

STATEMENT OF THE  
AIR LINE PILOTS ASSOCIATION, INTERNATIONAL  
BEFORE THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C

June 25, 2014

“Examining Reauthorization of the Export-Import Bank:  
Corporate Necessity or Corporate Welfare?”

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Captain Lee Moak, President  
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Mr. Chairman, Ranking Member Waters, and members of the Committee, I am Captain Lee Moak, president of the Air Line Pilots Association, International (ALPA). It is an honor for me to be here today to testify on behalf of more than 51,000 pilot members who fly for 31 airlines in the United States and Canada.

I would like to begin by emphasizing that ALPA supports the historic mission of the Export-Import Bank of the United States: to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy. However, the Bank has lost its way. Recently, the Bank has deviated from its mission and is now actually providing subsidies to U.S. companies' foreign competitors. This costs jobs for pilots, flight attendants, and other airline workers.

In many instances, the Bank plays an important and strategic role in our export economy. For U.S. airlines, however, the Bank's financing decisions often skew the economic playing field to favor foreign airlines and have a negative effect on jobs here at home. In these cases, the Bank's lending practices must be heavily scrutinized to ensure that its decisions give U.S. airlines an equal opportunity to compete.

The U.S. House Financial Services Committee is responsible for providing guidance to the Bank through the authorization process. We urge this committee to employ its oversight and legislative authority to make the changes necessary to ensure that the Bank's actions do not inflict injury on any sector of the U.S. economy.

**Congress Intended Ex-Im Bank to be Lender of Last Resort**

The Bank is intended to be a lender of last resort. However, the extent to which the Bank was involved in the sale of widebody aircraft as recently as 2013 is evidence that the Bank is not delivering on the intent of Congress.

Over the last decade, the Ex-Im Bank has provided financing to foreign airlines for the acquisition of hundreds of widebody aircraft. In 2011 alone, nearly 40 percent of the Bank's authorizations went to foreign airlines and/or leasing companies—this is more than to all other named categories combined. Nearly 45 percent of the Bank's portfolio is tied to one company.

In 2013, the Ex-Im Bank approved 7.9 billion dollars in financing for U.S.-made airliners to be operated by U.S. airlines' competitors. This financing is often well below market rates and can result in an economic advantage of more than \$3 million per airplane per year. In an already hyper-competitive marketplace, this advantage gives foreign airlines a significant economic leg up over their U.S. counterparts.

Because this financing is provided at U.S.-taxpayer-backed rates that are unavailable to U.S. airlines, the Ex-Im Bank is effectively providing a subsidy to foreign airlines. Many of these Bank-subsidized aircraft are then operated on routes that are, have been, and could be served by U.S. airlines.

As a result, U.S. airlines have been forced to withdraw or not enter routes that might otherwise be economically viable because foreign carriers are able to operate at a lower cost with the benefit of Ex-Im Bank-subsidized aircraft. This withdrawal of service results in the loss of U.S. jobs, including the jobs of ALPA members.

To be clear, with every dollar of Ex-Im Bank widebody aircraft financing, the U.S. government is giving our foreign competitors a subsidy to help them compete directly against U.S. airlines and their employees.

### **U.S. Airline Industry Job Losses**

A specific example of the economic harm the Ex-Im Bank's financing practices pose to U.S. jobs can be found in its financing of widebody aircraft for Air India.

In 2006, Delta Air Lines began nonstop service between New York and Mumbai, a route that Air India could not fly at the time because it could not afford the widebody aircraft necessary to operate the route without stopping to refuel.

Between 2006 and 2009, the Bank provided Air India approximately \$3.3 billion in loan guarantees, which Air India used to purchase new widebody aircraft at below-market rates.

Air India then used its U.S.-taxpayer-subsidized airplanes to flood the U.S.–India market with extra capacity and, in 2008, forced Delta Air Lines out of the New York–Mumbai route, causing harm to both Delta and its pilots who are represented by ALPA.

### **U.S. District Court Recognizes Ex-Im Bank’s Financing Harms U.S. Jobs**

The harm to U.S. jobs was recognized by the U.S. District Court for the District of Columbia which, in a July 18, 2012, decision, found that the Bank’s financing of a large number of widebody aircraft for Air India would “almost surely” cause U.S. airlines to “lose business or to cut prices to preserve business.” U.S. airlines have razor-thin profit margins to begin with and even a slight decrease in prices results in a route becoming unprofitable.

Similarly, a *Washington Post* editorial stated, “Ex-Im surely creates jobs at Boeing, but whether it increases employment overall is another question . . . the United States needs to lead a redoubled global diplomatic effort to phase out these market-distorting practices.”

Senior Ex-Im Bank officials have also agreed. The Bank’s senior vice president, Business & Product Development, Export Finance, Robert Morin, commented in support of a reduction of the Bank’s role in aircraft financing, stating when he was vice president of transportation, “[c]learly it’s not healthy in the long term for export credit agencies to be doing so much.”

The negative effect of Bank-supported financing for Air India’s Boeing 777 airplanes does not end with Air India’s using them to compete against U.S. airlines. Air India subsequently sold its Bank-subsidized aircraft to one of the largest and richest airlines in the world: state-subsidized Etihad Airways, the national airline of the United Arab Emirates. Etihad, which has an impeccable credit rating, does not need financial assistance from any export credit agency.

While Air India is one example, the end result of many of the Ex-Im Bank’s widebody airplane financing decisions is that U.S. airlines are not only forced to compete with a state-subsidized foreign airline, but one that is also receiving additional subsidies from the U.S. government.

## **Gulf Airlines' Rapid Growth**

At the heart of the debate about the need to reform the Bank lies the rapid expansion of Persian Gulf airlines. Etihad Airways, Emirates Airline, and Qatar Airways have dramatically expanded their operations over the past 10 years. The stated goal of these airlines is to position their countries as global hubs, and they are using their airlines as the key to building their respective economies.

The UAE government, for example, has spent hundreds of millions of dollars to build world-class airports, which will host hundreds of millions of air travelers from Asia and around the globe. The concept behind the UAE mega-airport is to supplant gateway airports in Europe where U.S. airlines provide a substantial amount of air service.

The state support of the Persian Gulf airlines and the economic advantage it gives them in competing against U.S. airlines is of great concern to our members. Qatar Airways is a wholly owned state airline, and recently leaked documents about Etihad Airways confirm what many have strongly suspected: it has received billions of dollars in subsidies from the state.

Emirates Airline, much like the other UAE carriers, is a vertically integrated company with members of the royal family occupying high-level positions in the airport authority, transportation authority, energy production authority, Emirates Airline management, and other important government positions.

Combine these facts with the \$162 billion dollars in aircraft orders placed by these three airlines just last year at the 2013 Dubai Air Show, and the picture for U.S. airlines' ability to compete internationally becomes extremely bleak. Adding to this already unlevel economic playing field is the Ex-Im Bank's substantial subsidies provided to these airlines when they purchase widebody aircraft.

## **ALPA's Recommendations**

As members of this committee will recall, Congress directed the Bank to enter into discussions with its EU counterparts to cease funding for widebody aircraft (P.L. 112-122). We encourage you to ask the Bank for a full accounting of the Department of Treasury's negotiations to accomplish this objective. Congress must mandate and provide strict oversight to ensure that the Treasury indeed acts to substantially reduce—with the ultimate goal of ending—financing for widebody aircraft across the board.

Financing decisions made by the Bank for the purchase of widebody aircraft have led to job losses in the U.S. airline industry. The present job impact analysis of the Bank disregards the downstream negative effect of its loans on aviation workers and the airline industry. Congress has long required the Bank to “take into account any serious adverse effect of [any] loan or guarantee on the competitive position of United States industry . . . and employment in the United States.”

Over the past decade, multiple reports by the Congressional Research Service and Government Accountability Office clearly show that transparency continues to be a problem at the Bank.

Congress reiterated the mandate to review the economic effects of bank financing in the 2012 authorization act, requiring the Bank to begin to notify the public, before approving certain transactions, whether the export at issue “may be used to . . . provide services in competition with the . . . provision of services by a United States industry,” and to publish “methodical guidelines to be used by the Bank in conducting economic impact analyses.” ALPA believes that the ruling in the Air India case clearly demonstrates that the Bank is failing to follow Congressional intent.

Despite guidance recently issued by the U.S. Department of the Treasury stating that a competing export credit agency offering to finance an aircraft purchase is not a sufficient reason for the Bank to offer financing, the Bank cited an offer by a competing export credit agency as the reason for approximately 90 percent of the aircraft loans it made in 2013.

Given this evidence, the Bank appears to be ignoring the congressional intent found in its current authorization with respect to widebody aircraft financing. As a result, ALPA is pleased that this committee is providing early and appropriate oversight of the Bank with the reauthorization deadline looming later this year.

ALPA urges Congress to reform the U.S. Ex-Im Bank through action including:

- Ending the Bank’s involvement in transactions for widebody aircraft with airlines that receive any type of state subsidy, are wholly state-owned, or are eligible to obtain commercial loans comparable to those received by U.S. carriers to finance their aircraft purchases.

- Directing the Bank to develop a reasonable and accurate economic effects test. The Bank uses a multitier review system to analyze the effect a transaction will have on domestic jobs. These tiers appear to be designed to prevent meaningful consideration of the serious adverse economic effects of Bank-subsidized transactions on U.S. airlines and their employees. The Bank should be directed to develop more a more reasonable economic effects test.

## **Conclusion**

ALPA strongly supports the mission of the Bank. We also strongly support U.S. manufacturers. Like manufacturers, U.S. airlines can only compete and prevail in the global marketplace if they operate on a level playing field. However, the current practices of the Bank unfairly tilt the playing field to the advantage of U.S. airlines' competitors.

ALPA commends Congress for requiring in its 2012 Reauthorization the U.S. Export-Import Bank to conduct economic impact studies. The Bank's studies, however, are set up to effectively rubber-stamp financing proposals. Before extending any financing, the Bank should meet its legal obligation to fully evaluate whether a proper balance exists between the financing's potential harm and its potential benefit to U.S. industry or U.S. employment. An important element of that evaluation is for the Bank to look at the effect of its widebody aircraft financing on an airline's entire network, not just on a single route.

## **Time Is Now to Reform the U.S. Export-Import Bank**

With the Bank's current authorization expiring on September 30, now is the time for Congress to use the authorization process to make certain the Bank follows congressional intent, operates with maximum transparency, uses proper economic modeling, and analyzes the potential to harm U.S. industry and employees from its widebody aircraft financing.

One of the overall goals of the Bank authorizations should be to eliminate all credit agency financing for widebody aircraft on *both* sides of the Atlantic. ALPA believes that, by working together, we can achieve this goal without putting Boeing and its tens of thousands of employees, a strategic asset for our national defense and our economy, at any financial risk.

Given that the value of the current backlog of aircraft is equivalent to the combined GDP of 164 countries, ALPA is confident that our government leaders can safeguard good jobs in the aviation and manufacturing sectors while still allowing both sectors a fair opportunity to compete in the global marketplace.

Thank you. I will be pleased to answer any questions that members of this committee may have.