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U.S. CHAMBER OF COMMERCE

Statement of the U.S. Chamber of Commerce

ON: Export-Import Bank Reauthorization: Saving American Jobs and Supporting American Exporters

TO: Senate Committee on Banking, Housing, and Urban Affairs

BY: Mr. Robert Patton, President and CEO, Patton Electronics Co.

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The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Chairman Johnson, Ranking Member Shelby, and distinguished members of the Senate Committee on Banking, Housing and Urban Affairs, thank you for the honor of allowing me to testify in this hearing. My name is Robert Patton, and I am the President and CEO of Patton Electronics Co., based in Gaithersburg, Maryland. I am testifying today on behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. Today, I would like to speak about the important benefits of an agency that helps small businesses tap foreign markets and create American jobs. This is the Export-Import Bank of the United States (Ex-Im).

Background on Patton Electronics Co.

While still in college, my brother, Burt, and I started Patton Electronics Company with the goal of financing the rest of our college education. Within a few months, we convinced our older brother, Bruce, to help us with the manufacturing side of the business. Bruce brought experience and expertise in production, planning, and general management.

We utilized our father as our venture capitalist. From his investment of a gift of \$5,000 to each of us, the use of his basement, his wisdom, and some of his connections, we developed our small direct-mail data communications products company. As we evolved, more and more funding was required. By our third year, Dad generously put his total retirement at stake — but came to help lead the company as CEO for the next 15 years.

Under my father's direction, we developed a wide range of products. I took responsibility for product development, Burt ran sales and marketing, and Bruce took responsibility for accounting and operations.

Over the intervening years we have built a tremendous team and have continued to grow. The company now has sales in over 120 countries and generates about 70% of its revenue outside the United States through a network of over 200 Channel Partners.

Our best selling products are Voice over the Internet (VoIP) products, mobile video surveillance products, and a wide range of network access devices. We now occupy a 50,000 square foot manufacturing facility in Gaithersburg where we have more than 100 employees working in sales, marketing, manufacturing and engineering.

The Case for the Export-Import Bank

Trade finance has been around for centuries. It's one of the safest kinds of finance because the goods sold serve as collateral, and the buyer, the seller, and the price have already been set.

The vast majority of trade finance is provided by commercial banks, but Ex-Im still has an important role to play covering gaps in financing for U.S. exports where commercial-bank financing is unavailable or faces competition from foreign export credit agencies. Last year, Ex-Im supported export sales that in turn sustained nearly 300,000 U.S. jobs at 3,600 companies.

However, Ex-Im's temporary reauthorization will expire on May 31, and failure to reauthorize its operations and raise its lending cap to an internationally competitive level would seriously disadvantage U.S. companies—like mine—in foreign markets, potentially resulting in the loss of thousands of U.S. jobs.

Ex-Im is especially important to small and medium-sized businesses, which account for more than 97% of the quarter million U.S. companies that export. Appropriately, more than 87% of Ex-Im's transactions involve small or medium-sized firms. Tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities. In FY2011, Ex-Im provided more than \$6 billion in financing and insurance for U.S. small businesses — an increase of nearly 90% since FY 2008. Ex-Im has set the goal of providing \$9 billion in annual small-business export financing and adding 5,000 new small businesses to its portfolio by 2015.

As the President of a small company, I can tell you first-hand about the important role Ex-Im plays. The working capital that I have to operate my business is proportional to the revenue that I am generating. The money my customers owe me serves as collateral for loans I need to pay my employees, my suppliers, and even my taxes until I get paid by my customers. Since more than 70% of my revenue is coming from exports, about 70% of my line of credit with the bank is backed by Ex-Im. The Ex-Im Bank enables us to export to many markets as it provides loan guarantees and insurance on our receivables. Those loan guarantees allow my international receipts to be used as collateral the same way my domestic receipts are used.

As our business grew through the 1990s, the Internet gave us exposure to overseas customers. We began to sell to them little by little. As exports began to comprise a measurable portion of my revenue, my bank began to take notice. Our local bank didn't want to lend against those international receivables the way they lend against domestic receivables. We could not afford to take orders from international customers in significant volumes, and in most cases we would require the buyer to pay in advance. This put us at a severe disadvantage over local suppliers and international vendors who had the backing of their national export credit agencies.

In 2000, a competing bank introduced us to Ex-Im's working capital line of credit. Under this new relationship, I received a guarantee from Ex-Im, which made my bank willing to loan up to 90% of my overseas receivables as working capital!

Our business grew by about 40% the following year and has continued to grow for the last 13 years. From 1999 to 2000 (when we added the Ex-Im line of credit), we were able to hire more than 40 new employees due to the boost in exports that happened through the use of the Ex-Im Bank. A few years later, we were able to close a single order in excess of \$3 million, adding more than 10% to our revenue using the Ex-Im Buyer Financing products.

By having our revenue spread across different markets, we have distributed our risks such that our business is not as prone to the economic ups and downs of one market or any particular competitor or even a few local customers. The global economic ebbs and flows have offset each other over the years, allowing us to sustain jobs during the slow times in the United States and grow employment as emerging markets expand.

Even as it helps U.S. companies large and small, Ex-Im also has a proven record of success. Far from being a burden on the taxpayer or a subsidy for corporations, Ex-Im is a net revenue generator for the Treasury. Fees charged by Ex-Im generated \$700 million in revenue for the U.S. Treasury in FY2011 and \$3.4 billion in FY2006 – FY2010. As Congress tackles trillion dollar deficits as far as the eye can see, refusing to reauthorize Ex-Im will actually add to those deficits.

Ex-Im lending exposes the taxpayer to very little risk. Borrowers have defaulted on less than 2% of all loans backed by Ex-Im since its inception in 1934, a default rate lower than commercial banks.

Perhaps the most compelling argument in favor of Ex-Im's reauthorization is that failure to approve it would amount to unilateral disarmament in the face of other nations' aggressive trade finance programs. Look at the competition. Though it has an economy one-tenth the size of the United States, Canada supports an export credit agency that has extended nearly three times as much export financing as Ex-Im — and it does so on terms that are often more generous and easy to use. China has three export credit agencies that last year provided \$300 billion in export finance to its exporters — 10 times as much as Ex-Im Bank did.

With other countries' export credit agencies providing an estimated \$1 trillion in export finance — often on terms more generous than Ex-Im can provide — failure to approve this reauthorization legislation will put U.S. exporters at a sharp competitive disadvantage. The fact that Congress has so far declined to approve a long-term reauthorization has become a selling point for foreign competitors to U.S. firms, who point to their own generous financing capabilities.

To give another real world example — this time from a large company — GE recently sold four turbines in Tanzania with Ex-Im Bank support in a deal worth \$125 million. A single one of these turbines can be turned into a complete power plant to provide 200MW worth of power. GE found that private sector financing could not match the competing offer supported by Britain's export credit agency — only Ex-Im Bank was able to match that offer and allow GE to make the sale.

If there is no reauthorization, the results could be catastrophic for our business. I don't know how our bank will react; certainly I expect they will reduce our borrowing and demand payment of the difference. That payback would come at the expense of employment. If they cut the collateral value in half, I'd be cutting more than 20 jobs. If they discount our international revenues as collateral altogether, I will be forced to terminate as many as 70 people. With that kind of cut, I would not be able to sustain engineering and manufacturing operations and may be forced to out-source — obtaining products from overseas rather than selling our own.

Global Access for Small Business

At the beginning of 2011, the Ex-Im Bank announced its Global Access for Small Business (Global Access) initiative, which aims to help more than 5,000 small companies export goods and services produced by U.S. workers. The Global Access initiative is a key component of Ex-Im's work supporting the National Export Initiative (NEI) and its goal of doubling U.S. exports by 2014.

To reach these benchmarks, the Bank is offering new credit and insurance products as well as streamlining product delivery. In addition, extensive outreach to educate companies about export assistance resources is being conducted throughout the country. The U.S. Chamber is one of several organizations partnering with Ex-Im to organize outreach forums across the country, directly inform small businesses about export opportunities, and highlight companies that have increased sales, profits, and jobs through exports. Over 20 Global Access forums were held nationwide last year and more than 3,000 small companies have been engaged to date.

Outreach like this is critical to small businesses. In the 1990s most banks in my region did not have a relationship with Ex-Im. Now, most banks in our region do offer Ex-Im facilities, providing me with good choices between banks based on other services. These outreach forums ensure that every potential exporter across in the country has access to the same kinds of tools currently available to me and also to their international competitors through comparable programs in other countries. Without Ex-Im, U.S. exporters are at a severe disadvantage in a global marketplace that often doesn't present a level playing field.

In addition to the Ex-Im Bank's increased outreach to small businesses, there are other efforts the Ex-Im Bank could take that would further boost small business exports. Ex-Im sometimes has difficulty scaling the paperwork to the size of the company, the size of the deal and the relative risks. Most banks already have the credit information of the small business. Separate paperwork for Ex-Im could be greatly reduced or eliminated by relying on the internal bank credit documents or having delegated authority for smaller banks at smaller amounts.

For buyer financing opportunities, often the deals are smaller than the big businesses bring. Smaller deals usually take less time to close, which requires an expedited process to be competitive. Providing online applications for foreign buyers that can be linked from U.S. producer websites is one way to streamline the paperwork. In general, Ex-Im should be encouraged to think simpler and smaller in order to engage more small businesses. Small businesses ready for exporting are generally financially stable; I am not suggesting Ex-Im enable unwarranted credit facilities inconsistent with the business size and risks.

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The bottom line is simple: If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, opening markets abroad to the products of American workers, farmers, and companies is a higher priority than ever before.

Ex-Im is a vital tool for translating those export opportunities into American jobs. As president of a company, I truly understand the importance of international trade and the impact it can have on small business. It's simple: we want to ship to more countries, grow our client base, and create more jobs. Ex-Im helps me do this.

Ex-Im's critics say it picks winners and losers. It doesn't. Ex-Im finances all transactions that meet their criteria. However, if Congress fails to reauthorize Ex-Im, it's picking foreign companies as winners and American companies as losers. I respectfully urge Congress to move swiftly to reauthorization the Export-Import Bank. Thank you for the opportunity to testify.