Coalition *for* Employment
Through Exports, Inc.

June 24,2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
B301C Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters,

The Coalition of Employment through Exports (CEE) is pleased to submit this letter in support of the reauthorization of the Export-Import Bank of the United States (Ex-Im Bank). CEE, composed of exporters, both large and small, commercial banks and trade associations, was founded over 30 years ago for the purpose of promoting competitive U. S. exports and the U.S. jobs that make those exports possible. We believe in a robust, responsive and flexible Ex-Im Bank whose financing programs enable U.S. exporters to fully compete on a level playing field with their foreign competition which have the support of aggressive financing from their own export credit agencies (ECAs). Such an Ex-Im Bank would best be able to support U.S. export-related jobs, both manufacturing and otherwise, and accelerate the continued growth of the U.S. economy.

Ex-Im Bank, the Financial Crisis, and the Ongoing U.S. Economic Recovery
In the post-financial crisis era in which the U.S. is now finds itself, several elements are increasingly apparent that underscore the increasing importance of the Ex-Im Bank to the provision of competitive export financing:

1. **Export growth is an increasingly important source of U.S. job creation and growth in the U.S. economy**.
   Since the financial crisis, exports have, according to the Department of Commerce, increased by more than $700 billion annually, generating more than 1.6 million U.S. jobs and representing more than 13.5% of U.S. GDP, up from less than 11.5% in 2009. More importantly, export growth in the U.S., according to President Obama, is generating one third of the nation's economic growth.

2. **Since the Financial Crisis, commercial banks are more selective about engaging in Export Finance than they were prior to 2009**.
   Commercial banks are now subject to increased regulatory constraints like Basel III that increase the cost of engaging in export finance and reduce their ability to provide competitive financing. In addition, the financial crisis dramatically accelerated the emergence of many frontier markets as the dynamic growth regions in the global economy. Because these regions are perceived to be higher risk, requiring even greater capital reserves, the banks have even greater difficulty providing competitive financing terms and conditions.

   These fundamental changes have resulted in the creation of significant export financing gaps where commercial banks can no longer provide competitive financing, leaving export credit agencies in many instances, as the principal or sole source of export financing. These transactions include those in higher risk countries, project finance transactions requiring large amounts of liquidity, such as large infrastructure projects, satellites or nuclear power, mid-market transactions where ECA guarantees enable community and regional banks to participate as well as the capital goods sales in which each exporter is supported by financing from their respective export credit agency.

3. **Many of the U.S.'s export competitors are more heavily dependent upon export growth for jobs than is the United States and so have expanded the size and flexibility of their export credit agencies to maximize export growth. Some, like China, are also using their ECAs to support strategic political objectives.**
   According to the World Bank, in 2012 German exports represented 52% of that country's GDP, for Belgium, exports represented 86% of its GDP and for France exports represented 27% of its GDP for that year. In Asia, Korean exports in 2012 represented 87% of that country's GDP and Chinese exports represented 27% of its GDP. With such heavy dependence on exports to spur economic growth it is no wonder that the Administration has little to show for its efforts to reduce reliance upon export credits. No country would be so irrational as to kill off a financing vehicle that can so clearly generate both economic growth and domestic jobs for their citizenry.

   In response to their dependence upon exports these countries, as well as others, have expanded their export credit agencies and turned them into highly flexible, dynamic tools for export expansion. The Canadian export credit agency in 2012 supported its exporters with over $87 billion in financing, almost 2.4 times the size of Ex-Im Bank. The German export credit agency invested about $180 billion in 2012 in support of its exporters, particularly its small and medium-sized companies. Kexim, the Korean export credit agency, has grown from a program of $70 billion last year to a projected $95 billion in 2014. The Japanese export credit agency, JBIC, spent in 2012 in excess of $130 billion in volume, while China, for both commercial as well as political reasons, utilized its export credit agency to support more than $430 billion in exports throughout the emerging markets.

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China Ex-Im Bank is being used to project Chinese political influence, as well as expand its commercial interests around the world. Its Ex-Im Bank in Sub-Saharan Africa is creating a "Marshall Plan" for the region that not only will sharply challenge the existing U.S. commercial presence but also undercut the U.S.'s political presence in the region. A failure to recognize and act on the political consequences of aggressive Chinese export and project financing could have far-reaching adverse consequences in the future.

The above-described elements to the global export environment underscore its highly competitive nature and the central role played by national export credit agencies acting in support of their exporters.

Commercial banks play a cooperative but subordinate role in much of export finance, providing liquidity but often playing a subordinate role supporting the ECA export credit financing or guarantee. Below is greater detail describing the role of Ex-Im Bank supporting different exporter segments.

The Importance of the Ex-Im Bank

1. **Ex-Im Bank is critical to each of the U.S. exporter segments: Small businesses, mid-market companies as well as large U.S. companies. Ex-Im Bank supports between 10% and 20% of U.S. capital goods to frontier markets. In fiscal year 2012, the value of that portion of the capital goods sector is estimated at more than $166 billion with exports financed by Ex-Im Bank reaching $20.44 billion for that fiscal year.**

    a. **Small Businesses**: These companies need finance assistance to sell their exports. Small businesses often lack the capital with which to manufacture exports before they can be shipped and paid for by the buyer. Without working capital guarantees which are liquidity credit lines which are supported by the Bank small businesses would not risk bidding on overseas projects, particularly those in emerging markets. Where small businesses have working capital, they still need financing for their sales which are increasingly in emerging markets where the commercial banks have made clear that they simply will not bear the risk unless Ex-Im Bank guarantees are available. For many small business exporters their best markets are in the frontier economies for which Ex-Im Bank financing or guarantees are indispensable to being competitive in these markets. Under U.S. government regulations, banks can lend to small business exporters if Ex-Im Bank is involved. Enclosed with this letter you will find several testimonials from small business owners who depend on Ex-Im Bank to export.

b. **Mid-market companies**: Commercial banks with midmarket customers who export are now subject to new regulatory constraints, such as Basel III, and banks are unwilling to take on cross-border financing risks particularly in frontier markets. Without Ex-Im Bank support to these banks exporters will not be able to arrange competitive financing. Competing export credit agencies such as Japan, Germany and Korea all emphasize their ability to support the competitiveness of their midmarket companies. Thus financing is vital to counter the loans provided by these foreign competitors who often come with the assistance of their national export credit agency along with more favorable and more flexible terms.

c. **Large manufacturers**: Exporters of sophisticated capital goods compete globally against foreign competitors. In every transaction, these non-U.S. competitors have access to aggressive government supported export credit financing. U.S. manufacturers need Ex-Im Bank to offer equivalent financing terms and conditions so that customer decisions are made on the basis of product quality rather than terms of financing. GAAP accounting standards denies sales recognition to companies that make these loans directly. These transactions range from equipment sales at 10 million up to the U.S. portion of mega industrial or infrastructure projects that can cost as much as $30 billion. These large U.S. manufacturers employ significant supply chains that in turn employ thousands of works workers who would be impacted by an Ex-Im Bank shut down.

2. **Ex-Im Bank is self-sustaining. Since the Bank became subject in 2006 to the Credit Reform Act of 1990, the Ex-Im Bank has paid to the U.S. Treasury dividends amounting to more than $7,200,000,000 dollars, of which the 2013 dividend alone was $1,100,000,000.**

   This is an extraordinary accomplishment in light of the fact that these dividends were paid through the 2007-08 Financial Crisis, the worst financial crisis the U.S. has suffered since the Great Depression. But even before the Bank became subject to FCRA, between 1934 and 2006 it paid dividends to the U.S. Treasury of more than $1 billion. The Bank has collateral that represents more than 80% of its actual exposure; it has counter-guarantees covering a significant portion of its portfolio from the Japanese and European export credit agencies; and its loan-loss rate has held steady at about one quarter of one percent which reflects extraordinary conservatism on the part of the Bank.

The Impact of a Shutdown of the Ex-Im Bank

There remain approximately three months and a week before Ex-Im Bank's authority to operate expires; for exporters currently relying upon Ex-Im Bank financing, insurance or guarantees, that short period casts an uncertain cloud over business prospects that require competitive financing from Ex-Im Bank.

- Companies that use Ex-Im Bank's working capital guarantees are increasingly reluctant to bid on new work, transactions they would otherwise pursue, for fear that they will lack the capital to follow through.
- Companies that depend upon the Bank's medium-term financing program, which is overwhelmingly the most popular financing program offered by the Bank, are struggling with financing terms and conditions that are substantially uncompetitive as a consequence of the Bank's unsuccessful effort to placate Congressional opposition.
- As for the large exporters, CEE has heard directly from several companies of efforts by export credit agencies to persuade U.S. companies to move production lines out of the United States in return for promises of the availability of aggressive ECA financing support. CEE even understands that Chairman Hensarling is being quoted by competitors of U.S. exporters to emphasize the point that prospective buyers cannot count on reliable export credit financing out of the United States.

In sum, U.S. business, conservative by nature, is already pulling back and adopting a wait-and-see approach, which must include calculations about job suspensions or even firings, as this debate goes on in Washington.

If the Bank were actually shut down this fall, U.S. exporters, both small and large, would move aggressively to explore options for maintaining their competitiveness or to minimize their losses.
For some companies that means exploring the establishment of production facilities overseas or how otherwise to best reduce their reliance upon an Ex-Im Bank that is subject to unreliable Congressional support.

For U.S. companies that are reliant upon working capital guarantees a closure of the Bank will make certain that their ability to export will cease immediately upon the expiration of the available working capital. Some of these companies have made clear that they will likely go out of business as their export market disappears.

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CEE has undertaken an informal poll of more than a dozen banks and other financial institutions that support small and medium-sized businesses utilizing Ex-Im Bank working capital guarantees and the medium term program. Our findings were not unexpected—a high percentage of those companies would be immediately impacted by the loss of Ex-Im Bank programs, and to the extent the shutdown was prolonged, for as much as nine months to a year, a high percentage of the more than several thousand SME companies currently supported by the Bank would incur significant job reductions or go out of business, depending upon the importance of exports to their survival.

The importance of reauthorizing Ex-Im Bank cannot be overemphasized. It is a critical tool for U.S. companies, large and small, that cannot be replaced by the private markets. Closing the Bank would bring about irreparable damage to an already struggling U.S. economy, likely causing layoffs, plant closures and lost sales to foreign competition. All of this can be easily avoided by reauthorizing the Ex-Im Bank by September 30, 2014.

Sincerely,

John Hardy Jr.
President
Coalition for Employment through Exports

Enclosures:
6 Small Business Summaries
3 CEE Commentaries

cc: U.S. House Financial Services Committee Members