

**WRITTEN TESTIMONY OF
KIMBERLY REED
PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS, AND RELATED
PROGRAMS**

“Export and Finance Agencies Budget Request for FY2021”

MARCH 4, 2020

Chairwoman Lowey, Ranking Member Rogers, and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the President’s Fiscal Year (FY) 2021 Budget Request for the Export-Import Bank of the United States (EXIM).

EXIM, the official export credit agency (ECA) of the United States, has the important mission of supporting American jobs by facilitating U.S. exports. Our vision is “Keeping America Strong: Empowering U.S. Businesses and Workers to Compete Globally.”

When I was sworn in to lead EXIM last May, the President asked me to “fight to give American workers a level playing field and expand foreign markets for American-made goods.”

In order to deliver on our mission, my EXIM colleagues and I have been hard at work to advance key priorities that I announced on my first day on the job nearly ten months ago: fully reopening, reforming, and reauthorizing EXIM, thereby providing positive results for America’s workers and businesses, all while protecting the American taxpayer.

We achieved a major success for our nation’s businesses and workers when Congress passed, and the President signed into law on December 20, 2019, a seven-year reauthorization of EXIM—the longest in EXIM’s 86-year history. I am grateful for the strong support of the President, our bipartisan leaders in Congress—including the Members of this Committee, EXIM’s dedicated employees, my fellow EXIM Board Members Spencer Bachus and Judith Pryor, and *ex officio* Board Members Secretary of Commerce Wilbur Ross and U.S. Trade Representative Ambassador Robert Lighthizer with this historic effort.

This reauthorization provides long-term certainty so that our American businesses can compete and win in the very competitive global marketplace. We are beginning to implement the legislation and look forward to working with you as we continue to analyze the requirements and resource needs associated with full implementation of this landmark reauthorization.

ADMINISTRATIVE BUDGET

The FY 2021 President’s Budget for EXIM requests an administrative budget of \$100.9 million, which will enable the agency to effectively administer its operations and continue the transition to full capacity with a focus on leveling the playing field for U.S. exporters, supporting our nation’s small businesses, and minimizing risk to American taxpayers.

The request also proposes restoring EXIM’s administratively determined pay authority, which supports the agency’s efforts to attract and retain a talented workforce. After experiencing its first extended lapse in full functionality, one of my first priorities was to build and strengthen EXIM’s human capital assets. This pay authority will support those efforts and assist the agency as it looks to implement the 2019 reauthorization requirements.

Fixed costs and salaries make up approximately 80 percent of the agency’s administrative expenses. The remaining 20 percent of the administrative expenses request will allow EXIM to make various investments in information technology, security, travel, training, and supplies.

When EXIM is fully operational, it is a self-financing agency because of the fees and interest it charges to foreign buyers for the use of its programs. After paying all of its operating and program costs, EXIM has contributed a net of \$9.4 billion to the U.S. Treasury since 1992. EXIM estimates that it will generate approximately \$711 million in revenue in FY 2021 and expects to fully cover the cost of its administrative expenses, resulting in a “net-zero” appropriation. Based on these projections, EXIM will remit an estimated \$610 million to the Treasury at the end of the fiscal year.

FINANCING FOR U.S. EXPORTS

EXIM has four major financing solutions to support American exports and jobs: providing support for the purchase of U.S. exports through loan guarantees and direct loans, insuring U.S. exporters from the risk of non-payment by foreign buyers, and extending working capital loan guarantees that enable American businesses to fill export orders.

EXIM offers financing at rates and on terms that are competitive with government-backed export financing available from other countries. The goal of EXIM financing is to ensure U.S. exporters and workers can compete on the quality and price of their goods and services – and not lose business to foreign competitors due to government-backed export financing.

EXIM must supplement and not compete with private capital in its transactions. As part of its review, EXIM looks at why the parties to a transaction are seeking EXIM financing, what limitations exist in the availability or terms of private capital, and the availability and terms of competing financing offered by a foreign export credit agency.

Among the core requirements in EXIM’s analysis of transactions is a review of the “Five Cs” of credit: Character, Capacity, Capital, Collateral, and Conditions. EXIM must evaluate the

trustworthiness and reliability of the parties to a transaction; the cash-flow, debt burden, and financial stability of those parties; the source of the down-payment; the quality of the collateral; and the limitations on the use of the requested financing. This analysis is critical to how EXIM conducts its determination that a transaction adheres to the statutory requirement of a reasonable assurance of repayment. Based on those reviews, EXIM considers what additional risk mitigants may be necessary to enhance the quality of the credit and to better protect the U.S. Government from the risk of default.

From July 2015 to May 2019, EXIM lacked enough members on its Board of Directors to constitute a quorum. During these four years, EXIM was unable to level the playing field for U.S. exports, with direct consequences for American businesses and workers and their supply chains. With EXIM back in full operation, we have been very focused on communicating to all of our stakeholders—including exporters and potential exporters especially in the small business community, private sector lenders whose loans EXIM can guarantee, and prospective foreign buyers—that the agency is now able to offer all of its financing options to support U.S. exports.

In FY 2019, EXIM authorized a total of \$8.2 billion in financing that is estimated to support 34,000 American jobs. This was more than double the \$3.3 billion in financing that EXIM authorized in FY 2018. We expect to build on that success through FY 2021.

EXIM conducted a review of transactions in the pipeline for Board approval and historical authorization levels to develop a forecast of expected agency financing over the course of the fiscal year.

In FY 2021, EXIM forecasts that the requested budget will enable the agency to support about \$20.9 billion in new authorizations. These authorizations are estimated to support nearly 160,000 jobs across the country.

EXIM is committed to working through its applications in a prudent and thoughtful way that fulfills our obligation to protect the interests of U.S. taxpayers and complies with relevant statutory requirements. EXIM has averaged a default rate of less than one-half of one percent over the past decade as a result of the strong underwriting and due diligence exercised during the authorization process and post-authorization management of transactions.

Congress has directed EXIM to focus its outreach and engagement to address key priorities, including small businesses, minority- and women-owned businesses, exports to sub-Saharan Africa, and environmentally beneficial exports. And, as part of its December 20, 2019, reauthorization legislation, Congress directed EXIM to establish a new program on China and Transformational Exports to address the competitive threat of Chinese export financing around the world. I am excited to share with you our progress on these priorities.

SMALL BUSINESS

EXIM is passionate about supporting small businesses and I am dedicated to improving our efforts to increase awareness and improve our programs.

In FY 2019, EXIM authorized 2,091 small business transactions for a total of \$2.3 billion. This represented 89 percent of EXIM's total authorizations and 27.5 percent of the total dollar value of authorizations.

EXIM approved \$440.6 million of financing in FY 2019 in support of minority- and woman-owned (MWOB) businesses, of which \$400.9 million directly benefited small businesses. MWOB authorizations constituted more than 17 percent of EXIM's total direct small business support for the fiscal year.

EXIM continues to focus on developing new strategies to improve outreach to small businesses in underserved communities, rural and urban areas, tribal communities, and the U.S. territories. These efforts include revitalizing field offices and approving a \$2.0 million digital media strategy. EXIM is adding staff and expanding capabilities focused on providing export tools to small businesses nationwide.

EXIM engaged in outreach throughout the United States in FY 2019 to ensure that more businesses can learn more about EXIM's financing products. The agency held exporter forums and webinars to educate and advise small businesses on how to grow their businesses globally. My fellow Board Members, Directors Spencer Bachus and Judith Pryor, and I have directly engaged with small businesses from throughout the country to get the word out to businesses and our local partners about EXIM's financing solutions to help them compete and win in the global marketplace.

A major highlight for me was traveling to Stanford, Kentucky, to meet with employees at DecoArt, Inc., a 200-person rural small business that manufactures acrylic paints and specialty finishes for artists, crafters, and "do-it-yourself" home decorators and sells to wholesale distributors. DecoArt international sales are 22 percent of their total sales and sustain 42 jobs. The company uses EXIM's export credit insurance to support their exports to 28 countries.

While I am proud of the work that we have done to support small businesses, we can and we must do more.

In FY 2020, EXIM will provide direct support to its lender and broker partners through a "Channel Operations" strategy. This will help lenders and brokers better identify, originate, onboard, and service American exporters. EXIM will provide resources that are tailored to their specific circumstances and needs as they work with exporters. These investments will help EXIM support a broader number of small businesses and help drive their growth. Our country

will benefit as more small businesses are able to access trade finance, boost their sales, and grow their workforce in communities across America.

EXIM is also moving toward transitioning our working capital loan guarantee applications to a digital solution. This effort is long overdue and will reduce the cost of doing business for the lenders and exporters using the program.

We are working to simplify the pricing structure for our working capital loan guarantees. All EXIM programs, including the working capital program, are priced so that the fees will cover the costs associated with the program. However, our current pricing structure is overly complicated. Simplifying the pricing structure will increase transparency and make the program easier to use.

With these changes, we hope that more lenders and exporters will take advantage of the working capital loan guarantee program. For a small business, like Magnetic Analysis, based in Elmsford, New York, the ability to access working capital can unlock new opportunities and support increased sales. EXIM financing has supported more than \$36 million of exports by Magnetic Analysis for specialty chemicals and other value-added materials.

Finally, we will be upgrading our customer relationship management software to an integrated solution that will significantly enhance the ability of our staff to productively engage with exporters, lenders, and insurance brokers to better target and reach potential users of EXIM's programs.

In FY 2021, EXIM will have sufficient financing authority to finance all qualified small business transactions. EXIM is working to increase the share of financing for small businesses, both by working with current users of EXIM financing as well as "new-to-EXIM" small businesses. I stand ready to work with Congress and the Members of this Committee to help increase awareness and identify those small businesses that could benefit from our financing options.

As part of EXIM's 2019 reauthorization, Congress has raised the target share of financing for small businesses. As we look to fully implement this provision, I look forward to working with this Committee on the resources that may be necessary for us to do the kind of outreach and education efforts to meet this ambitious target.

SUB-SAHARAN AFRICA

EXIM plays an important role in supporting American exports to Africa and countering foreign competition. This has particularly come into focus as China has aggressively sought to increase its trade and investment across the subcontinent as part of its Belt and Road Initiative.

EXIM worked throughout FY 2019 to support the President's Prosper Africa initiative, along with my colleagues from the Development Finance Corporation and the U.S. Trade and Development Agency. Both the President's Advisory Council on Doing Business in Africa and

the Prosper Africa initiative further EXIM's mission by supporting exports of quality "Made in the USA" goods and services to the continent.

In May 2019, I led the United States Presidential Delegation to South Africa to attend the inauguration of South Africa's President, Cyril Ramaphosa. While there, I met with many sub-Saharan government and business leaders and made it clear that EXIM is fully functional and ready to facilitate greater support for U.S. trade with sub-Saharan Africa.

In September 2019, EXIM authorized a direct loan of up to \$5 billion—the largest authorization in the agency's history—to support the export of U.S. goods and services for the development and construction of an integrated liquefied natural gas project in Mozambique. The project is expected to have a transformative impact on Mozambique's economy. EXIM's financing of exports to the project could support an estimated 16,400 U.S. jobs over the five-year construction period, including jobs at suppliers in Texas, New York, Pennsylvania, Georgia, Tennessee, Florida, and the District of Columbia. Follow-on sales are anticipated to support thousands of additional jobs across the United States.

Since EXIM was fully reopened last May, the EXIM Board also authorized preliminary commitments for transactions in Cameroon, which would support approximately 400 U.S. jobs, and Senegal, which would support an estimated 500 American jobs, that demonstrate its commitment to supporting American jobs as the exporters and buyers work to reach an agreement. With the objective of building partnerships with African institutions, EXIM signed bilateral Memoranda of Understanding with Angola and Ghana.

The FY 2021 budget request will allow EXIM to continue its engagement with interagency partners, exporters, lenders, and buyers to support increased American exports to the subcontinent.

ENVIRONMENTALLY BENEFICIAL EXPORTS

In FY 2019, EXIM authorized \$107.5 million to support U.S. exports of environmentally beneficial goods and services. Within this environmentally beneficial portfolio, EXIM authorized \$18.9 million to support U.S. exports related to renewable sources of energy. Nearly 92.0 percent of the supported environmentally beneficial exports and 100 percent of the supported renewable-energy exports were associated with small businesses.

The 2019 reauthorization calls on EXIM to increase its financing for renewable energy, energy efficiency, and energy storage exports. As American businesses continue to innovate and develop in these important sectors, EXIM stands ready to work with them to help unlock new opportunities overseas. With a fully functioning Board of Directors and long-term reauthorization, we are looking to strengthen our interagency partnerships and leverage the expertise of key stakeholders to better educate and inform businesses in this sector about how EXIM can support their exports.

COMPETING WITH CHINA

Globally, the export credit market is quickly changing. In 2015, EXIM identified 85 export credit providers around the world, whereas, in 2018, there were 113. That is an increase of nearly 33 percent in only a few short years.

These ECAs are no longer just about supporting exports. Increasingly, many are being used as instruments to achieve strategic policy objectives by their governments.

China has multiple institutions that are used to promote their national interest, particularly the Belt and Road Initiative. In 2018, China's official ECAs provided roughly the same amount of official medium- and long-term export credit financing as the ECAs of the United States, United Kingdom, France, Japan, Canada, Italy, and Germany combined.

The volume of the Chinese activity is not the only source of concern. China does not play fair. They operate outside the terms of the Organization for Economic Co-operation and Development (OECD) Arrangement on Officially Supported Export Credits, which governs official export credit activity globally. China's main goal is to support its Belt and Road Initiative and advance its industrial goals by mobilizing its state-led model in support of its state-owned enterprises and at the expense of foreign firms. Businesses that engage with China find themselves victim to unfair trade practices, unsustainable debts, intellectual property theft, and quotas.

Countries that rely on Chinese financing are increasingly finding themselves stuck in unequal diplomatic relationships, in which China has the upper hand. One example is the Hambantota Port in Sri Lanka. Sri Lanka took on massive debt to China in order to build the port, even though there was questionable commercial value. Several years later, with rising debt and next to no profit, Sri Lanka leased the Port to China for 99 years. The same day, China's state-run news agency boasted on Twitter, "Another milestone along path of #BeltandRoad." In Djibouti and elsewhere in Africa, Chinese loans have pushed public debt to unsustainable levels, placing these countries at high risk of debt distress.

This pattern is becoming too common in regions of strategic importance to the United States like the Indo-Pacific, Latin America, and sub-Saharan Africa.

American economic security is national security, and EXIM cannot sit idly while China uses these unfair trade practices, often at the expense of American workers. Countries around the world are waking up to the costs of doing business with Chinese companies, which do not follow international standards and do not adhere to anti-corruption and environmental practices. Now is a crucial time for EXIM to step up in support of U.S. goods and services. We have a vital role to play in ensuring U.S. companies can compete with China on a global scale, and our historic seven-year reauthorization provides clear direction that EXIM should continue to focus on the economic and national security challenges from China.

The 2019 reauthorization directs EXIM to establish a program on China and Transformational Exports. This program sets a goal of reserving 20 percent of EXIM’s total financing authority, equal to \$27 billion, “to support the extension of loans, guarantees, and insurance ... that are fully competitive with the rates, terms, and other conditions established by the People’s Republic of China....”

Financing under the program is to “directly neutralize export subsidies for competing goods and services” provided by China, as well as to support American leadership, innovation, employment, and technological standards in ten specific transformative industries: artificial intelligence; biotechnology; biomedical sciences; wireless communications equipment (including 5G); quantum computing; renewable energy, energy efficiency, and energy storage; semiconductor and semiconductor machinery manufacturing; emerging financial technologies; water treatment and sanitation; and high-performance computing. As we look to implement this important program, I look forward to working with this Committee to achieve these goals.

CONCLUSION

The FY 2021 President’s Budget Request for EXIM supports EXIM’s efforts to support American jobs and small businesses.

EXIM’s 2019 reauthorization gives exporters and workers a significant amount of certainty and stability as they compete in markets around the world. It also gives EXIM new opportunities and obligations to support exporters. We are closely analyzing the provisions of the reauthorization and are working to identify the resources we believe will be necessary to successfully implement them.

As we proceed in our review and consult with our interagency partners, I look forward to following up with you and your staff on how we can best move forward together to see more products stamped with those four beautiful words – “Made in the USA.”

We cannot accomplish this shared goal alone. I am excited to continue working with you in order to do great things on behalf of American workers and the U.S. economy.

Thank you for the opportunity to address this Committee. I am pleased to answer any questions you may have.