Statement of
Karan Bhatia, Vice President & Senior Counsel, International Law & Policy
General Electric

Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
U.S. House of Representatives
March 10, 2011

Chairman Miller, Ranking Member McCarthy and distinguished members of the committee, thank you for the opportunity to appear before you today, on behalf of GE, to discuss the reauthorization of the Export-Import Bank of the United States.

Introduction

Sovereign-backed export finance has a fundamental and growing impact on international commerce and U.S. exports. In the competition for global markets, American companies and workers are increasingly competing with foreign companies armed with substantial, attractive government-backed export finance packages. Moreover, a growing number of those competitors are from emerging markets, whose governments have not signed up to the multilateral Organization for Economic Cooperation and Development (OECD) disciplines on export finance.

In this increasingly competitive world, America's principal sovereign-backed export finance institution – the U.S. Export-Import Bank ("Ex-Im") – plays a critical role in supporting American exports and jobs. GE provides a case in point. In 2010, Ex-Im helped finance $2.7 billion in GE sales to international markets, supporting more than $3.3 billion in U.S. exports – products ranging from heavy-duty gas turbines to Saudi Arabia, to aircraft engines to India, to MRI machines to Brazil and Ghana. These export sales have helped support thousands of U.S. jobs – in GE facilities from California to Wisconsin, from New York to Illinois, and from thousands of small and medium sized enterprises (SMEs) and other suppliers in every state of the union.

Ex-Im is ably led and staffed by a team of dedicated, hardworking and creative public servants. Their contributions go beyond merely supporting U.S. exports and jobs; Ex-Im in fact contributes to the U.S. Treasury, generating a surplus of several billion dollars over the past decade.

However – notwithstanding the efforts of its leadership team and staff – Ex-Im unfortunately remains among the world's least competitive export credit agencies (ECAs). Ex-Im dramatically trails other countries' ECAs in total funds authorized. For example, Canada – a country less than a tenth the size of the United States – has more than triple the amount of export financing as the U.S.; Japan more than five times; and China an estimated eleven times. Moreover, Ex-Im is forced to labor under restrictions and processes that lessen its attractiveness and discourage many U.S. companies from accessing it. Ultimately, these constraints cost American exports and jobs.

GE is fully supportive, along with other major exporters and banks, of the positions outlined by Coalition for Employment through Exports (CEE) many of which are parallel to our own.

To improve the effectiveness of the U.S. export finance system, we urge the Congress to focus on four priorities: (1) reauthorization of Ex-Im with greater lending authority and streamlined Congressional notification processes; (2) eliminating regulatory restrictions that weaken Ex-Im's competitiveness vis-à-vis other ECAs; (3) vesting Ex-Im with the mandate to defend strategic markets; and (4) improving Ex-Im's accessibility.

Recommendations

1. Reauthorize Ex-Im, with greater lending authority and streamlined Congressional notification processes.

Ex-Im's statutory authorization expires on September 30, 2011; absent reauthorization, Ex-Im will cease to operate. Moreover, under its current authorization, Ex-Im is subject to a $100 billion lending cap; with $87 billion already outstanding and a large pipeline, it will soon bump up against this cap. Its processes are also slowed through a Congressional notification requirement that has not been adjusted for inflation for many years.

Accordingly, we urge – first and foremost – that Congress fully reauthorize Ex-Im for a period of six years. In addition, we would urge that Ex-Im's total liability cap be increased from $100 billion to $200 billion. It bears emphasizing that this increase in liability authority does <u>not</u> mean a $100 billion increase in Government spending. (Indeed, if history holds true, greater lending authority will result in an increase in its surplus). In addition, we urge raising the statutory threshold for Congressional notification of Ex-Im deals from $100 million to $400 million and adjust for inflation.

2. Reform regulatory requirements that weaken Ex-Im's competitiveness

For U.S. exporters to be globally competitive, we need Ex-Im to be as flexible and nimble as its global competitors. To that end, we urge reform of three Ex-Im policies that diminish Ex-Im's flexibility and weaken its competitiveness with other major ECAs:

<u>Cargo Preference Requirements</u>. Under a long-standing requirement, any long term export (above $20 million threshold or pursuant to a direct loan) financed by Ex-Im must be transported on a U.S.-registered vessel. Congress imposed this requirement in the pre-World War II era to help build a U.S. merchant marine fleet. Both U.S. strategic requirements and the global shipping market have changed dramatically since then. Today, an extremely limited number of U.S.-flag "break bulk" carriers remain in operation, often yielding transportation costs so high as to nullify the benefits of Ex-Im financing.

Accordingly, we urge Cargo Preference Requirements should be eliminated, or, alternatively, the additional costs these requirements create should be offset by the government (e.g., under the Department of Transportation's existing Ocean Freight Differential (OFD) program).

National Content Requirements. Ex-Im, like most ECAs, limits its financing to products and services with U.S. content. However, Ex-Im's national content requirements are far more onerous and less flexible than any other ECA's, discouraging the use of Ex-Im and encouraging sourcing from other countries. Ex-Im will only support up to the lesser of (i) 85% of the value of the U.S. contract or (ii) 100% of the U.S. content in the contract. By contrast, other ECAs will finance 85% of the value of the contract if local content is at least 50% (or, in many cases, even less) of the value of the contract). Moreover, Ex-Im defines "U.S. content" very narrowly – generally excluding, for example, the value of intangible inputs and services, and disqualifying the content of U.S. Free Trade Agreement (FTA) partners.

Accordingly, we urge the revision of Ex-Im's U.S. content requirements for full financing so that they are set at the greater of (i) the average among OECD countries or (ii) 50% U.S. content. As with the EU export credit agencies, Ex-Im should automatically cover non-U.S. content for U.S. FTA partners who offer reciprocity for U.S. content under their export credit agencies. For countries which do not have ECAs (e.g. Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) countries), the U.S. should cover their content outright.

"Economic Impact Test". Ex-Im applies an "economic impact test" to all proposed transactions and often declines to finance any transaction that could aid the production of goods that could compete with a like product in the United States. This results in an expensive and cumbersome process that has been highly politicized. Moreover, to the best of our knowledge, no other major ECA imposes a similar requirement.

Accordingly, we urge that the economic impact test should be revamped to disallow only those transactions that will facilitate exports of products from companies that have been determined to be illegally dumping in the U.S. market or benefitting from an illegal countervailable subsidy.

3. Mandate Ex-Im to defend strategic markets

Globally, since the financial crisis, other governments have become far more aggressive and creative in using government-supported financing to win market share. They are deploying more resources, using more forms of financing (including tied aid and investment financing), and operating in regions of the world (such as sub-Saharan Africa), where Ex-Im has traditionally had little activity. Moreover, such foreign government financing is increasingly destined for projects in the United States.

More troublesome to U.S. companies is the fact that some of this foreign government activity – both abroad and in the U.S. domestic market – is occurring in contravention of agreed international (OECD) guidelines, distorting markets and trade flows. GE believes strongly in multilateral trade regimes (including the World Trade Organization (WTO) and OECD conventions) governing export finance, and believes that the long-term solution to these challenges is to work towards strengthening the multilateral disciplines and bring other countries into those regimes. However, to ensure that strategic global markets are not lost in the interim and to encourage non-OECD countries to sign up to multilateral regimes, we believe that Ex-Im should be mandated to defend key strategic markets.

Traditionally, Ex-Im has matched foreign ECA financing offers that are outside OECD framework only in rare situations and has refrained from financing projects in the U.S. market altogether. It has also made very sparse use of its "Tied Aid War Chest" – a program to supplement the financing of a U.S. export when there is a reasonable expectation that predatory financing will be provided by another country for a sale by a competitor of the U.S. exporter. Moreover, Ex-Im has traditionally had relatively little activity (and, indeed, is subject to policies that limit its activity) in regions of the world that may pose commercial risk, but also present both significant commercial and strategic opportunity, including portions of the Middle East and Africa.

Accordingly, we urge that Ex-Im should be directed to:

- Match financing offered by foreign governments competing abroad or in the U.S. home market, where such financing is inconsistent with the OECD Arrangement or where investment financing is being offered to win market share from U.S. competitors (predatory financing).

- Make increased use of its Tied Aid War Chest, and increase funding to the War Chest using the Bank's surplus.

- Facilitate specialized Ex-Im programs in countries or regions where the U.S. has a strategic national interest, like Iraq, Afghanistan, or Sub-Saharan Africa. To this end, Ex-Im could use its current export expansion facility, which provides up to $500 million for use in very risky markets.

- Provide enhanced technical assistance support (as permitted under the OECD Arrangement) for strategic infrastructure projects, and to use tied aid for development and demonstration projects. (This is a common practice by the EU Member States, for example).

4. Improve Ex-Im's Accessibility

Ex-Im remains under-utilized by key sectors of the U.S. economy, including SMEs, manufacturing companies that have repeated exports of smaller-value items ("flow businesses"), and services providers. There are multiple reasons for this, including Ex-Im's largely undifferentiated processes for both large and small ($10 million) transactions, its rules governing U.S. content which are oriented principally to manufacturing rather than services, and its reluctance to take less-than-dominant positions in any financing arrangement.

To facilitate access by SMEs and flow businesses and speed processing times, Ex-Im should deputize more commercial banks, community and state banks, credit unions, and non-regulated lenders to act on its behalf, while setting appropriate transaction costs and fee sharing arrangements to facilitate cooperation. Also, Ex-Im should outsource analysis/due diligence (financial, technical, legal and environmental) while retaining approval authority along the lines of the Canadian and European models.

Furthermore, we would urge that Ex-Im's content rules be revised to enable participation by service companies, including by qualifying technology company services exports regardless of where the hardware is manufactured. Ex-Im should consider following the European and Asian model of supporting 85% of the technology if the main contract is signed in the exporter's country (the U.S. in our case).

In addition, we encourage Ex-Im to undertake modest-size, "risk-sharing" stakes in large commercial lending facilities (e.g., taking 10% of a deal, where the remainder can be provided by private sector sources).

Conclusion

For the past two years, our country has faced the most damaging economic downturn since the Great Depression. As we slowly begin to recover, it is imperative that, as a country, we begin to focus on a strategy to ensure the long-term growth of our economy. Increasing our national exports is a vital part of that strategy.

We, alongside other CEE member companies, strongly support the President's National Export Initiative (NEI). As we move forward, the Export-Import Bank of the United States will play a leading role in achieving the NEI's ambitious goals, helping to create jobs, and creating long-term sustainable growth. However, these goals will be far more difficult to reach if we fail to reauthorize and modernize the Ex-Im Bank. I urge this committee and Congress to take into consideration the reforms we have proposed here today.

Thank you and I look forward to taking your questions.

Attachment: "Truth in Testimony" Disclosure Form

March 10, 2011

General Electric has not received any grants or contracts from Ex-Im Bank relating to the subject of this testimony. General Electric has received loan guarantees and loan insurance under regular Ex-Im Bank programs, for which General Electric has paid appropriate fees to Ex-Im. General Electric customers receive loans and export credit insurance from Ex-Im for the purchase of GE products.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Karan Bhatia VP & Senior Counsel, Int'l Law & Policy General Electric	General Electric
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
SEE ATTACHED	
7. Signature:	
Karan Bhatia	

Please attach a copy of this form to your written testimony.