

**Testimony of Tyler Schroeder  
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Air Tractor, Inc.**

**House Foreign Affairs Subcommittee on Terrorism,  
Nonproliferation, and Trade**

**Hearing:**  
“Evaluating the Export-Import Bank in the Global Economy”

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Washington, DC 20515

Chairman Poe, Ranking Member Keating, and members of the subcommittee, thank you for the invitation and opportunity to testify on the reauthorization of the Export-Import Bank of the United States (“Ex-Im”). My name is Tyler Schroeder, and I am a financial analyst at Air Tractor, Inc. (“Air Tractor”) of Olney, Texas.

It is my privilege to submit the following testimony on behalf of the 270 employee owners of Air Tractor to the Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade for the hearing entitled “Evaluating the Export-Import Bank in the Global Economy.” Air Tractor thanks you for holding this hearing on such a vitally important institution to thousands of exporting businesses across the country. I am honored by the invitation and opportunity to attest to the wide ranging benefits the Export-Import Bank (“Ex-Im”) provides to American businesses competing abroad, as well as the implications of the current lapse in Ex-Im’s authority. In this testimony, I will first provide a brief introduction of Air Tractor, an insight into Ex-Im’s role in Air Tractor’s growth and success, and then a glimpse into the negative implications Ex-Im’s lapse in authority has had, and will continue to have on Air Tractor and similar businesses.

### **Introduction into Air Tractor**

Air Tractor is a small business engaged in the manufacturing of agricultural and forestry fire-fighting aircraft. We are a small business of 270 employees and are 100% employee owned. Air Tractor began manufacturing specialized agricultural aircraft (crop dusters) in 1972 and is still solely located in the small rural Texas town of Olney. Olney is located 100 miles west of Fort Worth, Texas and 200 miles east of Lubbock, Texas with a population of merely 3,000 people.

Air Tractor began using the services of Ex-Im in 1995 to foster growth in our export sales portfolio. Up until this time, exports comprised approximately ten percent of total new airplane sales annually. These exports were entirely facilitated with the requirement of cash in advance or acceptable letter of credit from our end user customer. During this time, it was becoming clear that our domestic market was saturated and that the future growth of Air Tractor must come from our ability to export more competitively. We realized very quickly that to have any amount of success increasing our exports, Air Tractor needed the ability to offer credit terms to foreign purchasers.

### **Ex-Im’s Role in the Success and Growth of Air Tractor**

With little expertise in the global export finance arena, we were guided to Ex-Im’s Medium Term Credit Insurance program. Through this program, Air Tractor was able to extend credit to our customers in foreign countries for the purchase of our aircraft. This credit extension takes the form of a promissory note payable to Air Tractor from our end user customer. The terms of these notes range from 5 to 7 years (medium term), and are usually payable in equal semi-annual installments with accrued interest. After a strict credit evaluation of our customer in question, Air Tractor will submit a credit application to Ex-Im Bank for their underwriting. Upon their credit approval, Ex-Im issues a Medium Term Credit Insurance policy in favor of that particular customer. Once this policy is in place, Air Tractor then has the ability to sell that note to our U.S. commercial bank for cash. As a small business, Air Tractor does not

have the capacity on our balance sheet to extend and hold medium term paper of that significance. It is only with credit insurance that our U.S. commercial bank is willing and able to convert our outstanding notes to cash.

Air Tractor completed our first Ex-Im supported transaction in 1995 through the sale of two fire-fighting aircraft to a customer in Spain who was unable to establish credit in country. The transaction and payment was carried out flawlessly, and since that time, Air Tractor has sold nearly ninety aircraft in Spain without the need for Ex-Im credit insurance. Ex-Im allowed Air Tractor to gain a foothold in that market, giving the banking sector in Spain time to develop an appetite for medium term credit.

In our largest export market of Brazil, Air Tractor faces stiff competition from a local manufacturer (Embraer) of agricultural aircraft. These aircraft are heavily subsidized by the Brazilian government through the Brazilian Export Credit Agency known as BNDES. While Ex-Im is unable to offer similar terms given by BNDES, it has afforded Air Tractor the ability to offer terms close enough to compete on product quality rather than financing alone. With Ex-Im Bank's assistance, Air Tractor has increased our share of total new sales into Brazil for the past several years.

Air Tractor has now used Ex-Im's Medium Term Credit Insurance program for over twenty years. We have completed in excess of 200 export transactions, and to this day have never made a single claim on a medium term insured note – a testament to the strict underwriting standards of Ex-Im Bank. In that time Air Tractor has increased our total export sales from 10% in 1995 to approximately 50% annually and increased our employment base from 120 to 270 full time employees. Ex-Im has helped create jobs in the rural town of Olney, Texas.

As Air Tractor grows and succeeds overseas, so does our supply chain of hundreds of small businesses, many of them family owned "Mom and Pop" shops. Dietzel Aerospace is a family owned business in Kerrville, TX that supplies fiberglass hopper tanks on each and every aircraft Air Tractor produces. Dietzel Aerospace has 6 full time employees, the majority of which are family members, and counts on Air Tractor for 99.5% of their annual revenue. A retraction in Air Tractor's business of any magnitude has exponential effects on a small business like Dietzel Aerospace.

Air Tractor's use of Ex-Im insurance has also been a winning formula for the U.S. taxpayer. As a financial service provider, Ex-Im charges fees for the use of its products and services, and Air Tractor has gladly paid those fees. In the period from FY2011 to FY2014, Air Tractor paid US\$4,843,430.67 to Ex-Im Bank for participating in their Medium Term Insurance program. This amount has helped Ex-Im Bank return excess funds to the U.S. Treasury for decades – a rare self-sustaining government agency which actually makes money for the U.S. taxpayer.

### **Implications of Ex-Im's Lapse in Authority**

Ex-Im's congressional authorization to approve new funding and export insurance lapsed on June 30, 2015 and Air Tractor has felt its impact. For example, in FY2014, Air Tractor exported 76 aircraft – 52% of our total sales during that year. Through the third quarter of FY2015, as Air Tractor is exiting our heavy export season, we have exported a total of 35 aircraft – 31% of total aircraft on our production schedule for FY2015. Air Tractor was able to complete only two aircraft exports using Ex-Im Medium Term Credit Insurance before authorization lapsed, leaving the bulk of our export transactions without needed financial support from Ex-Im.

South America has been Air Tractor's largest export market for many years, as well as our largest need for Ex-Im financing facilitation. While this area of emerging markets has a high perceived risk, it is the source of Air Tractor's largest market growth in the past fifteen years. At the time Ex-Im's authorization lapsed, Air Tractor had 16 aircraft destined for South American buyers and Ex-Im medium term insurance support. In an effort to maintain our current market momentum and to finalize the sale to many of these customers with outstanding production deposits, Air Tractor struggled to create a temporary medium term funding solution.

In order to ensure our ability to liquefy export receivables, Air Tractor pursued medium term insurance through private sector firms. While this would allow us to convert paper in the U.S. commercial banking sector, the solution proved very restrictive on Air Tractor and our South American customers, resulting in several aircraft left in Air Tractor's hangars and no sale being made. These unfavorable factors include the following:

- Private sector insurance has been unwilling to extend beyond 5 year terms to our largest South American markets that are currently demanding 7 year financing
- Private sector insurance does not provide 100% coverage on collateralized transactions
- With a different pricing structure, Air Tractor has been forced to drastically reduce the coverage sought in order to maintain our customers appetite for the sale
- Private insurance policies are written to include significant first loss deductibles which are restrictive to small businesses
- Private insurance companies have historically had an inconsistent presence in many of Air Tractor's markets
- Air Tractor's commercial banking partner must first approve the credit of any private insurance company we may use

The above disproves the notion that the private sector has the ability or willingness to fill any gap left by Ex-Im's lapse in authorization. Of the 16 aircraft that were left without Ex-Im support, we have thus far been able to finalize the sale of only 6 aircraft. The remaining 10 aircraft were produced for buyers who either have delayed their purchase seeking alternative means, or have cancelled their purchase entirely because of the political uncertainty surrounding the bank.

This private sector solution does not provide a viable alternative to Ex-Im Bank support in the long term. Air Tractor will not have the ability to restrict such significant capital on an annual basis much beyond this year. Aircraft manufacturing is a capital intensive industry with large lead times and offsetting cash flow, and Air Tractor operates with this cash flow. Any restrictions on our capital will result in a shrinkage of aircraft produced, a stoppage of all future expansion, and potentially a shrinkage in our employee base. Air Tractor views our export markets as future high growth areas. South America is a vital producer of protein for a growing global middle class, and Sub-Saharan Africa has the available arable land to help feed a global population that is projected to reach 9.5 billion in the next three decades. These areas require agricultural aircraft, and Air Tractor has the opportunity to meet that requirement if we can maintain the ability to offer competitive credit. Ex-Im Bank is in Air Tractor's plan for future growth. A lack of Ex-Im Bank drastically reduces Air Tractor's plans for future job creation. Air Tractor has no solution for the continued lack of Ex-Im Bank authorization.

Approximately twenty-five percent of Air Tractor's new aircraft sales require Ex-Im Bank Medium Term Credit Insurance and are immediately at risk with the continued lapse in Ex-Im's authority. This translates into twenty-five percent of our workforce being immediately at risk, or 68 jobs. In a community of 3,000 residents, this will have a real impact on the lives supported by Air Tractor, and the Olney, Texas businesses supported by the individuals we employ.

We believe Air Tractor's situation to be a microcosm for other small businesses across this country. Many people do not think of economic growth in exporting and manufacturing originating in the small rural community of Olney, TX, but that's what Ex-Im Bank has allowed. When Air Tractor had a desire to export twenty years ago, Ex-Im proved to be the only institution willing to work with us. Ex-Im is mandated to allocate 20% of its funding for small businesses, and more importantly, routinely approves 90% of its transactions in favor of small business as defined by the U.S. Small Business Administration. Ex-Im Bank supported more than 3,340 transactions for small businesses in FY2014, even with the negative political landscape surrounding the bank during this time.

Air Tractor's future growth is undoubtedly through our ability to export aircraft, and we believe this to be true for the U.S. economy. Lacking the export services of Ex-Im Bank will be disastrous on our company and the employees and families we support. Air Tractor has demonstrated the ability to create and sustain jobs in the smallest and most rural communities. It can be done; it is being done; it needs to be done. Ex-Im Bank is a tool that allows us to make job creation a reality.

On behalf of the 270 employee owners of Air Tractor in Olney, Texas, I urge you all to take quick action on the part of Congress on a long-term reauthorization of Ex-Im Bank.

I thank Chairman Poe and Ranking Member Keating for holding this hearing, and for allowing me the opportunity to testify.