Statement of the U.S. Chamber of Commerce

ON: Promoting American Jobs:
Reauthorization of the U.S. Export-Import Bank

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

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

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

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

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

Chairman Waters, Ranking Member McHenry, and distinguished members of the committee, my name is David Hinson, and I am Vice President for Diversity and Emerging Business at the U.S. Chamber of Commerce ("Chamber"). I am also the former National Director of the Minority Business Development Agency in the U.S. Department of Commerce. In my capacity, I represented America's 11 million minority-owned and operated businesses and worked with the Export-Import Bank, among other federal export agencies, to strengthen the ability of these companies to sell their products and services abroad. I am pleased to testify today on the importance of reauthorizing the Export-Import Bank of the United States ("Ex-Im"), the charter for which will lapse on September 30.

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

Ex-Im is especially important to U.S. small- and medium-sized businesses, which accounted for nearly 90% of Ex-Im's transactions prior to the 2015 lapse in the Bank's charter. In addition to these direct beneficiaries, tens of thousands of smaller companies that supply goods and services to large exporters have also benefitted from Ex-Im's activities.

Ex-Im is also critical to the growth of minority-owned and women-owned exporters. According to the Minority Business Development Agency report Minority Exporters: Characteristics and Strategies for New Business Expansion, there are 28,531 minority business exporters representing 17.5 percent of all classified exporting businesses in the United States. There are also over 30,000 women-owned exporters. In fiscal 2014, 1 out of 5 Ex-Im authorizations completed were with minority-owned or women-owned businesses. These firms exported in excess of $30 billion in goods and services, exported to over 100 countries and sold a wide variety of products ranging from airplane spare parts to wellness and nutritional products.

Competitiveness at Stake

Unilateral disarmament is rarely a good idea, but this is precisely what refusing to reauthorize Ex-Im would accomplish. It is estimated that there are more than 100 official export credit agencies (ECAs) worldwide, and they have extended more than $1 trillion in trade finance in recent years. Every major trading nation has at least one official ECA; China has three major state financial institutions that fill this role.

To illustrate, Canada's equivalent of Ex-Im (Export Development Canada) provided 30 times more export finance to its exporters than Ex-Im was providing to U.S. firms, relative to the size of its economy. This was true prior to the 2015 lapse in Ex-Im's operations; the comparison in the years since then, when Ex-Im's lending was severely limited by the absence of a board quorum, would obviously be much more lopsided.

Further, ECAs in developing countries, which in most cases do not abide by the rules of the OECD Arrangement on Officially Supported Export Credits, provide far more export financing on much more generous terms than Ex-Im. This was especially pronounced during and immediately after the 2008-2009 financial crisis: In 2008, China's ECAs provided Chinese exporters seventeen times more export credit as a share of GDP than Ex-Im did for U.S. exporters. As late as 2010, Chinese and Brazilian ECAs provided ten times more financing to domestic exporters as a share of GDP than Ex-Im did. Even today, ECAs based in China, India, and Brazil far outpace Ex-Im in lending volumes.

Some critics contend that closing Ex-Im would set an example for others, or that negotiations could then induce other countries to close their ECAs. This is pure fantasy. In discussions at the OECD and in other fora, governments from Germany to China have shown zero interest in shuttering their ECAs. Further, over the last four years, while Ex-Im's operations have been severely limited, not only have we not seen other countries work to scale back the size and the scope of their own ECAs but instead, our competitors have actually used our disadvantage as a marketing ploy to drive additional business towards the foreign goods they support.

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

To a large degree, this is the situation that prevailed from 2015 until last month, when the Senate confirmed three nominees and restored a functioning board quorum for Ex-Im. During this period, the Bank was unable to extend loans or guarantees in excess of $10 million. Larger firms — including the tens of thousands of smaller firms in their supply chains — were operating at a clear disadvantage in global markets. As a result, a backlog accumulated of approximately $40 billion in transactions in Ex-Im's pipeline that required a vote by Ex-Im's board of directors. It is estimated that these export sales could support an estimated 250,000 U.S. jobs.

During this period, Ex-Im's activity plummeted and U.S. exporters in a number of sectors suffered. The Bank was able to approve only about $200 million in medium-term financing and no long-term support in 2016, for example, while China provided $34 billion in medium-and long-term financing for exports by Chinese firms.

A Key Tool for Small Businesses

These realities play out differently for various sectors and industries. The challenge is especially poignant for small businesses as commercial banks often refuse to accept foreign receivables as collateral for a loan without an Ex-Im guarantee, which is especially critical for the Chamber, as 99% of our members are small and medium-sized businesses.

Buyers overseas increasingly expect vendors to offer financing. Without Ex-Im's accounts receivables insurance and lines of credit, many U.S. small businesses would be unable to extend terms to foreign buyers and would have to ask for cash-in-advance. In such a case, the business would most likely go to a firm from another country that benefits from foreign ECA support. In addition, many small businesses depend on Ex-Im's credit insurance to insure orders because local banks will not extend credit on uninsured accounts, and credit insurance is not generally available to small businesses from sources other than Ex-Im.

Head to Head: Exports of Capital Goods

Looking beyond small and medium-sized businesses, it is par for the course for expensive capital goods such as Canadian planes, Chinese trains, and Russian nuclear reactors to be sold worldwide with unashamed backing from these firms' national ECAs. Since the lapse in the Bank's charter and in its board quorum in 2015, U.S. exporters have certainly lost substantial opportunities due to this dynamic.

Even with a functional Ex-Im, this competition is fierce. It is useful to consider examples from the period before 2015 to illustrate. In 2014, for example, South African railway Transnet put out a bid for 466 diesel electric locomotives at a total contract price of $750 million. As is common in such bids, one requirement was that the supplier must finance a significant portion of the transaction.

Backed by aggressive export financing provided by China's export credit agency, Chinese locomotive manufacturers won half the order. In March 2014, General Electric won the order for the other 233 locomotives—but only because Ex-Im support was available to level the financial playing field. Without Ex-Im, GE would have lost the entire order. This kind of story plays out time and again with capital goods.

Foreign infrastructure opportunities are another area where ECA support is included in bidding requirements. Closing Ex-Im would shut out major American exporters from huge business opportunities overseas because ECA support is often required for a company even to bid on overseas infrastructure projects. This requirement is written into the specs for procurement opportunities all around the world.

Nuclear power is another sector where the fate of Ex-Im would have a major impact. According to the Nuclear Energy Institute, "export credit agency support is almost always a bidding requirement for international nuclear power plant tenders." This is critical to this industry because at least 95% of all opportunities in this sector are outside the United States.

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

Nor does Ex-Im force commercial banks out of the trade finance business. As the Bankers Association for Finance and Trade (BAFT) has explained, Ex-Im "cannot be replaced solely by the private sector." "Balance sheet constraints (arising from prudential capital and liquidity requirements, among other factors) along with institutional credit, country and counterparty limitations" are among the factors that limit the ability of commercial banks to provide export finance…An Ex-Im Guarantee does not make a bad deal 'bankable'…commercial banks share the risk on transactions with Ex-Im and so would not enter into arrangements where the risk trumps the viability of the deal."

No Cost to the Taxpayer

Ex-Im operates at no cost to the American taxpayer. Ex-Im charges fees for its services that have generated billions of dollars in revenue for the U.S. Treasury. In fact, Ex-Im has sent to the Treasury $7 billion more than it has received in appropriations since 1990. This figure comes from Ex-Im's annual report, which uses the accounting method required by law. Contrary to rumor, the Congressional Budget Office (CBO) has never denied that Ex-Im continues to generate a "negative subsidy," i.e., it is a net contributor of revenue to the Treasury.

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

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

Importance to Minority-owned and Women-Owned Businesses

Ex-Im is critical to the growth of minority-owned and women-owned exporters. Minority-owned and women-owned exporters have unique competitive advantages in the global marketplace. The Minority Business Development Agency reports that minority owned firms are more likely to export than non-minority owned firms. These firms are six times more likely to transact business in a language other than English, are generally larger than non-exporting minority-owned firms and are more likely to have operations abroad in 14 of 19 key industry sectors than non-minority owned firms. The International Trade Center outlines in its Unlocking Markets for Women to Trade report that women-owned exporters offer 1.6 times more in pay than non-exporting women owned business, are larger than non-exporting women-owned businesses and are 1.2 times more productive than male-owned business exporters. Both of these groups benefit from gender and ethnic connectivity, knowledge of local cultures and multilingual skills among others.

Minority-owned and women-owned businesses face many obstacles to exporting. One of these obstacles is access to capital. This obstacle is more challenging than for traditional businesses because these companies face bias from lenders and others funders. This fact makes export financing support more crucial to their success simply because they have far fewer capital alternatives.

Conclusion

Appearing in this hearing on behalf of the nation's largest and most representative business organization—with members of every size, sector, and state—I can affirm the remarkable breadth and depth of support for Ex-Im's reauthorization. The thousands of small businesses that depend on Ex-Im to be able to access foreign markets were stunned at the 2015 campaign to let its charter lapse and the subsequent jockeying that blocked restoration of a board quorum until last month. We cannot allow this to continue.

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

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

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