



Statement of

David Ickert

*Vice President and CFO
Air Tractor, Inc.
Olney, TX*

Regarding Reauthorization of the Export-Import Bank of the United States

Before the

**COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE**

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The Small Business Exporters Association of the United States™

America's Premier Association for Small and Mid-Sized Exporters®

*1156 15th St. NW, Suite 1100 Washington, DC 20005
(202) 659-9320 Fax: (202) 872-8543*

www.sbea.org

Chairman Shelby, Senator Sarbanes, members of the Committee, thank you for inviting me here today. I am David Ickert; Vice President-Finance of Air Tractor, Inc. Air Tractor is a small business that manufactures agricultural and forestry firefighting aircraft. We are located in Olney, Texas (population 3,500) and employ 175 people. Air Tractor has manufactured and delivered over 2,100 aircraft to buyers in more than 20 countries. Over the past 10 years, we have utilized the Export-Import Bank financing on about 35 occasions.

I am also here on behalf of the Small Business Exporters Association of the United States. SBEA is the nation's oldest and largest trade association representing small to medium sized enterprises ("SME's") that export.¹ I am on the Board of SBEA and have served previously as the Board Chair.

SBEA, Air Tractor and I strongly support the reauthorization of the Export-Import Bank, and we urge Congress to do so expeditiously.

Exports are good for our country.

- Companies that began trading internationally between 1993 and 2001 had about *five times the employment growth* of other companies, a recent study has shown. Companies that stopped trading during this period actually *lost jobs*.²
- Export-related jobs also pay more – 15-20% more, on average, than similar jobs in non-exporting companies, according to Commerce Department statistics.
- Each \$1 billion in exports generates an average of over 14,000 of these higher-paying U.S. jobs.

But exports depend critically on financing. In many parts of the world, financial systems are underdeveloped or prohibitively costly. Buyers in these countries who need financing almost always ask sellers to provide them with it.

¹ Here, as elsewhere in this testimony, "small and mid-sized enterprises" (or exporters or "SME's") refers to U.S. businesses defined as "small" by the U.S. Small Business Administration (SBA). Generally these are businesses with fewer than 500 employees, with certain limited exceptions.

² *Importers, Exporters and Multinationals: A Portrait of Firms in the U.S. That Trade Goods*, Andrew B. Bernard, J. Bradford Jensen, Peter K. Schott, National Bureau of Economic Research, Working Paper 11404, June 2005, pp. 4-5.

Thus, exporters in the U.S. need ready access to:

- loans for their own business expansion to meet foreign demand,
- insurance against foreign buyer default, and
- the ability to provide financing to foreign buyers who require it.

In the U.S., as in all other industrial nations, commercial banks are extremely reluctant to accept these foreign risks without government guarantees. This problem is especially acute for SME's, who typically lack the economic power to get banks and brokers to overcome their hesitations about this kind of risk.

Thus all major industrial nations have "export credit agencies" to judiciously provide this capital, offer this insurance, and extend these guarantees. Ex-Im is ours. For SME exporters in this country, Ex-Im is not the "bank of last resort." It is the bank of *only* resort.

And not only do smaller exporters need Ex-Im. There are compelling economic reasons for Ex-Im to actively court these companies.

With our country's trade deficits now above \$700 billion a year and rising rapidly, federal agencies like Ex-Im must do all they can to encourage exports. The most promising upside potential for increased exporting is the nation's small and medium-sized business community. Virtually all of the Fortune 1000 companies are active international traders already, but less than 10% of the nation's small companies export. With 96% of the world's consumers living outside the United States, with global communications rapidly shrinking the world community, and with trade deficits threatening our future economic stability, this disappointing overall export performance by smaller companies is something our nation can no longer afford.

Abroad, it is small company *buyers* who often represent best upside potential for U.S. exports. These buyers want to purchase products like water wells or diagnostic equipment for small medical clinics, or the know-how to wire an office building for computers or to build a mile-long road or to access alternative energy. Or perhaps they want to buy a forest fire fighting plane like Air Tractor sells. As an exporter, I can tell you that "Made In USA" has never lost its tremendous drawing power all over the world.

On paper many American companies sell the products and services that these smaller company buyers overseas want. But it is frequently only *smaller* U.S. companies that truly take an interest

in these smaller foreign sales -- and can deliver them with the pricing and terms that that the foreign buyers want.

If Ex-Im and other parts of the government can help make everything go smoothly on this end, then these smaller foreign sales could collectively deliver tens, and perhaps hundreds, of billions of dollars in new exports. Look at capital equipment. SME's play a huge role in domestic sales of capital equipment, and do a remarkably good job at capital equipment exports. These are especially valuable exports because they:

- typically utilize parts and sub-assemblies manufactured by a whole array of U.S. companies.
- are usually bundled with service exports like training and after-sale-service.
- help build U.S. product standards and specifications in the buyer's country, paving the way for future export sales.
- offer the biggest and fastest "bang for the buck" in U.S. job creation, and
- in the case of capital equipment exports like medical equipment, construction machinery, road building equipment, food handling equipment and the like, help demonstrate to our neighbors that the U.S. wants to work with them in improving the health and prosperity of their societies.

If SME capital equipment exports could be increased by just **10%** of the domestic sales figure, it would add as much as \$280 billion to U.S. exports. (See attached tables.)

A national campaign to double the volume of U.S. small business exporting, which is not at all unrealistic, would – by itself – cut the U.S. trade deficit almost in half.

Such an achievement would also spread the benefits of international trade to Main Streets across America, which would go a long way toward addressing the doubts that many people in our country have about trade.

So one of the issues that we encourage Congress to explore fully during Ex-Im's reauthorization is how the Bank's work with small businesses can be improved.

Positive Aspects of the Current Small Business Environment at the Bank

Ex-Im has a good foundation for serving SME exporters. SME's accounted for over 75% of the companies and 89% of the dollars that Ex-Im financed through its Working Capital Guarantee Program last year. In the Bank's Export Credit Insurance programs, SME's were responsible for more than 2,100 transactions valued at about \$1.7 billion. About 90% of the companies accessing the Bank's short-term insurance products are SME's.

Ex-Im is also moving forward with its pledge to put more transactions online. This is an especially important innovation for both SME buyers and sellers, because it lowers their *transaction costs*, a critical determinant of whether smaller sales occur.

In recent months, under the strong leadership of its Acting Chairman, Jim Lambright, Ex-Im also has made several administrative changes designed to aid SME's. The Bank has created a Senior Vice President for Small Business, answering directly to the Chairman, and named a person to occupy the position. It has set up a "Small Business Committee" whose members are drawn from various operating units around the agency. It plans to increase its outreach to SME's, notably through its Regional Offices, which have been directed to focus on SME business. It has designated certain underwriters to focus exclusively on SME transactions.

For Medium-Term Financing (6 months to 7 years), which is crucial for capital equipment exporting, the Bank has indicated a willingness to delegate more authority to commercial banks, as it has done with other types of transactions. This would help unclog a major Ex-Im bottleneck.

Dialogue with SME's, (including SBEA), has increased.

All of these are welcome developments.

The critical questions, however, are these:

- Are these changes **sustainable** without further legislative backing?
- And, are they **sufficient** to meet the challenge?

Congress clearly intended for Ex-Im to play an important role in stoking exports by U.S. small business. During the last Ex-Im reauthorization in 2002, the Bank was given a mandate to

allocate 20% of its financing dollars to small businesses.

Ex-Im has yet to meet that mandate.

Ex-Im was directed by earlier Congresses to designate a member of its Board of Directors to keep the Board apprised of the Bank's SME activities and to serve as an advocate for them.³

No Board member has been named to this position since it became vacant in July 2003, nearly three years ago.

Moreover, complaints about the Bank have increased among smaller exporters and the commercial banks and brokers who handle their Ex-Im transactions. Some of these complaints have surfaced in Congressional hearings.⁴ Others have been expressed privately to Members of Congress. A recent GAO Report identified weaknesses in Ex-Im's internal controls for accurately determining its small business financing,⁵ a problem that a more unified small business management structure would be better suited to correct.

Sustainability

Part of the problem at Ex-Im, in our view, is chronic instability in the Bank's management of its overall SME activities. As SBEA testified before the International Trade and Finance Subcommittee of this Committee on March 8th of this year, our analysis indicates that Ex-Im has had at least 15 major changes in its overall SME management since 1997, *or more than one a year, on average.*

During the past ten years, the point person for SME's has been at various times a Group Vice President, a Senior Vice President, a Vice President, and an Office Director. For at least two substantial periods of time since 1997, *no one* was broadly in charge of SME's. "Business Development" has been included in and excluded from the Bank's small business operation. Currently it is separated into *international* business development, which is excluded, and *domestic* business development, which is included. The Ex-Im field offices have been told to

³ 12USC635(E)(i)(I)(iii-iv)

⁴ See, for example, the Ex-Im oversight hearings of the House Financial Services Committee on May 4, 2004 and November 11, 2005, and the House Small Business Committee on April 6, 2005.

⁵ "Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing", GAO Report 06-351, March 2006.

concentrate on small business, to concentrate on large business, and again to concentrate on small business. The SME operation has been near the top of the organization chart, answering to the President, in the middle, answering to various Senior Vice Presidents, near the bottom, and for a while in 2004-5, essentially off the chart, directing no one and essentially directed *by* no one. The staffing levels have ranged from one to more than twenty. Sometimes the person in charge of SME's could intervene in specific transactions, but sometimes not. Sometimes the SME operation has handled insurance products, sometimes guarantee products, sometimes both and sometimes neither. Sometimes the SME operation has had the authority to approve credit and authorize transactions, but sometimes not. Sometimes the head of the Bank's SME operation has long been involved in the Ex-Im's small business transactions; sometimes the person has had *no* significant recent SME experience. And so on.

So while we genuinely respect the SME initiatives that the Bank, under Jim Lambright, has undertaken during the past six months, the Bank's longer history would suggest that these initiatives probably cannot be sustained without further Congressional guidance.

Moreover, even if Mr. Lambright is confirmed soon by the Senate, which we hope happens, his term in office will end in 2½ years, well before the end of the 4-6 year reauthorization that the Bank is likely to get from Congress. So Congress ought to spell out the SME structure and performance that it expects from the Bank over the longer haul.

Sufficiency

If Ex-Im's current SME structure were to be maintained through the next reauthorization, would it be sufficient to meet the challenge?

SBEA doubts it. At present, the Bank's Senior Vice President for Small Business directs only the Bank's *outreach* to SME's, not the actual handling of SME customers.

To ramp up its SME export financing, Ex-Im needs to impose a clear management structure over SME products, processes, and transactions.

As worthy as the agency's "outreach" emphasis may be, the new customer prospects won't last long if they encounter cumbersome or inappropriate products and processes inside the Bank. Worse still, customer prospects who find their initial transactions unsatisfactory will probably

never return -- and will likely complain about the Bank to their peers and colleagues, hurting Ex-Im's overall reputation in the smaller exporter community.

A disconnect between the "sales" / "outreach" people who are promoting Ex-Im to small business, and the Bank personnel actually handling those transactions, seems almost certain to lead to such outcomes — through misinformation, over-promising, and unmet expectations.

Under the current Ex-Im structure, the Senior Vice President for Small Business has the apparent responsibility for small business, but not the corresponding authority. If this "Small Business" Senior VP wishes to improve specific aspects of how SME's are handled within the Bank, he or she must *ask* other operating units of the Bank to make those changes or *ask* the Chairman of the Bank to intervene. Alone, this Senior VP can't compel anyone who's actually handling the SME work flow to do anything.

At the same time, the people who *do* conduct the actual small business work inside the Bank will continue answering to the heads of various other operating units -- who may or may not place an emphasis on successful SME transactions.

If the Bank's SME performance falls below expectations – if, for example, the Bank again fails to meet Congress' 20% mandate – all eyes will turn to the Senior VP. Yet the Senior VP will be essentially powerless to offer any remedies beyond "more outreach" or perhaps more requests for the Chairman of the Bank to intervene in assorted problem situations.

Accountability

For its part, Congress will be stymied in conducting oversight by the current SME structure. The real authority over SME's will continue to be scattered across a half dozen operating units within the Bank. **Accountability will remain elusive.**

What should be done?

Best Practices

One way to think about the small business question at Ex-Im is to look at "best practices" elsewhere that have facilitated smaller companies in international trade.

Over 70 governments around the world actively promote their exports through export credit agencies (ECA's) like Ex-Im, and most of them have carefully analyzed small business exporting.

The ECA's of many of our global competitors have targeted smaller companies as a source of huge and largely untapped exporting potential. Australia, Canada, France, Germany, Spain and Sweden are among the many developed nation examples. China and India are among the emerging nation examples.

These ECA's are assiduously developing export finance products and processes to get their smaller companies into exporting, particularly high-value exporting like capital equipment.

Canada's Export Credit Agency. Consider Canada, which in some ways represents the "best practices" in financing smaller exporters.

Canada's ECA, called Export Development Canada, does differ in some important respects from Ex-Im. It has, for example, a different legal structure and more employees.⁶ Still, its numbers are impressive. EDC did business with over 6,200 Canadian small business exporters in 2005. This represents 18% of Canada's total SME exporter population of about 34,000 companies. EDC supplied them with over C\$15 billion in financing.⁷ Canadian SME's accounted for over 24% of all EDC financing dollars.

As good as Ex-Im is, and it is certainly well respected, its numbers pale by comparison. In 2005, the Bank had about 2,500 SME transactions (probably representing about 2,000 SME exporters), or less than 1% of the estimated 225,000 SME exporters in the U.S. Ex-Im supplied its SME customers with \$2.6 billion in financing, or 19% of the Bank's overall total.⁸

Thus, despite the fact that the U.S. economy is seven times larger than the Canadian economy, Canada's export credit agency managed to handle **three times as many** SME customers and underwrite **five times as much** SME business as its U.S. counterpart.

⁶ Also, one of EDC's product lines competes with the Canadian private sector, though this is declining, and EDC underwrites more export sales to the U.S. than Ex-Im does to Canada. Still, Canadian SME's used EDC financing to ship to 170 countries.

⁷ Source: Export Development Canada, Annual Report 2005, p.2. www.edc.ca/english/docs/2005_annualreport_e.pdf

⁸ Source: Export-Import Bank of the United States, 2005 Annual Report, p. 18
www.exim.gov/about/reports/ar/ar2005/2005Glance.pdf

For “best practices” closer to home, consider the Overseas Private Investment Corporation (OPIC). Again, there are obvious differences between OPIC and Ex-Im. But OPIC, if anything, has a much more difficult mandate to achieve. It must foster investments that assist the developing nations, don’t cost a single American job, make economic sense on their own, and would not otherwise occur.

If the universe of small companies that want to, or can, export is relatively small – less than 10% of U.S. small businesses at present – then the universe of small companies that want to make overseas investments, with these strings attached, is a fraction even of that.

Five years ago, a debated raged inside OPIC about whether to drop all efforts to attract SME customers. In the end, under the strong leadership of Dr. Peter Watson, OPIC went the other way. The agency created a Small Business Office and then a Small and Medium-Sized Enterprise Financing unit. In FY 2001, OPIC handled SME transactions worth about \$10 million. Today it is handling about \$500 million worth of SME transactions. OPIC is now one of the federal government’s most striking SME international trade success stories in recent years.

What EDC and OPIC have in common is a single, consolidated Small and Medium-Sized Business unit – with full control over their agency’s SME products, processes and transactions – and answering directly to the Presidents and the Boards of their respective organizations.

In the private sector, Ex-Im’s single most successful small business export financier – GE Capital – also utilizes a focused and consolidated small business financing unit.

Indeed, Ex-Im itself has had something approaching this structure at various times in its past. But, as noted, the Bank has had difficulty sustaining any SME management structure for long.

Significantly, EDC, OPIC and GE Capital all give their dedicated SME units enormous praise – and credit -- for the expanding the scope of their SME successes. They all report that the focused SME structure fosters not only a close familiarity with the “look” and “feel” of SME transactions, but also an “SME culture” within that part of the agency.

It’s difficult to imagine the “SME culture” that EDC, OPIC and GE Capital find so valuable emerging under the current circumstances at Ex-Im. SME specialists are assigned to slots in assorted operating units, and the Senior VP for Small Business isn’t in charge of any of them.

Therefore SBEA makes the following Ex-Im reauthorization recommendations to Congress:

- 1) Create a dedicated SME Finance Division within Ex-Im, headed by the Senior Vice President for Small Business, and reporting directly to the Ex-Im Chairman.
- 2) Give the SME Finance Division responsibility for, and authority over, SME products, processes, and transaction and the Ex-Im personnel handling them.
- 3) Allow Ex-Im to allocate such funds as are necessary to operate the SMEF Division successfully.
- 4) To assure that the SMEF Division has a clear goal from Congress, maintain the current law requirement that the Bank allocate 20% of its financing dollars to small business. Should the Bank fail to achieve this mandate in any Fiscal Year, require the submission to Congress of a plan for doing so within the following 30 days, and a follow-up report 60 days later on the implementation of the plan. The plan should at minimum include the reallocation of funds from Ex-Im's administrative budget to the Bank's SMEF Division. As part of any such plan, and to assure that Congress does not have to wait until the end of the next Fiscal Year to observe the results of the plan, the Bank should be required to submit quarterly, rather than annual, reports to Congress on the small business percentage of Ex-Im financing.
- 5) To aid Ex-Im in its willingness to improve medium-term financing, give the Bank Congressional authorization to delegate medium-term financing authority to commercial banks, subject to final Ex-Im approval on each transaction, as with the delegated authority that Ex-Im makes available for other types of transactions.

SBEA is aware of Ex-Im's concerns about our proposals, particularly the proposed Small and Medium-Sized Export Financing (SMEF) Division.

We would note that:

- The transition to the new structure need not be abrupt. To minimize disruptions, the Bank could shift one product line at a time, or even one underwriter at a time, into the new structure. And frankly, modest disruptions within underachieving units, in

the interest of improved long-term effectiveness, would seem to be an acceptable tradeoff.

- SBEA is fully prepared to meet with Ex-Im's Congressional appropriators, as we have done in the past, to advocate that the Bank be given the funds it needs to carry out the transition and the SME work flow.
- Concerns about any internal "conflicts of interest" can be addressed. While EDC, OPIC and GE Capital do not seem to feel that having both underwriters and business development specialists in the same unit constitutes such a "conflict of interest," if Ex-Im feels strongly about this, the two functions can be separated. The best approach would be to delegate outreach to the commercial banks that utilize Ex-Im's products, in much the same way that SBA uses commercial banks to promote SBA lending. This would at least assure that institutions with a powerful interest in seeing transactions completed and customers return – namely the commercial banks – are handling the "sales pitches." Alternatively, outreach could be assigned to the Bank's communications office. What's vital, however, is to maintain SMEF Division's responsibility over – and accountability for – the Bank's core SME products, processes and transactions.
- There is precedent at the Bank for a more unified approach to customers. Not only has Ex-Im done so with small businesses at various times in the past, but the Bank's Transportation Division – which includes underwriters -- is premised on just such a customer focus.

SBEA is very grateful for the sympathetic hearing that members of the House and Senate, as well as their staffs, have given to our views. The sincerity of Congress' interest in expanding U.S. exports, especially exports by smaller companies, has been heartening to us.

We believe that both the House and the Senate are off to a good start toward getting Ex-Im's charter renewed well before the current one expires.

We look forward to working with Ex-Im and both chambers of Congress on the legislation.

That concludes my remarks. I will be happy to accept any questions at this time.

CHART 1

Can American business compete in selling capital equipment abroad?
Can small business?

We can and do!

**U.S. CAPITAL EQUIPMENT EXPORTS IN SELECTED MAJOR CATEGORIES, 2002, BY
SIZE OF EXPORTING BUSINESS**

In Billions of U.S. Dollars

NAICS Code	Description	Total receipts	SME Receipts	% SME
331	Primary metal manufactures	\$14.3 billion	\$4.4 billion	30.4%
332	Fabricated metal products	\$15.9	\$4.8	30.3%
333	Machinery manufactures	\$65.5	\$18.6	28.4%
334	Computers and electronic products	\$133.3	\$29.5	22.1%
335	Electrical equipment, appliances and parts	\$19.5	\$4.7	24.3%
336	Transportation equipment	\$118.8	\$17.5	14.7%
337	Furniture and related products	\$1.6	\$0.7	42%
339	Miscellaneous manufactures	\$22.5	\$10.0	44.6%
Totals		\$391.4	\$90.2	23%

(Sources: 2002 Economic Census and 2002 County Business Patterns, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)

CHART 2

Can Exports By American Small Businesses Be Increased? YES!

Examples of economic sectors where strong SME domestic performance could yield more exports -- with the help of export financing

U.S. Domestic Production, 2002, in Billions of Dollars (except as noted)

NAICS Code	Description	Total Receipts	SME Receipts	SME %
2213	Waste, Sewage & Water Systems	\$8.3 billion	\$4.0 billion	48%
233	Building and developing	\$535	\$411.4	77%
234	Heavy construction	\$174.4	\$119.7	69%
2358	Water well drilling	\$3.2	\$3.0	93%
421	Wholesale trade in durable goods	\$2,332.2 (= \$2.33 trillion)	\$979.3	42%
441	Motor vehicle & parts dealers	\$813.2	\$683.5	84%
44122*	Motorcycle, boat and other motor vehicle dealers	\$32.9	\$31.0	94%
4431	Electronic and appliance stores	\$92.3	\$37.6	41%
444	Bldg equipment, garden equipmt & supply dealers	\$288.4	\$146.8	51%
45393	Manufactured home dealers	\$9.6	\$7.2	75%
54136	Geophysical surveying and mapping services	\$1.0	\$ 0.785	78%
54151	Computer systems design and related services	\$181.8	\$93.0	51%
5416	Mgmt, scientific & technical consulting svcs	\$130.8	\$74.3	57%
5418	Advertising and related services	\$60.4	\$36.0	60%
5419	Market research & public opinion polling	\$11.4	\$5.5	48%
56	Administrative & support: waste management & remediation svcs	\$457.4	\$210.3	46%
Total		\$5.1 trillion	\$2.8 trillion	55%
Total, less 421		\$2.8 trillion	\$1.8 trillion	64%

Adding just 10% of these SME sales to the export market would increase U.S. SME exports by up to \$280 billion annually.

(Sources: 2002 *Economic Census* and 2002 *County Business Patterns*, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)

* Subset of preceding (441) category, excluded from totals