, I would like to cite one example of one of our members, who until the late 1990s sold U.S.-manufactured boilers to China with Ex-Im Bank financing. One contract alone utilized over $300 million worth of U.S.-made goods. These goods were purchased from small, medium and large companies in more than 20 States.

After several years of highly successful sales to China, it became necessary to obtain project finance, as the Chinese could no longer offer a sovereign guarantee. Ex-Im was not willing to provide this type of financing at that time, and the company was forced to manufacturer the boilers in Spain or lose a sale to foreign competition. Spain's export credit agency was delighted to finance this project and all of the contracts that came afterward over the next several years. As a result, well over $1 billion worth of power generation equipment was ultimately manufactured in Spain instead of in the United States because of the lack of U.S. export financing.

In the end, the Chinese buyers became comfortable with the Spanish financing entity and its practices. The market for those goods was lost to Spain, even after Ex-Im began to offer project financing in China. Even today Chinese buyers will cite concern over Ex-Im financing reliability in comparing potential suppliers not just in the power sector, but in many different industries.

NFTC members fight on a daily basis to convince buyers that we can be as cost-effective, efficient and reliable as exporters from other countries. The changes called for in the export strategy will help the U.S. regain this kind of ground lost to foreign-made goods. They will lead to more efficient and competitive U.S. Government export promotion policies and tools and will proactively counter foreign competition that is strongly backed by foreign government financing and advocacy.

Most importantly, the strategy states clearly, unequivocally, that the U.S. Government will not make excuses for supporting global trade, but will embrace it as a key to a stronger U.S. economy and the survival of its small, medium and larger companies. This is a message that our companies need to hear, but it is even more urgent that potential foreign buyers of U.S. goods and services hear it. When the message to these potential buyers is that our country prefers to use trade as a weapon, and that boycotts and sanctions are more our focus than promoting the sale of our goods and services, it is difficult to convince them that our signature on a contract is an assurance that they will have the goods by the time construction begins. If we are to provide our smaller businesses with the opportunity for growth and create new markets for our companies, we have to demonstrate our unwavering commitment to global trade.

The export strategy calling for early indications of financing from government entities such as Ex-Im Bank is essential to the ability of U.S. exporters to compete. Foreign competitors are almost always able to present their financing packages with greater confidence, because their export credit agencies are willing to commit to financing at much earlier stages. In addition, our competitors can point to too many cases in the past where our financing entities took so long to decide on a particular loan, that the opportunity was long gone by the time they made up their minds.

In those cases where U.S. companies are willing to deal with the extensive requirements of agency financing and paying the millions of dollars in fees and interest that are required to obtain the loans, you can be sure that there is no private financing that would have sufficed. The U.S. Government agencies that provide financing and political risk coverage exist because there is a real need, and companies are willing to pay for those services.

The National Export Strategy also deals positively with tied aid and untied aid, two topics of constant discussion in the export community. Our competition often wins deals by offering packages of financing that exceed U.S. capability. The U.S. has taken a dramatically conservative approach to financing its own exports. Other countries see this as a top priority and have very proactive agencies that offer tied aid or market window financing as a tool for obtaining business. The U.S. has historically offered tied aid or aggressive finance terms once U.S. exporters show someone else has already offered it. Often it is difficult to get the data our agencies need to match the financing, since our foreign competitors do not generally share it with U.S. exporters. By the time our exporters can prove it, they have lost the opportunity.

The importance of being proactive in offering tied aid financing, market window financing and other competitive terms in a timely manner cannot be overstated. These are weapons that win business for U.S. exporters and help the U.S. economy.

Of the many programs and services identified in the strategy, one of the most beneficial may be the Front-End Engineering and Design, or FEED, program at TDA, and, Madam Chairman, my written statement elaborates on that a little bit.

While the strategy has been a positive development, there is one area in particular that I want to mention that raises questions. The NFTC strongly recommends that the use of the term "additionality" not be construed to mean that exporters will have to go through additional contortions to demonstrate that the support of our government agencies is needed. And NFTC members do not willingly go through more bureaucracy and live with the restrictions and costs associated with our government programs unless they have no alternative. U.S. companies turn to U.S. agencies when their support is needed to find a project, win a bid, finance the goods or mitigate the risk. The TPCC report's strategic vision to support other exporters fully will go a long way toward improving U.S. competitiveness. I hope we will not take that away by onerous application of the concept of additionality.

Let me also say, Madam Chairman, that I urge the Committee to conduct periodic oversight on this issue. These are good recommendations. We are for them. Many of them have been made before or recommendations like them have been made before, but for a variety of reasons that anybody who has been in the bureaucracy is familiar with, turf, inertia, lack of money, things don't always turn out as intended. I think the Committee can perform a very useful function by periodically bringing up the same people who were just here and asking them to report on the progress of the recommendations.

As for the recommendations themselves, except for the additionality question that I commented on, we endorse them, recommend them and commend them to all of you. Thank you very much, Madam Chairman.

[The prepared statement of Mr. Reinsch follows:]

PREPARED STATEMENT OF BILL REINSCH, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. Chairman and members of the Committee, thank you for the opportunity to testify today on the 2002 National Export Strategy. I am Bill Reinsch, President of the National Foreign Trade Council. The National Foreign Trade Council's approximately 400 members are comprised of leading U.S. exporters and financial institutions actively engaged in the global marketplace, where the competition for market share and export sales is fierce.

The NFTC strongly supports the recommendations in the 2002 Export Strategy Report and urges their full implementation. We applaud the Bush Administration for its recognition of the vital tools and role of the U.S. government in providing export promotion support, including advocacy and last resort government financing and insurance for U.S. exports and investment in emerging markets. The strategic approach outlined in the report is vital to American businesses, large and small, and we strongly commend Secretary Evans and the Trade Promotion Coordinating Committee (TPCC) for its leadership in this area.

THE 2002 NATIONAL EXPORT STRATEGY SHOULD BE SUPPORTED AND IMPLEMENTED

The National Foreign Trade Council has an active Export and Project Finance Committee. Its goals include identifying the policies and practices at U.S. export-related agencies that make U.S. companies less competitive overseas and working toward the implementation of changes that would effectively increase U.S. exports of goods and services. While working to improve the policies of agencies like Ex-Im Bank and OPIC, we are at the same time staunch supporters of these and other trade-related agencies and functions, because they are an essential element of U.S. success in global markets. In that regard, we urge Congress to quickly complete the conference on the pending legislation to reauthorize Ex-Im Bank.

I would like to cite an example of one of our member companies to illustrate the importance of U.S. support for its exporters and the need to fully implement the National Export Strategy's strategic vision and recommendations. Until the late 1990's, Foster Wheeler—a company that manufactures power-related equipment and provides engineering and construction services—sold U.S.-manufactured boilers to China with Ex-Im financing. One contract alone utilized over three hundred million dollars worth of U.S.-made goods. These goods were purchased from small, medium and larger companies in over 20 states. After a couple of years of highly successful sales to China, it became necessary to obtain project financing as the Chinese could no longer offer a sovereign guarantee. Ex-Im was not willing to provide this type of financing at the time, and Foster Wheeler was forced to manufacture the boilers in Spain or lose the sale to foreign competition. Spain's export credit agency was delighted to finance this project and all of the contracts that came after in the next several years. Well over a billion dollars worth of power generation equipment was ultimately manufactured in Spain instead of the U.S. because of the lack of U.S. export financing. In the end, the Chinese buyers became comfortable with the Spanish financing entity and its practices. The market for those goods was lost to Spain, even after Ex-Im began to offer project financing in China. Even today, Chinese buyers will cite concern over Ex-Im financing reliability in comparing potential suppliers, not just in the power sector, but in many different industries. NFTC members fight on a daily basis to convince buyers that we can be as cost-effective, efficient and reliable as exporters from other countries.

The changes called for in the National Export Strategy will help the U.S. regain lost ground to foreign-made goods. It will lead to more efficient and competitive U.S. government export promotion policies and tools and will proactively counter foreign competition that is strongly backed by foreign government financing and advocacy. Foreign competitors' government officials make it their priority to identify opportunities and promote their exports. Our competitors do not hesitate to say to foreign clients that their countries will be more supportive, more reliable, and more cost-effective in providing services to their exporters. Until we make the kinds of changes identified in the 2002 National Export Strategy, our foreign competition will not be entirely wrong.

U.S. GOVERNMENT SUPPORT FOR EXPORTING ESSENTIAL

The NFTC is gratified that the Administration recognizes the important role of the U.S. government in countering the aggressive export promotion practices of foreign governments on behalf of their exporters and the need to ensure agencies like the Ex-Im Bank, OPIC and TDA, as well as the Commercial Service, function in a manner that helps U.S. companies be more competitive abroad.

The 2002 National Export Strategy outlines the way forward in a number of key areas. It emphasizes the importance of opening up new markets for our exporters and ensuring that they have access to high quality programs and services. It focuses on developing a true partnership between the U.S. government and companies that manufacture or sell their goods and services. Most importantly, it states clearly and unequivocally that the U.S. government will not make excuses for supporting global trade, but will embrace it as the key to a stronger U.S. economy and the survival of its small, medium and larger companies. This is a message that our companies need to hear, but it is even more urgent that potential foreign buyers of U.S. goods and services hear it. When the message getting through to these potential buyers is that our country prefers to use trade as a weapon; that boycotts and sanctions are more our focus than promoting the sales of our goods and services; it is difficult to convince them that our signature on a contract is an assurance that they will have goods in their harbors by the time construction begins. If we are to provide our smaller businesses with opportunity for growth and create new markets for our companies, we have to demonstrate our unwavering commitment to global trade.

IMPACT OF GOVERNMENT SUPPORT IN PROJECT IDENTIFICATION

Identifying project opportunities early is of the utmost importance. Foreign competitors have extensive formal and informal support systems within their governments that allow their small, medium and larger enterprises to get in well ahead of U.S. firms on project opportunities. Often our foreign competitors have not only been made aware of the opportunity before us, but their government officials have already had informal discussions with local officials about designing the project to fit their exporters' skills and technologies. The National Export Strategy is providing, for the first time, a real plan for giving U.S. companies the knowledge they need to sell U.S. goods and services overseas. It recognizes the importance of information and is designed to make U.S. companies more competitive.

The proposals for a single web site for trade opportunity information and joint training on promotion and trade finance for the various agencies will allow the identification of projects early and will put us in a much stronger position. U.S. companies will finally come close to having the "one stop shop" we have been talking about for years.

FINANCING IS INCREASINGLY KEY

Companies of any size today find that financing is essential to winning bids or selling their goods overseas. Recent economic and political issues have affected the availability of private finance and private political risk coverage. Because most projects today are not going to receive sovereign guarantees, the availability of private financing cannot be determined by a quick glance at a country's credit rating. Although a commercial loan may be available for one type of project in a country, other types of projects in the same country may never be able to obtain private financing. Today, NFTC member companies cannot even bid without providing detailed information on the financing they plan to use. U.S. companies must have greater confidence in the availability and reliability of government-provided financing in order to compete globally. It is important to note that agencies like Ex-Im and OPIC are agencies of last resort. They fill gaps that the private sector has left open.

The National Export Strategy's call for early indications of financing from government entities such as Ex-Im Bank is essential to the ability of U.S. exporters to compete. Foreign competitors are almost always able to present their financing packages with greater confidence because their export credit agencies are willing to commit to financing at much earlier stages. In addition, our competitors can point to too many cases in the past where our financing entities took so long to decide on a particular loan that the opportunity was long gone by the time they made up their minds. It is detrimental to the U.S. economy to limit the ability of our companies to sell their goods and services overseas. In those cases where U.S. companies are willing to deal with the extensive requirements of agency financing and pay the millions of dollars in fees and interest that are required to obtain the loans, you can be assured that there is no private financing that would have sufficed. The U.S. government agencies that provide financing and political risk coverage exist because there is a real need, and companies are willing to pay for those services when they are needed.

A large project that one of our member companies is currently working on will eventually involve financing from several export credit agencies. One of the first steps taken for this project was to determine where financing would be available. Once that could be determined, procurement plans were made. Over a billion dollars worth of goods and services will ultimately be procured for this project, and if Ex-Im Bank had not been available, the U.S. would have gotten almost none of the business. More importantly, as this is the first of several very large projects, the absence of U.S. procurement in this project would have shut out U.S. exporters of future projects worth several billion dollars. Hundreds of small and medium companies in the United States will eventually owe much of their revenues to the fact that Ex-Im Bank was committed to participating in this project and able to commit to it early on.

The National Export Strategy deals with tied aid and untied aid, two topics of constant discussion in the exporter community. Our competition often wins deals by offering packages of financing that exceed U.S. capabilities. The United States has taken a dramatically conservative approach to financing its own exports. Other countries see this as a top priority and have very proactive agencies that offer tied aid or market window financing as a tool for obtaining business.

The U.S. has historically offered tied aid or aggressive finance terms once U.S. exporters show someone else has already offered it. Often it is difficult to get the data our agencies need to match the financing since our foreign competitors do not generally share with U.S. exporters the full details of their financing plans. By the time U.S. exporters can prove it, they have lost the advantage. The foreign company has won the buyer over with what it is willing to do to win the deal. The importance of the objective in the export strategy to be proactive in offering tied aid financing, market window financing, and other competitive terms in a timely manner cannot be overstated. These are weapons that win business for U.S. exporters and help the U.S. economy.

SMALL BUSINESSES BENEFIT THE MOST

It often takes a long time and a lot of resources to win business overseas, particularly in newly opened markets. Large companies often have the resources to learn about new projects through agencies and relationships they have built in a country. They have the money to place a team in-country if needed to work on the bid and consult with the foreign officials or local buyers on their requirements. More importantly, they have the resources behind them that allow them to stay in a region after they lose the project to a foreign competitor and fight to win future deals. For every one of these larger companies that has the resources to work a market over the long haul, the biggest beneficiaries will probably be small and medium sized U.S. businesses. The NFTC found in a study of suppliers for major projects that thousands of small and medium-sized companies supply goods for projects overseas and millions in revenues are brought into the U.S. economy as a result. More specifically, we found that over 35,000 small and medium-sized companies are "invisible" exporters and major indirect beneficiaries of Ex-Im Bank and OPIC as primary suppliers of goods and services to 13 major U.S. exporters. Very few of these companies have the resources to go overseas themselves and sell goods or build projects. They do not have time, staff or money to dedicate to opening a new market or winning a competitive bid. They sell goods, employ workers and earn money when larger U.S. companies win bids or build projects. There are important multiplier effects throughout the U.S. economy when a large scale overseas project is won by larger U.S. firms.

Many of the services noted in the National Export Strategy will open up new possibilities for smaller firms willing to look overseas. Those who see strong market potential in a particular country will be able to take advantage of "Export.gov" to find the opportunities where they are most likely to be successful. By utilizing the "Early Project Development Teams", they will be better able to succeed in selling goods and services in new markets. Finally, expanded financing options will make it possible for them to compete with foreign companies and larger entities that may have greater access to funding.

FEED IS ESSENTIAL

Of the many programs and services identified in the National Export Strategy, one of the most beneficial may be the Front-End Engineering and Design or FEED program at TDA. This program would give grants to U.S. companies so that they can do the front-end engineering and design work. It is this work that often determines the type of equipment that will be used and from where it will be procured. By helping U.S. companies develop these designs to get this work, we will be vastly improving the odds that U.S. goods and services will be used in the project. Other countries discovered long ago that he who writes the "specs" has the advantage. It is time for the U.S. to support development of the designs that determine if our goods will sell overseas.

CONCERNS

While the National Export Strategy has many positive elements, there are just a few areas that raise questions. First, as was pointed out earlier, other countries support their exporters extensively and with enthusiasm. It seems obvious that we ought to do the same. The NFTC strongly recommends that the use of the term "additionality" not be construed to mean that exporters will have to go through additional contortions to demonstrate that the support of our government agencies is needed. NFTC members do not willingly go through more bureaucracy and live with the many restrictions and costs associated with our government programs unless they have no alternative. U.S. companies turn to U.S. agencies when their support is needed to find a project, win a bid, finance the goods or mitigate the risk. The TPCC report's strategic vision to support our exporters fully will go a long way to improving U.S. competitiveness. I hope we will not take it away by applying the term "additionality" unfairly.

It is not difficult to imagine a circumstance in which agencies, with the encouragement of interested parties, make the criteria for proving additionality so onerous that U.S. exporters are left unable to get the type of support available to our foreign competitors. Above all, we must remember that the goal of this export strategy is to increase the sale of U.S. goods and services, open markets to U.S. companies and ensure that our companies are prepared to seize opportunities. Hindering our companies from competing effectively would be counter-productive to the U.S. economy.

CONCLUSION

This Administration has gone a long way toward making us more competitive through the National Export Strategy. Rapid implementation of the policies and practices outlined in this strategy is essential to ensuring that we do not lose further ground. If we are to compete against Japan, Germany, Korea and the many others who see exporting and strengthening their companies as their top priority, then we must admit that this is a key goal of ours as well. No half measures will obtain the results needed, no excuses will make our companies stronger or improve our economy. This is a time for full, unconditional support for U.S. exporters and a commitment to the future of a world of global trade.

Thank you for the opportunity to testify.

Mrs. DAVIS OF VIRGINIA. [Presiding.] Dr. Morrison.

STATEMENT OF JAMES W. MORRISON, Ph.D., PRESIDENT, SMALL BUSINESS EXPORTS ASSOCIATION

Mr. MORRISON. Madam Chairman, Members of the Committee, thank you for asking me to appear here today. I am James Morrison, President of the Small Business Exporters Association. SBEA is dedicated exclusively to America's small and midsized exporting companies. We commend the Bush Administration's National Export Strategy Report and the efforts of those like Secretary Evans, Grant Aldonas at ITA and Jeri Jensen-Moran at TPCC, who put it all together. The report shows how to pursue three national objectives, opening markets, increasing economic development in emerging markets and broadening the base of U.S. exporters.

Opening markets and stimulating economic development are worthy goals. Studies show that trade reduces poverty in developing countries more broadly, faster and more lastingly than any other approach we know of.

All of the report's objectives are important, and I hope the Committee will consider them carefully, but today I would like to focus on the third of those objectives, broadening the base of exporting companies in this country.

Over 200,000 American small- and medium-size companies (SMEs) export, and that number has tripled in recent years, but it is still less than 5 percent of American businesses. And most of those who do export send their products to only one country. If we can get more of these companies to export to more countries, everybody wins. Exporters pay higher wages, have higher productivity and faster sales growth than nonexporters. They are also nimble. They often seek market niches in developing countries, niches that larger companies won't find or take advantage of. To encourage SME exporters, the national strategy resoundingly endorses customer service as the focus of the Federal Government's export promotion agencies, not just as a slogan but as a serious and rigorous discipline. That could not be more welcome for smaller exports, and more likely to deliver results. Customer service means a lot more than telling potential exporters what they have to do to fit into a program. It means adapting the program, if need be, to the way the companies do business.

The report's authors listened to what hundreds of exporters said and followed up. Companies said they wanted a seamless export promotion package, not just a thousand programs, and the report endorses this, calling for a one-stop government response, handling each company from its initial inquiries through its sales and followups.

It says that government must get there by establishing common national goals for all agencies and then harmonizing their efforts toward achieving those goals. It calls for better training, better measuring of results and more of a big-picture mentality in Federal export promotion efforts. It urges a speedup in the export financing process which, as the previous witness just noted, often takes months when the government is involved, a process that ought to take days or at most weeks. All this could result in more high-paying jobs at home and more economic development abroad.

The report calls for providing advocacy support after deals are completed, because that is when problems typically emerge. And that is when businesses need the government's global network of contacts the most.

Above all, the report calls for implementation, continuous monitoring of results and continuous improvement. That will be the hard part, but all of us in the private sector will do what we can to help. So it is an ambitious and much-needed set of recommendations.

Still, I need to add a few words of caution. Exporting companies won't be meeting with most of us in this room. They will be calling the export assistance center in Long Beach or the SBA office in Kansas City or Ex-Im's office in New York, or meeting with Federal officials in smaller communities. For the national export strategy to work, those officials must be recruited and trained and incentivized to execute that strategy every day and held accountable for the results.

As exporters start selling more, their overseas customers often want longer terms, meaning more time to pay, and that is especially true with the dollar as high as it is. Medium-term financing is vital for those deals and, frankly, in this country we don't do a great job with medium-term financing for smaller exporters. Unfortunately, the strategy document, as good as it is, doesn't deal with this problem in detail. One of the reasons we don't do well in medium-term export finance is that not many banks will do it for smaller companies. We have got to find ways to get more banks into export finance, and even more so, into export finance for SMEs. In my written testimony I suggest some approaches to this.

Whatever approach to the banks we choose, I suggest that it needs to be a part of our national export strategy. We are way behind most of our major competitors on this.

Finally, there is the question of follow-up and evaluation. We hope this strategy is a success, but if, a few years from now, we conclude that more needs to be done, then we may want to consider some of the innovations in export promotion that the British are experimenting with now. Their process is becoming more outsourced, contractual, and more guided by the exporters themselves. It represents a possible future direction. But for now let us do what we can to make this new export strategy a reality.

That concludes my testimony for today. I would be happy to accept questions.

[The prepared statement of Mr. Morrison follows:]

PREPARED STATEMENT OF JAMES W. MORRISON, PH.D., PRESIDENT, SMALL BUSINESS EXPORTS ASSOCIATION

Chairman Hyde, Representative Lantos, members of the Committee, thank you for asking me to appear here today. I am James Morrison, President of the Small Business Exporters Association. SBEA is the largest and oldest nonprofit organization dedicated exclusively to America's small and mid-sized exporting companies. We are also the international trade arm of National Small Business United, a bipartisan association of 65,000 companies in all 50 states. Founded in 1937, NSBU is the nation's oldest small business advocacy organization.

We commend the government's trade promotion agencies, under the leadership of the Trade Promotion Coordinating Committee at the Department of Commerce, for this impressive National Export Strategy document. Particular praise should go to Undersecretary of Commerce Grant Aldonas, who conceived the study, and Jeri Jensen-Moran, Director of the TPCC Secretariat, who so admirably carried it out.

The report suggests a coherent way for the government to pursue three key objectives: opening markets, stimulating economic development in emerging markets, and broadening the base of US exporters.

Opening markets and stimulating economic development are worthy goals in and of themselves. We have seen what it means to bring countries into the economic mainstream through trade. According to World Bank studies, per capita incomes rose four times faster in developing countries that actively traded than in those that did not. In the same decade that the American economy grew by 22 million jobs, and US unemployment dropped by two-thirds, trade helped lift more than 100 million people in the developing countries out of poverty. Trade reduces poverty faster, more broadly and more lastingly than anything else the world has ever discovered. So we should keep in mind that there is a positive moral dimension to the promotion of global trade, a dimension that is sometimes overlooked.

I am sure that other witnesses before the Committee can discuss this in greater detail. Today I would like to focus on the third of the report's three objectives—namely, broadening the base of exporters.

A GOAL: STRENGTHENING EXPORTS BY SMALLER COMPANIES

While there is no doubt that some of America's biggest companies can continue to increase their exports, the largest untapped resource for American exports is small and medium-size companies. The number of such "SME" exporters has climbed rapidly in recent years—more than tripling from 65,000 companies in 1987 to over 200,000 today. But this is still less than 5% of all American companies. And most smaller companies that do export service only one foreign market.

So the first of many things that this landmark study got right was its emphasis on getting more "SME" companies into the export stream, and getting those who have begun to export to increase their sales volumes.

THE NATIONAL EXPORT STRATEGY STUDY: AN IMPORTANT CONTRIBUTION

This study may well represent the first time that the federal government's export promotion agencies have looked seriously and rigorously at export enhancement from the point of view of customer satisfaction. That is a significant milestone. We hope it marks a permanent new direction.

The analysis and recommendations also concentrate on breaking down the "stovepipe" mentality among the different agencies involved in export promotion. The study encourages "bridge-building" such as the recent agreement between SBA and Ex-Im Bank on export working capital lending. It also calls for an ongoing process of coordination between the agencies at the Cabinet and subcabinet level, as well as the sharing of databases. This, too, is vital.

Equally important is the "people" dimension. The report calls for better training, better measuring of results, and imparting a "big picture" national goal of promoting exports to all export promotion personnel, as opposed to narrower agency goals.

On the exporter side, the report makes some breakthrough recommendations. Among them:

- Developing a "beginning-to-end" focus on each company—staying with a company from initial inquiry through the completion of the transaction and any necessary follow-up. This approach has been used with great success abroad, and it is good to see the report suggesting that our country do likewise.
- Working to speed up export financing, where government guarantees or insurance are involved. This could not be timelier. A recent survey of SBEA members showed that a great many of them had lost export deals due to delays in securing export financing.
- Recognizing that medium-sized exporters are often ready to invest abroad to expand their businesses. This is of potentially great importance.
- And offering advocacy support (and increased business awareness of that support) *after deals are signed* is an excellent and long-needed step.

In all, it is a long-needed and welcome set of recommendations. Perhaps most significantly, the indications are that the TPCC sees this study as a management tool for continuous improvement in trade promotion. This is just the kind of focus on implementation that has been missing in past efforts. We trust that the focus groups and surveys that informed the study will be continued as a part of the implementation phase. It's not too much to say that the "Trade Promotion Coordinating Committee" is finally living up to its name and promise.

SOME ADDITIONAL CONSIDERATIONS

Still, a few words of caution may also be in order.

Local officials. To succeed, the National Export Strategy requires a collective effort at *all levels* of government. Exporting companies won't be interacting with agency officials in Washington; they will be dealing with lower-level government officials in federal offices across the country. Those officials must be fully invested partners in the National Export Strategy: well-recruited, well-trained, and well-incentivized to think broadly about exporting and helping local exporters succeed. Accountability for successes and failures must reach down to the local level.

Medium-term financing. The report has made a very good, close analysis of export working capital programs; this is important for many, if not most, new entrants into exporting. But as a company's exports grow and as its overseas customers ask for longer repayment terms (an increasing competitive necessity, by the way, with the dollar priced as high as it is) *medium-term financing* becomes vital. That is, financing extending up to five years or so. The report paid relatively little attention to this. Yet it is probably the most common problem area for experienced SME exporters. Among the medium-term financing issues are uneven application of underwriting standards, delays, relative paucity of domestic lenders and aggressive competition by foreign export credit agencies on behalf of their exporters.

Bank participation in export financing. Stepping back a little, we need to realize that Ex-Im and SBA are "banks of last resort" and even "banks of only resort" because relatively few US banks finance exports, and most of those that do prefer to deal with larger businesses.

The big question is how to get more banks into export finance. And once there, how to get them to work with smaller exporters. The answers will likely include streamlining paperwork to reduce bank costs, externalizing some of the banks' administrative costs for smaller export finance deals, providing easy bank access to export finance training, doing "missionary work" with banks that simply haven't considered export financing or believe incorrectly that it is beyond their competence, showing banks that there is money to be made in this field, and improving bank recruitment practices. Some legislative changes also may be necessary.

That's a lot of "hands on" work for somebody. And it's not clear from the report who that "somebody" would be. But it's needed. The US financial sector is far less engaged in world trade than the financial sectors in Europe, Asia and other parts of the world, where banks themselves encourage business customers with promising products to export. To truly step up American exports, our banks must do more.

Follow-on to the study. As indicated, this impressive study is probably the most ambitious effort the federal government has ever undertaken to harmonize its export promotion activities and set shared goals. SBEA will work with the appropriate agencies in helping the plan succeed. We truly hope it does. But if, after careful monitoring a few years from now, the results are below expectations, Congress may need to rethink the future direction of export promotion. It may be that key elements of the process will need to be externalized. We should keep an eye on the new export promotion set-up in the United Kingdom, called British Trade International. The Board of BTI is composed primarily business executives. It has a budget, defined and measurable objectives, contractual relationships with service providers, and clear lines of accountability. Every known exporter in the UK is tracked by the system, and all programs and applications are available on-line. It's too soon to say how well this more privatized approach will work, but it bears watching as an alternative should we need to change direction in a few years.

For now, we again commend the Export Strategy to Congress and the public. It's a job well done.

Mrs. DAVIS OF VIRGINIA. [Presiding] Thank you, Dr. Morrison. Now we will hear from Mr. Rice.

STATEMENT OF EDMUND B. RICE, EXECUTIVE DIRECTOR, COALITION FOR EMPLOYMENT THROUGH EXPORTS, INC.

Mr. RICE. Thank you, Madam Chairman. As Mr. Smith noted, I worked for this Committee for a number of years and I well remember being in this room 10 years ago when this Committee took the lead in the House and approved the TPCC statute as part of the Export Enhancement Act. So it is fitting to be back here 10 years hence, considering really a very forward-leaning report.

As Bill and Jim have indicated already, exporters fully support this export strategy. Let me make 3 quick points. First, 60 action items that are in the report come from the exporters themselves, from a series of questionnaires, interviews that the Commerce Department staff and others conducted, and we commend them for having taken that extra effort. This was not a group of Federal officials sitting around in a conference room dreaming up these ideas. They really do address the concerns that U.S. exporters, small and large, are facing in the marketplace. And implementing them will make a difference.

Secondly, exporters need the U.S. government as a partner to deal with the combined forces of overseas competitors and foreign governments. Bill gave you one example of how that works. Let me give you a couple of others. Export credit agency financing is now approaching half a trillion dollars a year to $800 billion a year, according to the most recent data. The U.S. Ex-Im Bank share was just $15 billion of that. That is at least the data for the year 2000. As Jim indicated, getting financing for exports is very, very difficult in the commercial sector, and Ex-Im Bank's role is absolutely critical. Other governments are doing more, and in some cases far more, than the United States to help their companies beat ours. And this export strategy will help address part of that concern.

We have also seen a resurgence of what is called tied aid, when the government uses its foreign aid program as a sweetener to win export sales. Fifteen, twenty years ago tied aid was largely eradicated through an international treaty. We are now seeing a resurgence of that. It has been recognized by the U.S. Government as a problem because exporters have brought it to their attention. This report has some action items to help deal with that while the Treasury Department proceeds with negotiations at the OECD to try to strengthen the international agreement. Very, very important.

We have also seen very aggressive foreign government activities helping individual exporters. One government overseas will even fly their financing officials with the foreign government to a sales meeting and will make an on-the-spot commitment of financing from the foreign government to back up their company. And we have run into this in several instances, and it is very, very effective and difficult to deal with. We are not suggesting that the U.S. Government is going to be doing the same thing, because that would require picking winners in the marketplace, but strengthening the export finance programs as outlined in this report will help in part deal with that problem.

My final point is that the importance of this initiative is particularly acute because of the stagnation in U.S. exports. As Chairman Hyde noted in his opening statement, and as Mr. Davis observed, economic security is a key part of our national security. The steadily eroding trade posture of the United States, and it is eroding—U.S. exports last year dropped 6 percent below the year before—means that we are going to lose about a half percent on our GDP, according to the most recent private economic forecasters. The export strategy can't address all of the reasons for this stagnation, but it certainly will help, and it is very important that it move forward under this Committee's oversight.

Thank you.

[The prepared statement of Mr. Rice follows:]

PREPARED STATEMENT OF EDMUND B. RICE, EXECUTIVE DIRECTOR, COALITION FOR EMPLOYMENT THROUGH EXPORTS, INC.

Mr. Chairman and members of the committee, I am Edmund Rice, President of the Coalition For Employment Through Exports (CEE). The Coalition is comprised of 29 members, including major U.S. exporting companies and banks, as well as two national associations of companies, mostly small businesses, that manufacture machine tools and related equipment. CEE's focus is on legislative and regulatory issues related to export finance, export promotion and export controls.

EXPORTERS SUPPORT THE TPCC EXPORT STRATEGY

We commend Secretary Evans and the other members of the Trade Promotion Coordinating Committee for the National Export Strategy report that they have presented to the Congress this week. Our coalition fully supports the 60 action-items that are contained in this report. Most of them flow from a extensive process of consultation between the TPCC and American exporters in large, medium and small firms across a range of industry and service sectors.

We particularly appreciate the TPCC's focus on an agenda that addresses the real-world concerns of American companies that are trying to win export sales of American-origin goods and services in the fiercely-competitive world markets.

Implementing the TPCC report will strengthen the U.S. export promotion and financing programs in ways that will make a difference for U.S. export competitiveness. We urge the committee to take whatever steps are needed to put these recommendations into effect and to support the TPCC through continued oversight of the progress of the implementation phase.

THE ROLE OF EXPORTS IN THE U.S. ECONOMY

The importance of this report is underscored by the most recent U.S. trade data. In 2001, U.S. exports dropped $61 billion below the 2000 level, or 6 percent in one year. Year 2001 exports totaled $1.004 trillion, comprised of $721 billion in goods exports and $283 billion in services exports.

While the data from the first quarter of 2002 are not yet final, monthly reports indicate a continued stagnation in U.S. export sales. Two major private economic forecasting services have predicted a continued retrenchment in U.S. export sales for the remainder of this year and a worsening U.S. trade deficit, deeper than last year's $347 billion level.

This worsening deficit is predicted to negatively effect the U.S. economy by more than a half percentage point on the gross domestic product. Put simply, overall U.S. trade performance is a drag on the U.S. economy this year.

The negative impact of the worsening U.S. trade performance was ameliorated only by the fact that trade, both exports and imports, still accounts for only about a quarter of U.S. GDP. Clearly, expanding U.S. exports must be a renewed priority. Domestic consumption will not continue to mask the lackluster U.S. performance in world markets for much longer.

THE NEED FOR GOVERNMENT ASSISTANCE FOR EXPORT COMPETITIVENESS

The recent stagnation in U.S. exports has a number of causes, including broader global economic downturns and unfavorable exchange rates. However our members report that the loss of export sales to overseas competitors is often due primarily to the increasingly aggressive export promotion and financing programs of foreign governments in support of their companies, in competition with U.S. firms.

Much of the current Washington debate over trade policy is focused on the pros and cons of negotiating multilateral or bilateral trade agreements to move the international trading system towards "free trade" or "open trade". However, for those who work in U.S. companies and financial institutions to actually compete in world markets, the Washington debate over trade agreements misses most of the real action.

For U.S. exporters who are "on the ground" in the global marketplace, the scene is one of bitter competition, where every export transaction is fought for among a steadily increasing field of players. U.S. exporters see that their foreign competitors have the active backing of their governments: in promoting their nation's products and services, in identifying and approaching potential customers, in financing transactions and in exercising political influence to win sales.

Our exporters believe there is a vital role for active, robust U.S. government involvement in export promotion, advocacy and finance, just as there is a need for an aggressive U.S. government role in trade negotiations. By the same token, negotiating trade agreements will have only limited payoff for U.S. exporters if there is not the follow-through to help exporters take advantage of the opportunities that agreements open up.

For U.S. exporters, success in world markets depends first and foremost on the quality and price of goods or services. However, for an increasing number of U.S. companies, success in world markets also depends on the effectiveness of our government's role, not just in negotiating trade agreements, but also in monitoring and enforcement of those agreements and day-to-day assistance in export promotion. As our competitors seek every advantage, including through government involvement, so must we.

To compete effectively against foreign companies which have their governments' active backing, U.S. exporters need government help in specific, practical ways:

- reliable information on emerging overseas markets, including foreign laws, regulations and procedures governing business transactions;

- advice on how to accurately assess the legitimacy and creditworthiness of foreign customers, particularly in countries with weak or non-existent commercial codes or other recourse and where criminal elements are pervasive;
- financing when commercial financing is not available, or where foreign governments offer financing and other sweeteners to steer a transaction to their companies; and
- diplomatic advocacy when foreign governments intervene in a transaction.

Specific needs depend on the resources and experience of the individual U.S. exporter and market conditions. Large U.S. exporters have less need for market information, but a greater need for advocacy, because larger transactions often attract foreign government intervention. Moreover, large, high-profile transactions sometimes result in complications later on as foreign customers and their governments seek to renege on commitments. The bigger the deal, the more governments interject themselves.

Smaller- and medium-sized U.S. exporters more often need help in assessing overseas markets and customers, particularly in emerging markets. They need help in threading through the red tape in foreign countries. Simply put, small- and medium-sized exporters can have difficulty in determining whether a potential customer is the one they should do business with. In addition, many foreign countries' import rules and customs procedures are opaque or variable. Many countries' commercial codes are either inconsistent, unreliable or non-existent, leaving the U.S. exporter without reliable recourse in the event of problems.

Increasingly, U.S. exporting companies, both large and small, need help in obtaining financing for their export opportunities. Last June, the Export-Import Bank held a seminar on developments in commercial trade finance. The presentations from a variety of commercial bankers were that private sector trade finance in emerging markets is becoming less available, even for the largest U.S. companies.

For small- and medium-sized companies, trade finance is fast becoming a real problem, even when they have a solid deal with a creditworthy buyer. Commercial banks are becoming less interested in offering trade finance, just at the time when the U.S. is renewing its push for market-opening agreements.

Moreover, the U.S. is already far behind some of our major trade competitors in government-provided trade finance. In 2000, the most recent publicly-available data, the 50-or so export credit agencies of the Berne Union member governments provided about $500 billion in financing, about 8 percent of world trade that year. By contrast, the U.S. Export-Import Bank provided only $15 billion of that half-trillion in finance.

Earlier data, from 1998, indicate that Japan, France, Korea, Germany, Canada and the Netherlands all provide more export credit to their exporters than does the U.S. government. A study last year by a former Ex-Im Bank official makes the case that the world's export credit agencies taken together are now approaching $800 billion in export credit, financing about 12 percent of global trade.

EXPORT PROMOTION PROGRAMS: THE NEED FOR COORDINATION

There have been long-standing Congressional concerns over the proliferation of federal export promotion programs and the growing duplication of effort. These concerns are well-founded. As the National Export Strategy indicates, some 19 federal agencies are now involved in export promotion. Yet overall federal resources for export promotion have steadily declined for nearly a decade.

Since these programs are all authorized, either explicitly by statute or implicitly by annual appropriations, it has proved difficult to focus Congressional attention on the number of federal agencies now engaged in export-related activities, much less to achieve any real coordination. Indeed, many such programs have specific, direct Congressional mandates.

However, in today's highly-charged global competition for export markets—and the growing need by U.S. exporters for assistance, it more important than ever that these government funds be used in the most effective manner possible.

One goal must be to better coordinate these programs across the government, both programmatically and fiscally. In 1992, Congress established the Trade Promotion Coordinating Committee, chaired by the Secretary of Commerce, with a mandate to review federal export programs, fill gaps, resolve duplications and harmonize budgets. For U.S. exporters, the fulfillment of the TPCC mandate has become even more important than in 1992, because the competitiveness of U.S. companies increasingly depends on vigorous, well-coordinated and efficient export programs. With budgetary resources scarce, the most efficient allocation of funds must be a renewed priority.

ONE BENEFIT OF COORDINATION: THE U.S. EXPORT ASSISTANCE CENTERS

Some coordination has been achieved. A good example is the U.S. Export Assistance Centers network, which is being completed under the Commerce Department's leadership, with strong Congressional support. The idea is to bring several export programs to one consolidated location, with cross-training, so that an exporter can make one office visit and gain access to market data, financing help and advocacy., in short "one stop shopping". Managers of the network report that co-location is promoting teamwork and professional development. The reports from exporters are very positive. The recommendations in this year's Export Strategy will build on the infrastructure that has already been put in place.

CONCLUSION: EXPORTERS NEED THE U.S. GOVERNMENT

In today's world, trade is a fierce competition. Every sale is fought for by an ever-larger cast of companies. Governments play an increasing role. U.S. companies need the U.S. government as a partner in translating multilateral trade agreements into tangible benefits for American workers and the U.S. economy. As budgetary constraints become more severe, the need for coordination and cost-effectiveness is even more important. This committee's interest and involvement in this effort is welcomed by U.S. exporters. We stand ready to assist in that effort and in the next stages of the TPCC's work to improve U.S. export competitiveness.

Mr. ISSA [Presiding]. Okay. Mr. Davis, you are welcome to lead off with your questions.

Mr. DAVIS OF FLORIDA. Thank you for your testimony, and it is useful to hear how fully involved you were in developing this report. As I mentioned earlier, the Administration has proposed a 26 percent cut in the funding for the Ex-Im Bank and a cut of $5.5 million in the TDA. The purpose of this hearing is to highlight our interest in doing more in using these particular agencies. I wonder if any of you would like to comment on those proposed cuts. As you know very well, the Congress ultimately will make those decisions.

Mr. RICE. Well, let me take on that, if I can, and, Mr. Davis, it is very important that you noted this. In any other year, exporters would be not supportive of those cuts. The Ex-Im Bank reduction, however, reflects a change in the way the U.S. Government uses its loan loss reserve, and as you recognize, most of what is appropriated to Ex-Im Bank is for its loan loss reserve. It is never actually spent. It is in effect put in account at Treasury as a first line of defense against loss. When the loan loss reserve requirement was enacted in 1990, the U.S. Government hadn't done this before in any organized way, and what was set up at the time was in essence a jerry-rigged system to figure out what is the appropriate amount of money to set aside against international credit risk, not just at Ex-Im, but across the government, and that system in essence has stayed in place up until now.

After a 3-year study, the Office of Management and Budget and some outside economists concluded that the government is over-reserving against the risk of loss by a fairly substantial amount, and the loss experience in the previous 10 years bears this out. So what OMB has done is to recalculate the formula for how much money has to be set aside against a particular amount of loss, and the result of that is that they are going to be setting aside a smaller amount. Now they are still going to have about $10 billion in the reserve account against the bank's overall exposure of somewhere around $57 billion. A very healthy reserve amount. But from here on forward, they are going to have to take less out of the reserve account for a particular deal. And so we think it is a sensible step forward.

We do commend you, however, very much for having watched this very closely, and we do value your support for looking out for the exporters' interest in this.

With regard to TDA, in the last couple of years, TDA has not obligated all of the funds that have been appropriated to it by the Congress and, in fact, there is a carry-over which the appropriations process allows them to have. So they have funds from prior years that are left over. I am not endorsing reducing TDA's appropriation, but merely to point out that the reason why the Administration proposed for 2003 a slight reduction in TDA's overall funding is to take into account the fact that they have funds from a prior year that are available to them that they have not obligated. And, again, we commend you for having watched this very closely. It is very important. But these are the reasons for those.

Mr. DAVIS OF FLORIDA. Thank you. That is helpful information. My second question pertains to the report itself, but I haven't had a chance to read yet, that includes many recommendations on training programs and new information technology. I know there are some very powerful information technology tools out there to assist the type of people you are representing today. Does the report tell Congress how much it will cost to implement these various items and, if so, could you elaborate on some of those numbers today in terms of what you think are the most important?

Mr. RICE. Well, let me jump in on that. One of the significant and I think best parts of this report is it is not really proposing any great increase. It is not proposing new agency, not proposing new programs, new people. What it is proposing, as the Secretary outlined, and what exporters had told the department, was they needed to make better use of the resources that they have.

In the export promotion area, the U.S. Government has 19 agencies that have various pieces of export strategy. The same number, roughly, that we had back 10 years ago when this Committee said enough of this. We need to coordinate this through the TPCC.

What this report does, in sum, is to press the individual agencies to make their programs more compatible with the others, for example, Ex-Im Bank and SBA on the trade financing side. And secondly, to provide a continuum of support from one agency to the other. An example of that is the Trade Development Agency working with OPIC and SBA and Ex-Im Bank to identify overseas projects where we can compete and then organize the government's support to help move the U.S. exporters into a competitive position. That makes a difference. It doesn't require any more money to do that, but you are going to get a much bigger impact in terms of the bottom line result in U.S. export growth than you will when each agency is off with its own forms, its own standards, its own bureaucracy, working in its own little cubicles. And I think that the Secretary's recognition that, (A) if you get these people working in a coordinated way and, (B) you monitor it closely as he committed to you in his testimony today, is going to make a huge difference. But I don't think you have to provide many more funds than what these agencies are receiving now.

And now, as far as your specific question on what the exact amounts are, I do not have them in front of me. I could get them for you easily and will provide them to you so you can see what the budgetary resources are.

[No information received prior to printing.]

Mr. DAVIS OF FLORIDA. Okay. Thank you.

Mr. ISSA. Now, I will be brief. I just have a couple of questions. One of my concerns is the exiting of U.S. banks from export finance and what would appear to be a likelihood that there is going to be a greater need for Ex-Im Bank to expand its reach. Would one of you like to comment on that? And I apologize if that was asked while I was gone.

Mr. MORRISON. It wasn't asked, but I would like to comment because that was something I touched on in my testimony. This is a problem partly because of consolidation in the banking industry which has resulted in fewer independent banks, and partly, I think, because the banks have made a decision that the export deals are expensive in administrative terms, and therefore they don't want to do smaller deals.

One of the prominent banks in New York that used to be involved in export finance now has a $20 million minimum on an export finance package. I think that we need to look at this problem very carefully, and we have to figure out how to streamline the administrative aspects for the banks, how to externalize some of their costs, how to convince them that there is money to be made in this market, had do a little more training, and how to go out and visit some of these banks. It is a real problem. There are a shrinking number of banks that are in export finance, and within that, not very many that really want to deal with smaller businesses.

Mr. ISSA. Well, as a follow-up to that, it would also appear to be the case that Ex-Im Bank doesn't want to deal with smaller accounts and that when we look at the criticism often levelled against it, that 80 percent goes to members of the Fortune 500, et cetera. How can we in fact—or can we, in fact, drive down the availability and the desirability to smaller companies to use your services?

Mr. MORRISON. How can we get more companies to use Ex-Im? I think there is a lot that can be done. Some of it is in the report. But broadly speaking, I think that it would be helpful if Ex-Im had areas of concentration, including underwriting for smaller, closely held companies, a stronger concentration in that at the underwriting level than they have now.

Mr. ISSA. This would be more of an SBA type—you would administer, somebody else would guarantee at some level and then allow banks to bypass the paperwork and simply make the loan with some loan guarantee?

Mr. MORRISON. It is still a guarantee, that's correct. It is not a direct loan.

Mr. REINSCH. Mr. Chairman, if I could add something. I hope the Committee will also keep in mind that small businesses export, both directly and indirectly. A large company like Boeing, for example, will have thousands and thousands of suppliers and components manufacturers, many of whom are small businesses. They don't necessarily show up at the Ex-Im bank. They don't show up in the statistics but, in fact, what is being exported are their products. So while a substantial part of what the Ex-Im Bank finances may go to large companies like the one I mentioned, there are hundreds and millions of dollars worth of small business exports embodied in each of those airplanes or whatever it is that is being exported.

Mr. ISSA. And I absolutely agree with you that that is the case. Oddly enough, as a former businessman and an exporter, I observed that that was the Korean model, that in Korea, big companies exported, little companies got to sell through export companies. Unfortunately, I also observed that you created the export trading company that often added no real value, other than they had the links to do exports. And I am always concerned that you could have that, Chrysler could export auto parts on behalf of smaller companies, when in fact the auto parts company would like to go direct but doesn't have the same ability. It is a concern.

I also sit on the Small Business Administration—or Small Business Committee, and we are always looking from that standpoint of knowing that not everything is cost-effective for smaller and smaller companies, but sometimes there are some forces at work that push toward the success of the big to the detriment of the small.

Mr. REINSCH. Well, I think that is a very fair point, Mr. Chairman. I wouldn't want my comment to be construed that we don't need to worry about small exporters. The more the better. The other thing I would add is we tried to create export trading companies in the early 1980s. In fact, I was involved in that when I worked with Senator Heinz. That was one of the key elements of then-Secretary Baldridge's trade agenda at the time, and the Congress passed that legislation, but it really hasn't amounted to much. We have not been able or have not desired to create the kind of model you are talking about in this country.

Why? That is probably a long and irrelevant discussion, but it hasn't happened.

I certainly support any efforts that this Committee wants to undertake to encourage or support the development of smaller exporters, though. That is a well-taken point.

Mr. ISSA. My last question, and this may be the least germane, but it is topical to me. I was recently in Europe meeting with our European parliament counterparts, and they were gloating to a great extent over the ruling against us in GATT of FISC, and obviously its predecessor, and now the new export mechanism to help offset some of the disadvantages is likely to go away. My gut reaction is, okay, great, let us start dealing with expatriates in a better tax way, let us come up with something that is closer to a VAT equivalent on export, because we have to find a tool. Do you have thoughts, assuming that there is no appeal left, that we are going to lose that and it is going to hurt companies that are trying to grow their exports? Do you have other suggestions that we should be aware of?

Mr. REINSCH. Yes, Mr. Chairman. The NFTC does, if I may answer that. In fact, we submitted a proposal to the Ways and Means Committee and have met with the majority staff and hope shortly to meet with the Chairman. We have also submitted it to the Administration, which has a team working on this, and to the Finance Committee. I think it is our view that, in an ideal world, the best solution to this problem would be to go back and look at the WTO rules and change the rules to eliminate the artificial discrimination between direct and indirect tax systems that dates back to 1947, and which we think is no longer relevant.

At the same time, that is unlikely to happen in the near term. It is not something that the EU is very sympathetic to, as you found out.

Mr. ISSA. The winners are never——

Mr. REINSCH. The winners like the status quo. We have proceeded in good faith to follow the President's lead and work with the Administration on compliance. We have made a tax proposal which, as I said, we submitted to the Committee. I think if you have insomnia, I would be glad to provide it to you, and we can go through the details of it with you.

Mr. ISSA. I apologize. I do not have insomnia, but I have 5-hour airplane flights so I would be glad to——

Mr. REINSCH. We will get it to you.

I think the initial question that the House will need to consider—because there is kind of a fork in the road here—do you want to take the tax benefit that has heretofore accrued to the FSC/ETI and simply distribute it, if you will, across the board via a corporate rate cut or something like that, or do you want to find a way to take that benefit and effectively reserve it for internationally competitive companies and exporting companies, even though you are not linking it any longer directly to exports because the WTO said we cannot? Our view very clearly has been the second rather than the first.

While my members would never oppose a corporate rate cut, we don't think that it is the answer to this problem. We would like to see international tax benefits reserved for international companies, and we have submitted a proposal that would do that. Part of it overhauls subpart F and deals with foreign source income and the taxation of it. Part of it is designed to accommodate what the appellate body did do in the WTO, which is say there are circumstances where an export subsidy is legitimate, and it defined those circumstances. It went on to decide that the FSC didn't qualify under those circumstances. But some things do, and that ought to be reserved, and then it does several other things that we will provide you with.

Mr. ISSA. Okay. And I think this will be wrapping us up. I want to thank you for your support and your participation.

Oh, I apologize. My Chairman is here. Mr. Gilman.

Mr. GILMAN. Thank you. Thank you, Mr. Chairman. I regret that I had to be at a prior commitment. Let me ask you just very briefly of our panelists, who is going to be responsible for the implementation of the recommendations of this national export strategy report?

Mr. RICE. Mr. Gilman, that is a critical question. It is one we are asking among ourselves, and Jim Morrison embraced it during his testimony. If the Trade Promotion Coordinating Committee does not do it, it will not happen, and this Committee 10 years ago, as you will recall, gave the Secretary of Commerce statutory authority to take the TPCC chairmanship and to make it work. Secretary Evans has certainly recognized that. He has brought you a very forward-leaning report. But as he in his own statement said today, the proof is going to be in the follow-through, exactly as you have said. I don't think there is any substitute for the TPCC doing this, to have regular benchmarks for performance, as you are suggesting, to hold the agency chiefs accountable, and then to have the culture change, if you will, move downward through the various agencies. So that is a critical issue, and there is no substitute for the Trade Promotion Coordinating Committee handling that.

Mr. GILMAN. Thank you, Mr. Rice, and it is good having you back here on the Committee.

Mr. RICE. It is good to see you, Mr. Gilman.

Mr. REINSCH. May I add something, Mr. Gilman?

Mr. GILMAN. Yes, please.

Mr. REINSCH. As I mention in my testimony, I also suggest there is a role for this Committee in oversight. Even the best of intentions go awry, via turf rights, inertia in the bureaucracy, lack of money. I think it would be wise for the Committee to periodically have the Administration witnesses up to assess exactly the kinds of progress and milestones that Ed referred to.

Mr. GILMAN. Well, thank you for the suggestion. Just one other question. How much will the recommendations cost? Will they have to seek funding for future activities through the Trade Promotion Coordinating Committee?

Mr. RICE. Mr. Chairman, one of the beauties of this, I believe, is that they are not proposing any new programs, new money or new people. This is to make more effective use of the resources that are there. That is one of the reasons why the exporting community heartily endorses this, because it is not adding on—it is to improve the effectiveness. So I would not envision out of this report any requirements for any new funds, and I would be frankly surprised if that were to happen. I don't think it will.

Mr. GILMAN. Any other comments, gentlemen? If not, thank you very much, Mr. Chairman. I thank our panelists for being here today.

Chairman HYDE. Thank you.

Mr. ISSA. Thank you, Mr. Gilman, and I want in closing to thank the Administration and witnesses, Secretary Evans of the Department of Commerce, Ross Connelly of OPIC, Mr. Eduardo Aguirre of the Ex-Im Bank, and Ms. Askey of TDA, as well as our second panel for your private sector support and advice.

Additionally, I appreciate the time that the Committee has spent here today, the willingness to take a close look at national export strategy. I want to thank Assistant Secretary of State for Economic and Business Affairs at the State Department, Mr. Anthony Wayne, for submitting his thoughtful statements which will be made part of the record of today's proceedings.

I would like to ask unanimous consent that any other agencies may submit testimony related and memorabilia of the record for up to 5 business days in conclusion.

And with that, I thank you.

[Whereupon, at 2:0 p.m., the Committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

Prepared Statement of the Honorable E. Anthony Wayne, Assistant Secretary of State, Bureau of Economics and Business Affairs, U.S. Department of State

Chairman Hyde, Mr. Lantos, members of the committee, I am honored to submit a statement for the record to the committee's hearing on the Administration's National Export Strategy.

As the President has said, increased trade is vital to America's economic security. As we expand markets overseas for American goods and services, we boost our nation's prosperity, create new and high paying jobs for American workers and farmers, and lower costs to consumers. The statistics on the growing importance of exports to the economic health of our nation are well known: exports accounted for as much as one quarter of our economic growth during the past decade; they currently support an estimated 12 million high-paying jobs. And our farmers have benefited as well, with one-third of all U.S. farm acres reportedly planted for export.

The National Export Strategy Report, which was completed under the very able direction of Secretary Evans As chairman of the Trade Promotion Coordinating Committee (the TPCC), lays out the steps we intend to take to ensure that American companies have the tools and the support they need to compete successfully in foreign markets.

The report is a coordinated, comprehensive approach, one which challenges government to rethink how it supports business opportunities abroad and the strategies we must adopt to enhance our global competitiveness. In developing our export strategy, the TPCC worked closely with the U.S. business community. The report incorporates many of their thoughtful recommendations about how we can do our jobs better.

One thing is certain: We need to do more. And we will do more, especially on behalf of our small and medium-sized enterprises. As the report notes, while 97 percent of U.S. exporters are small and medium-size companies, less than one-percent of our small businesses export. We have an extraordinary resource in our small and medium-sized enterprises, with their reservoirs of expertise and innovation, and we need to continue looking for ways to work with them and assist them in becoming even more competitive in the international marketplace.

For its part, the State Department is pleased to have contributed to the Report and fully supports its recommendations. We have been and will continue to be a key player in the Administration's export effort.

The Secretary of State is dedicated to working with business to increase trade opportunities; he is committed to ensuring that what we win for American business at the negotiating table—in bilateral or free trade agreements, regional trade compacts, the World Trade Organization—can be translated into real commercial opportunities and the ultimate bottom line—business contracts won. As you may know, in his letter of instruction to new Ambassadors, the Secretary always notes that one of the highest priorities of his commanders in the field is to promote American business.

Our people in the field—Ambassadors, Deputy Chiefs of mission, section heads and officers from State, Commerce and other agencies—have taken that instruction to heart.

- They are often the first to learn of and report on new project opportunities in key markets.
- They provide key information that can be used by potential U.S. project bidders.

- They are in close contact with key foreign decision-makers and local businesspeople about the requirements for bidding on trade contracts.
- They follow up on a daily basis to keep us apprised of market opportunities.
- And they assist when firms run into problems—as some inevitably will—in conducting business transactions. Our posts—and we here in Washington—try to be problem solvers in helping companies in their continuing interactions with foreign governments and foreign firms.

I would also point out, Mr. Chairman, that at some 70 posts where there is no Foreign Commercial Service representation, the State Department handles business affairs. I am pleased to report that we are working hard to ensure opportunity for U.S. firms. We support activities on their behalf through the Business Facilitation Incentive Fund, which underwrites trade fairs, market assessments, catalogue shows and trade shows and other export promotion events.

Mr. Chairman, like my colleagues here today, I pledge to you the State Department's best efforts to improve the quality of service we provide to our clients.

We will aggressively pursue an export promotion program that creates full and fair commercial opportunities for U.S. business overseas.

Thank you very much.

OPIC Employment Effects Methodology

Under its primary operating statute, the Foreign Assistance Act of 1961, as amended ("FAA"), OPIC is required to decline assistance for projects likely to cause "a significant reduction in the number of employees in the United States." *(22 U.S.C. §2191 (l))* As a matter of policy, OPIC will not assist a project expected to result in a net negative effect on U.S. employment.

In addition to the "significant reduction" restriction stipulated in the FAA, since 1992 the annual Foreign Operations Appropriations Act ("FOAA") has prohibited U.S. agencies that receive appropriations, including OPIC, from supporting runaway investments if there would be any reduction in the investor's U.S. operations. A runaway is a production facility established outside the United States to replace a facility in the United States for the purpose of supplying the same products to the same markets. In determining whether a proposed project represents a runaway investment, OPIC collects data not only on the investor's operation, but also on the operations of any businesses affiliated with the investor, such as a parent company or any subsidiaries.

As a follow-up to the FOAA of 1992, OPIC's Board of Directors adopted the following resolution:

> BE IT RESOLVED, that the enhancement of the U.S. economy is a fundamental goal of the Corporation. Therefore the Corporation will decline to support any project that involves relocation of an enterprise outside the United States and reduction in the number of its employees in the United States, or any other project that is likely to cause a significant reduction in the number of employees in the United States. The Corporation will give special consideration to projects that involve significant U.S. exports or otherwise create or sustain jobs in the United States. *(BDR(94)26)*

All projects proposed for OPIC support are reviewed on a case-by-case basis to determine their potential negative and positive effects on U.S. employment. Using the methodology described below, these effects can be aggregated in order to determine the net effect on U.S. employment.

Avoiding Potential Job Losses. Some projects have the potential to negatively impact U.S. employment either as a result of import competition in the U.S. market or by the displacement of U.S. exports to foreign markets. Therefore, OPIC assesses whether there is any potential negative impact on U.S. industry via project competition in both domestic and foreign markets. The Economic Analysis and Project Monitoring Unit conducts extensive research to gauge worldwide production and expected demand growth using various publicly available resources. Specific information available about the project's expected output is also evaluated to determine likely economic impacts.

Methodology. OPIC utilizes data on expenditures in U.S. economic sectors as indicated in the Domestic Employment Requirements Table generated by the U.S. Department of Labor's Bureau of Labor Statistics (BLS). The data in this table is adjusted for changes in both price level (inflation) as well as output per hour (productivity) by sector using historical output and employment figures from the BLS Office of Employment Projections. The resulting figures indicate the direct and indirect value-added per employee in the various sectors of the U.S. economy. Data on transportation costs and wholesale margins from the U.S. Department of Commerce's Bureau of Economic Analysis are also utilized to convert these figures from producer to purchaser value.

In order to determine the amount of U.S. employment that will be displaced by competing production in U.S. export markets, the direct and indirect value-added per employee in the specific economic sector is factored into the producer value of project production. In addition, the direct and indirect value-added per employee in the transportation and wholesale-trade sectors is factored into the transportation and wholesale-trade margins.

Calculating Employment Creation. Another focus of OPIC's analysis regards the potential *positive* U.S. employment effects resulting from project-related procurement of U.S. goods and services. For each project, OPIC details each type of procured good or service and calculates the employment effect within the project's industrial sector as well as in sectors supplying necessary components or inputs. The employment effects incorporate the direct employment necessary to produce the procured goods and services, as well as the indirect employment required for the production of the associated intermediate inputs. By using this methodology, OPIC is able to ascertain employment-generation levels with greater precision than if it used an across-the-board average for all U.S. exports. By including indirect effects, OPIC's employment figures present a more accurate picture of the benefits accruing to U.S. workers from the procurement of U.S. goods and services.

Project Monitoring. To confirm project estimates, OPIC site monitors the actual economic impact of all economically sensitive projects. All site-visited projects are evaluated for their effects on the U.S. economy and employment, as well as their environmental impacts, conformance with internationally recognized worker rights standards, and developmental impacts on the host country.

Since 1971, OPIC has supported investment in projects worth more than $142 billion, generated more than $64 billion in U.S. exports, and created or supported more than 253,000 U.S. jobs.

QUESTIONS SUBMITTED FOR THE RECORD TO THE ADMINISTRATION BY MEMBERS OF THE COMMITTEE ON INTERNATIONAL RELATIONS

1. To what extent does this report laying out the Administration's National Export Strategy differ from those reports issued in the past? How many of the report's 60 recommendations are new and how many have been made in the past? What is the expected cost of their implementation? Is the Administration requesting funding in the budget cycle for FY04 for the implementation of any of these recommendations or for the operation of the Trade Promotion Coordinating Committee?
2. To what extent did you interview or consult with representatives of the business and exporting community during the drafting of the report? Will their views be further taken into account during the implementation of this report?
3. Who will be in charge of actually ensuring that the recommendations are implemented? Will there be periodic reports to the committees of jurisdiction, including the International Relations Committee?
4. To what extent will the report's recommendations assist the President in carrying out his plans to bolster the security of countries such as Afghanistan, Pakistan and other front- line states?
5. What is the Administration's timetable for making the data base of one TPCC agency fully compatible with any other agency? Will exporters be able to input data for one export or investment program and ensure that the same data can be shared with other TPCC agencies? To what extent are you upgrading your internet capabilities for our exporters?
6. How do you effectively measure whether the TPCC has become "customer driven?" What are the benchmarks in this process?
7. To what extent are you simply promoting better customer service for our nation's exporters, or are you laying out a strategic plan for enhancing our exports and competitiveness?
8. How do you make more small and medium-sized firms more aware of government export services?
9. What is your new approach to project development? And how will you ensure that the TPCC agencies will work toward a common goal in this area?
10. What new type of enhanced partnerships will be created? How will you monitor their success or failure?
11. Why is the Administration being so cautious in not recommending specific policies to counter the aggressive efforts of our trading competitors to open so-called "market windows" providing hidden subsidies to firms in Europe and Asia?
12. What is your strategy toward capital projects and what role will be U.S. Agency for International Development play in this process?

[NOTE: Responses from the Administration to questions submitted for the record by Members of the Committee on International Relations were not received by the time of printing.]