

**WRITTEN TESTIMONY OF
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BEFORE THE HOUSE FOREIGN AFFAIRS SUBCOMMITTEE ON TERRORISM,
NONPROLIFERATION, AND TRADE**

“Trade Promotion Agencies and U.S. Foreign Policy”

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Chairman Poe, Ranking Member Keating, and distinguished members of the Subcommittee, thank you for inviting me to testify before you today.

ABOUT EXIM BANK

Six years ago this week, I had the honor of being confirmed by the United States Senate to oversee the Export-Import Bank (EXIM Bank) – an effective and efficient government agency that strives to spur U.S. job growth and promote American leadership on the global stage. EXIM Bank’s approximately 450 employees work tirelessly to empower businesses to create more American private sector jobs, while serving as responsible stewards of taxpayer dollars.

In May 2012, the Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122) was passed by Congress with overwhelming bipartisan support in both chambers – 330 Republicans and Democrats in the House and 78 in the Senate. The vote carried on a long tradition of bipartisan support for EXIM that has existed since 1934, when the Bank was established. Since that time, the Bank has continually worked with Congress to become a better institution, one which successfully achieves our shared goals of serving your constituents, the American taxpayers.

EXIM was created to support American job growth by financing the export of U.S. goods and services. EXIM does not compete with the private sector. In fact, on 98% of transactions EXIM is working with a private sector partner.. Since its inception 81 years ago, EXIM has been supported by thirteen consecutive presidential administrations—six Republican and seven Democratic. The Bank is a self-sustaining agency that charges interest and fees to fund its transactions. As a result, over the past two decades EXIM has sent nearly \$7 billion to the U.S. Treasury.

EXIM fulfills its mission to foster U.S. job growth in two ways. First, EXIM fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their local bank, and for exports to the developing world, which accounted for 68 percent of the Bank’s authorizations in 2014. Second, EXIM seeks to ensure a level playing field for U.S. exports in the hyper-competitive global marketplace by making available financing that encourages buyers to make decisions based on free market factors such as price and quality, rather than on foreign competitors’ state-sponsored, often cut-rate financing.

EX-IM BANK'S ROLE IN NATIONAL SECURITY

The top priority at EXIM Bank has and will continue to be to support American jobs by facilitating U.S. exports. In FY 2014, EXIM Bank supported 164,000 U.S. jobs through financing approximately \$27.5 billion worth of exports. In accordance with mandates set forth by the U.S. Congress, the Bank must first and foremost consider a Reasonable Assurance of Repayment for the Bank's approval of financing transactions. With those considerations in mind, EXIM Bank has also regularly contributed to diplomatic commercial efforts.

Since its inception, EXIM Bank has played an important supporting role in the U.S. Government's efforts to promote commercial and economic diplomacy, which are critical components of a robust U.S. national security policy. Strong commercial engagement not only expands manufacturing opportunities here in the United States, it also has the effect of raising the standard of living in countries around the world that benefit from an influx of quality, dependable American-made goods and services. As countries that import U.S. products see their economies grow stronger, greater political stability follows as a natural consequence, furthering America's national security interests.

During EXIM's early years, it provided direct assistance to support national security interests. In the 1960s, Congress determined that military sales could not be divorced from foreign policy and military policy concerns, and as such shifted responsibility for these transactions to the Department of Defense, which was better equipped to interface with foreign military counterparts. Beginning in 1968, EXIM was prohibited from supporting sales of defense articles and defense services to less developed countries. In 1992, the restriction was extended to cover U.S. exports to all countries – a restriction not shared by our European official export credit agency counterparts. There are limited exceptions to this prohibition for two categories of defense articles and services: anti-narcotics exports and dual use exports. Under the anti-narcotics exception, the Bank may guarantee or insure goods and services for primarily anti-narcotics purposes only if a Presidential determination of national interest is obtained.

DUAL USE

Under the Bank's Charter, EXIM can provide insurance, a loan guarantee, or a direct loan to support the financing of non-lethal defense articles or services where the "primary end use...will be for civilian purposes." Exports that have both military and commercial or civilian applications are referred to as "dual use" exports. EXIM requires convincing evidence that the item is non-lethal in nature and will be used primarily for civilian activities, and typically requires that the buyer or end-user provide certification to that point. Specifically, EXIM's investigation must indicate that the item is non-lethal, that the end user has a legitimate civilian requirement which the dual use item will meet, and that the primary motivation for the purchase is based on the civilian requirement.

A great example of a dual use project is a FY 2012 transaction that was authorized for the Cameroon Department of Military Engineering (Cameroon Corps), which is the equivalent of the U.S. Army Corps of Engineers. This transaction guaranteed a loan from a commercial bank to the Cameroon Corps for the purchase of mobile construction and material processing equipment

sold by Hoffman International, Inc. of Piscataway, New Jersey. The transaction included 150 pieces of equipment from a variety of U.S. manufacturers and included earth moving equipment, road grading equipment, trucks, paving equipment, material processing plants, cranes and service vehicles. The transaction also included training, operating spare parts, and assistance setting up a warehousing management system provided by Hoffman International.

Just as the U.S. Army Corps of Engineers often completes projects for civilian benefit (levees, shoreline protection, dams, etc.), the Cameroon Corps is tasked with implementing projects associated with a civilian program called “Cameroon Vision 2035”, which was the primary purpose of these acquisitions. These projects included such things as road clearing, grading and construction projects, demolition work, and support of geodetic studies to establish municipal boundaries. The equipment was also used for a small number of activities that provided a military benefit, including construction of a training and inoculation center that will be used by military personnel, construction of an ammunition storage facility, and support provided to the U.N mission in the Central Africa Republic. While there is some ancillary military benefit, 87.7% of equipment allocations were to those projects that were identified as providing a clear civilian benefit.

U.S. MARITIME ADMINISTRATION (MARAD)

In addition to indirectly supporting national security through commercial diplomacy and support for U.S. producers of dual use products, EXIM also plays a significant direct role in the U.S. Government’s national security objective of maintaining a strong merchant marine by requiring that ocean-borne exports that we support with a direct loan or long-term guarantee are transported on U.S.-flag vessels. EXIM’s shipping requirements are based on Public Resolution 17 enacted by Congress in 1934 concerning U.S. flag shipping of certain U.S. government agency supported export cargos.

U.S.-flag merchant marine vessels can be either U.S. Government-owned (though there are no U.S. Government-owned vessels in the fleet at this time) or commercial, privately-owned vessels registered under the laws of the United States and manned by U.S. citizens.

The U.S.-flag merchant marine provides sealift capacity in wartime or other emergencies, as well as a cadre of skilled mariners available to serve in times of national emergencies. Additionally, U.S.-flag transport is a service export that helps the U.S. balance of payments. In 2013 and 2014, EXIM-supported cargo generated over \$90 million for U.S-flag carriers.

COMMERCIAL DIPLOMACY

Industries with a strong presence in both the commercial and defense fields often draw from the same set of skilled employees. For example, a similar set of skills is required to make trucks, commercial aircraft, and satellites as is required to manufacture goods for the defense industry. Similarly, the suppliers and subcontractors that larger companies use to source many of the materials needed for complex manufacturing equipment are often the same. Consequently, by financing the global commercial sales of U.S. manufacturers, EXIM indirectly contributes to

maintaining a skilled defense workforce while supporting the defense supply chain, which is often comprised of small and medium-sized companies.

A great illustration of a company that has served both defense and commercial capacities is W.S. Darley & Co. (Darley), a third-generation family-owned company based in Itasca, Illinois, with manufacturing plants in Chippewa Falls, Wisconsin, and Janesville, Iowa. Darley manufactures and distributes firefighting, military, homeland security, law enforcement, and water purification equipment. Since 2008, Darley has moved from a primary focus on producing civilian fire trucks and pumps to an expanded defense product line. However, while Darley now operates a healthy defense division, they still maintain a strong commercial focus, particularly when it comes to exporting to developing nations. In order to make the sale, Darley not only had to come up with the best equipment offer, they also had to secure competitive financing. When private financing proved unavailable for Darley, EXIM provided financing that enabled them to sell 32 state-of-the-art fire trucks to the state of Lagos, Nigeria. That commercial transaction is supporting about 100 manufacturing jobs in Chippewa Falls. By equipping Darley's commercial arm to succeed, EXIM is indirectly fortifying its defense division, which works to manufacture a similar cross-section of products and services.

U.S. businesses small and large operate in a global economy. More often than not, American businesses and workers aren't simply competing against their Chinese, Russian, and French counterparts; more and more, they're being asked to compete against 'China, Inc.' Though the U.S. remains well-stocked with innovative businesses of all sizes—many of which are perfectly capable of winning sales opportunities on their merits throughout the world—American companies aren't always accustomed to bringing competitive financing packages with them to close a sale. Even those that can secure financing from private lenders face a serious disadvantage when going up against generous state financing support of national champions. This phenomenon has begun to threaten America's global economic leadership.

For larger American employers, the current state of competition means that no matter how much quality you pour into your goods, you're not simply competing against other goods—you're competing against unchecked and opaque loan terms. For small or mid-size American firms, it means that no matter how innovative you are, you're not competing against other innovative products—you're competing against opaque, often outsized financing and low pre-payments promised by your rivals' foreign governments.

The world has changed, and the stakes of commercial leadership have never been higher. It is incumbent upon America to continue to lead, and to strive to level the playing field in the global export arena—restoring free market factors to their rightful place at center stage.

OTHER COUNTRIES

I just returned from a meeting with the Berne Union, a group made up of my counterparts from many of the 60 or so export credit agencies around the globe. At that meeting, I wanted to know whether they anticipate doing more to support their domestic exporters over the next five years than they currently do, or less. Japan, Korea, Russia, Germany, France, United Kingdom,

Brazil, and others all indicated that they expect to accelerate their financial backing for their exporters.

Our European rivals are keenly focused on job growth. Following our lead, they are also putting increased emphasis on supporting their small business exporters. A result, there's going to be more competition than ever for U.S. small businesses looking to win sales in global markets. And that's to say nothing of larger foreign exporters who will have access to more financial backing than ever before as they do business against some of America's largest manufacturing employers, including many companies with robust defense components.

What all of these countries recognize is that export credit agencies have been indispensable resources in the face of financial crises—both global and regional. When private financiers withdraw from regions or sectors that are experiencing downturns, export credit agencies are equipped to step in so that their domestic exporters don't see a drop in sales—thereby, maintaining domestic jobs. Export credit agencies are like firetrucks in that sense—and you don't sell off the firetruck just because there doesn't happen to be a fire at this time, because no one can predict when or where the next crisis will hit.

The U.S. Congress placed a prohibition on military exports into our Charter in 1968; and as mentioned above, shifted such responsibilities to the Department of Defense. Many of EXIM's counterparts in Germany, France, Italy, and the United Kingdom support military exports, making EXIM's primary focus on commercial transactions somewhat uncommon. While EXIM does not directly support military exports, we know that our commercial economic competitiveness has an enormous impact on our national security.

Other countries are aggressively supporting their commercial sectors as a means to enhance their sphere of influence. For example, in February, 12 former national security officials sent a letter to Congress stating: “By way of example, the government of China has announced a new initiative to devote an additional \$10 billion in export credit to Africa – bringing China's total to \$30 billion, roughly the equivalent of the Ex-Im Bank's global volume for the year. This will enable Chinese firms to expand their reach in the continent – particularly in the infrastructure sector, where projects can have a lifespan of twenty to thirty years. In an environment such as this, we should be exploring how to strengthen the EXIM Bank through sound reform and expand its efforts to counter the aggressive moves of our economic competitors.”

As EXIM Bank's 2013 Competitiveness Report to Congress stated, as recently as 1999, nearly 100 percent of government-backed export credit support worldwide which is tied to procurement of national exports fell under the aegis of the Organisation for Economic Cooperation and Development Arrangement on Officially Supported Export Credits (OECD Arrangement), an international body of which the United States is a founding member. For decades, the OECD Arrangement has provided a framework for its member countries, one that sets responsible standards for export lending (including environmental, social, and financing terms) in order to promote fair practices. Among these standards are transparency requirements, limits on interest rates and the terms of loans, and minimum fees—baseline elements designed to prevent an export financing arms race among nations competing for global business.

Within five years, the share of tied and untied trade-related official support covered by the OECD had fallen from 100 percent to about two-thirds. By 2013, it had plummeted to less than 40 percent. The trend is unmistakable: over the last 15 years, the world has seen rapid growth in tied and untied trade-related government support that falls outside the international standards of the OECD. As a number of countries operate beyond the guidelines of the OECD Arrangement, they are also building up new walls against transparency. This trend is coinciding with China's rise up the value chain, away from inexpensive consumer goods such as garments and toys and towards larger, more valuable capital goods.

CONCLUSION

We appreciate the widespread bipartisan support of EXIM, and are eager to continue to support American jobs, as the Bank has done effectively and efficiently for more than eight decades. Providing long-term certainty to U.S. businesses seeking to compete in overseas markets is imperative as they make long-term plans to grow their global sales, to hire more workers, and to invest in innovation. These sales in turn lead to greater economic stability both in the U.S. and abroad.

Companies face a variety of challenges in competing for sales. In the global age we live in, the U.S. government has a role to play: breaking down barriers wherever we can, so that American businesses can get in the game for global sales—and win. We know that export-backed jobs pay up to 18 percent more on average than other jobs. We also know that exports have accounted for nearly one-third of our total economic growth over the past five years. Right now, U.S. exports are amongst record levels, representing over 13% of our GDP, but I think we can do better, which is why the President and Congress are trying to open more markets for American goods with bipartisan free trade agreements, and why EXIM works to fill in private sector gaps in order to encourage more U.S. exports.

Rising competition and an ever-globalizing world have made EXIM Bank more vital than ever for reducing the risks faced by American exporters so that they can unleash opportunity in the form of new jobs. I look forward to continuing to work with you on empowering your constituents to export, grow, and hire more American workers.