

Reauthorization of The Export-Import Bank of the United States

**Statement of
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Commerce Bank
on behalf of the
Bankers' Association for Finance and Trade**

**before the United States Senate
Committee on Banking, Housing, and Urban Affairs**

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Introduction

I am pleased to be with you today to discuss reauthorization of the Export-Import Bank of the United States. I am testifying on behalf of the Bankers' Association for Finance and Trade (BAFT), an organization founded in 1921 by a small group of American bankers from the Midwest. Their purpose in forming the association was to enable its members to exchange opinions on the conduct of foreign business, and to aid in the development and maintenance of foreign trade. Today, BAFT is an affiliate of the American Bankers Association. Most of its U.S. members are active in trade finance and they interact with the Export-Import Bank every business day. I don't have statistics on this, but I believe that BAFT's members account for a significant portion of the dollar volume of Ex-Im Bank transactions each year.

I am a senior officer of Commerce Bank, which has its headquarters in Cherry Hill, New Jersey. Until recently I was a banker with PNC Bank in Philadelphia and I have spent much of my career in the trade finance area. I am the President of BAFT and I have

served as a member of the Export-Import Bank's Advisory Board. I am pleased to be with you today and thank you for giving me the opportunity to speak with you about a subject that is very important to American financial institutions and their exporting clients.

Why We Need the Export-Import Bank

The Export-Import Bank serves the interests of our nation by providing credit support that is a vital component in the competitiveness of American products in international markets. There are many examples of transactions in which the sale of U.S. goods abroad has been made possible by the participation of the Bank. These transactions represent incremental export sales by American companies that support the jobs of American workers and help to reduce our national trade deficit. Surely it is in our national interest to have the Ex-Im Bank continue playing its role in promoting American exports.

As you consider reauthorization of the Bank, it is important to remember that American businesses are engaged in fierce competition with foreign companies in the global market. Among the advantages that many of those foreign companies enjoy is credit support from their home country export credit agency (ECA). In the midst of this competition we cannot afford to abandon one of the most important weapons in our competitive arsenal—the Export-Import Bank—nor can we afford to impose any new or more onerous restrictions on its ability to support American exports. If we did, the inevitable result would be fewer export sales, loss of jobs, and an even greater trade deficit.

Something that other trade bankers and I have observed in recent years is that the ECAs from other countries are getting to be more strategic and flexible in their approaches to export finance. In addition, new competition is coming from emerging market ECAs, such as those in China, India, Eastern Europe, and Brazil. They all understand the extent of international competition and they are taking new approaches that will enable their exporters to win in the global marketplace. For example, many ECAs are becoming more aggressive when it comes to taking on risk and more willing to provide financing for transactions that generally benefit their country, even if the transaction does not directly involve the export of 100% locally produced goods. I believe that U.S. companies' efforts to compete in international markets will be impaired if our Ex-Im Bank doesn't take a similarly aggressive approach. (This is not to say that Ex-Im hasn't been aggressive in certain respects in the past, as shown by its willingness to take on credits that commercial banks have been unwilling to accept.) I hope that in reauthorizing the Bank, Congress will clearly express its support for an aggressive effort by the Export-Import Bank to meet the needs of American businesses—large and small—competing in global markets. I also believe Congress should support additional initiatives to coordinate public and private export development resources, which would help address the generally weak export performance of our country.

Issues Related to Ex-Im Bank Operations

I would like to comment on a number of issues related to the Export-Import Bank that concern U.S. banks active in the trade finance business.

Economic Impact

The Export-Import Bank is required by law to consider the extent to which the transactions brought to it are likely to have an adverse effect on industries and employment in the United States. The rationale for this requirement is understandable: taxpayer money should not be used to support a transaction if its benefits for the U.S. economy are outweighed by other, adverse consequences. You should be aware, however, that the economic impact requirement, itself, has an adverse impact on U.S. exports.

Whenever the Bank turns down a transaction on the basis of economic impact, it means the financing support that a purchaser expected won't be made available and the transaction likely won't occur. This adds to a perception in the market that U.S. exporters aren't reliable suppliers. Many exports are sold as a package—the goods, plus bank financing (with an Ex-Im guarantee) to cover the purchase price. If a foreign purchaser has doubts about whether Ex-Im support for the financing of their purchase actually will be made available, the likelihood of the U.S. exporter getting the sale is diminished. Conversely, the likelihood of a producer in another country getting the sale is increased, and so far as we are aware none of the other export credit agencies in other countries are required to make this kind of economic impact assessment.

The magnitude of the sales that are lost due to economic impact assessments that are performed is known, but we don't know how many export sales never are initiated because potential buyers are unwilling to take the chance that the financing they need won't be available. Bankers who are active in trade finance believe the volume of U.S.

export sales that don't occur for this reason is significant. That is why we believe that economic impact assessments should only be required in the most compelling cases and we would strongly oppose any steps to expand the application of economic impact assessments to a broader range of transactions or to make those assessments more rigorous.

Small Business

Small business plays an important role in the American economy and we believe that it is appropriate for the Export-Import Bank to make special efforts to ensure that it is meeting the export financing needs of the small business community. In that regard, we would like to commend Chairman Lambright and John McAdams for recent Bank initiatives to increase its support of small business. We are concerned, however, that the small-business requirement imposed on the Bank (it must make available an amount equal to at least 20% of its aggregate loan, guarantee, and insurance authority in each fiscal year to finance exports made directly by small business concerns) can create the wrong incentives for the Bank's decision making.

Suppose, for example, that the Bank's loans, guarantees, and insurance extended to support small business exports in a particular fiscal year exceeded 20% of its authority by a small amount near the end of the year. If an exporter that does not qualify as a small business brings a large export transaction to the Bank, the 20% standard gives the Bank a strong reason to delay or not do the transaction in order to stay above 20%. That doesn't make sense if the real purpose of the Ex-Im Bank is to promote U.S. exports. At the same time, the 20% standard also creates an incentive for poor credit decisions if the

Bank is below 20% and needs more transactions to reach that target. Neither incentive is a healthy one for the Bank and, for that reason, we would oppose any effort to make the Bank's small business goal more rigorous or demanding.

Tied Aid

The Export-Import Bank's Tied Aid War Chest was established to enable the Bank to combat export subsidies provided by foreign governments in the form of financing for public-sector projects that is tied to the purchase of goods and services from exporters in the donor country. Although the Bank's *2005 Report to Congress on Export Credit Competition* (the "2005 Report to Congress") expressed the view that OECD tied aid rules have been a "great success in reducing the level and distortive influence of tied aid," there is a general perception among American bankers and exporters that the use by other countries of tied aid and other, similar or related kinds of export support is growing. China, in particular, is among the countries that are mentioned. We are concerned that the Bank has not utilized *any* tied aid funds since 2002, possibly because the Bank is unwilling to act unless it has overt proof and possibly because of the unwieldy procedures that govern the relationship between the Treasury Department and the Bank regarding use of the War Chest (and the Treasury Department's unwillingness to use the War Chest funds). We believe that the Bank should re-examine what is happening in the market and then determine whether greater use of the War Chest is needed. Congress should review the procedures followed by the Treasury Department and Ex-Im Bank for utilizing the War Chest and consider whether changes would be appropriate in order to combat the misuse of tied aid and other forms of export support and to better protect the interests of American exporters.

Co-Financing

Co-financing is an arrangement whereby exports that are sourced from more than one country can receive credit or credit support from two or more ECAs in an efficient manner. Typically the ECA for the country that is the principal source of the products or services takes the lead and is the sole agency with which the purchaser must interact.

The co-financing arrangement allows for one set of documents and one source of disbursements, in each case provided by the lead ECA which obtains supporting financial commitments directly from the other participating ECAs.

Bankers that finance these transactions like co-financing arrangements because they are a straightforward, efficient and convenient way of providing credit support for what otherwise could be much more complicated transactions. As the Export-Import Bank noted in its June 2005 *Report to the U.S. Congress*, the “availability and ease of ECA co-financing has become an important and measurable competitive issue.”

According to the Ex-Im Bank’s website, it currently has bilateral co-financing agreements with ECAs in five other countries: Canada, Italy, Japan, The Netherlands, and the United Kingdom (and a limited agreement with K-Exim of Korea). At a hearing before the Senate Banking Committee prior to the Bank’s last reauthorization in 2001, Ex-Im Chairman John Robson reported that the Bank had entered into a bilateral agreement with ECGD of the U.K. and that discussions with EDC of Canada were close to completion. We are disappointed that agreements have been signed with only three other countries in the ensuing four years (a 1998 GAO report said there were more than

70 ECAs operating throughout the world; the UK's ECGD has agreements with ECAs in 24 different countries).

Although the Bank has participated in co-financing arrangements on a one-off basis with ECAs in countries with which it does not have a co-financing agreement, having signed agreements is preferable. The agreements make it clear to potential purchasers that co-financing is available and they establish a framework that facilitates co-financing implementation for an actual transaction. When the Bank signed its co-financing agreement with Canada in May 2001, its press release said, "This is another step in the right direction by Ex-Im Bank to deliver the same type of flexibility offered by a number of ECAs." We believe that the Bank should take more of these steps and make co-financing agreements with other ECAs a priority. It would be appropriate for the congressional committees that have jurisdiction over the Bank to monitor its progress in this respect and we suggest that the Bank be required to report to you annually on the co-financing agreements it has in place and on its efforts to enter into co-financing agreements with ECAs in other countries.

Dual-Use Products

The Export-Import Bank generally is prohibited from providing credit or credit support in connection with the sale of military defense articles or services to any country, with the exception that the Bank may provide such support if it determines that the articles or services are non-lethal and that their primary end use will be for civilian purposes. This exception, which we believe is useful and appropriate, sunsets and requires periodic renewal. It currently is set to expire on October 1, 2006. In 1997 the U.S. General

Accounting Office reported, “the Eximbank appears to have established procedures that provide a sound basis for determining whether these exports are nonlethal and primarily used for civilian purposes, as required by law.” With this endorsement of the Bank’s approach, we think it would appropriate to make this a permanent provision that does not require periodic renewal.

Conclusion

The Export-Import Bank plays an important role in our nation’s economic prosperity by helping American exporters sell their goods and services to purchasers in other countries. The global competition they encounter is intense and many countries have well-funded, effective government agencies that advance the efforts of their exporters by providing them with credit, credit support, and other assistance. We believe the U.S. Export-Import Bank generally does a good job helping American exporters meet this competition and at the present time we feel that our association and its member banks—virtually all of which are in the business of financing American exports—have effective channels of communication and a solid working relationship with the Bank.

As Congress acts on the Bank’s reauthorization and considers whether it should take additional steps to improve the Bank’s operations, it should be aware of the concerns of American banks that work with the Ex-Im Bank, which we have addressed in this statement. They include the adverse consequences of economic impact assessment, the need to improve utilization of other provisions that should make the Bank more effective, such as the Tied Aid War Chest; and areas, such as co-financing, where the Bank itself could do more to fulfill its mission of promoting American exports. We hope that

Congress will act promptly to reauthorize the Bank and, in so doing, take steps to make the Bank more effective; Congress should reject proposals that will make it more difficult for the Bank to fulfill its mission.

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