

Senate Banking Subcommittee on Security and International Trade and Finance

Hearing on Ex-Im Bank Reauthorization

Statement of Clay Thompson, Director of Global Government Affairs, Caterpillar, Inc.

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Good morning, Mr. Chairman and members of the Committee. Thank you very much for the opportunity to be with you today.

For more than 85 years, Caterpillar Inc. has been a leader in making sustainable progress possible. With 2010 sales and revenue of \$42.6 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, clean diesel and gas engines, industrial gas turbines and diesel-electric locomotives. The company is also a leading services provider through Caterpillar Financial Services, Caterpillar Remanufacturing Services, Caterpillar Logistics Services and Progress Rail Services. We are headquartered in Peoria, Illinois and have manufacturing facilities, distribution facilities and offices across the United States. We directly employ 47,000 people in the United States, and our dealers and suppliers employ well over a hundred thousand more.

Our ability to competitively export from the U.S. has been the key to our success historically, and never more so than in the current environment. Slow economic growth in the U.S.--historically our largest market-- has been offset in recent years by strong industry growth in other key markets. In 2010, 70 percent of our sales were outside the U.S. and we exported \$13.4 billion in goods and services, supporting thousands of American jobs directly and through our supplier network, which includes over 5,000 companies in all 50 states. Our ability to successfully compete globally from a significant U.S. production base is vital to defending our global leadership position. We are fully committed to that U.S. production base, as evidenced by our \$1.5 billion investment this year alone in constructing and expanding U.S. production facilities.

Ex-Im Bank has played a role in facilitating our exports and that role is growing. From 2006 to 2009, the Bank funded \$200 million in Caterpillar equipment exports. In 2010, the Bank financed \$100 million in Caterpillar exports, and we expect to exceed that level in 2011. We greatly appreciate the hard work and dedication of Ex-Im employees that has contributed to this support.

Ex-Im and other Export Credit Agencies played an important role in the recovery from the recent financial crisis. During this time, we've seen commercial lenders, especially in large project finance, become more risk reticent and capital-constrained. In that environment, ECA's such as Ex-Im have stepped forward and have helped facilitate international trade finance in a significant way.

We anticipate the role of Ex-Im will become even more critical going forward. Competition for global leadership in our industry is playing out right now in markets like Asia, Africa and Latin America. Our global competitors, like us, recognize the strategic importance of these markets. Construction of infrastructure such as roads, ports, rail and distributed power—as well as support of large mining projects-- are key drivers of our product sales. Often, the countries in which this type of development is most needed are also the countries where un-enhanced commercial financing is least available. Ex-Im is a critical tool that can be used to gain market access in emerging high-growth markets where commercial banks need credit enhancements to support large project loans and augment commercial bank capacity. We're also concerned that new capital requirements and associated regulations will further inhibit commercial lenders' appetite to take on these projects.

Meanwhile, we're seeing other sovereign Export Credit Agencies aggressively targeting these markets on behalf of competitors, creating a potential competitive disadvantage for us and others exporting equipment from the United States. In terms of

the size and level of aggressiveness of global ECA activity, the United States is being left behind.

According to the Coalition for Employment Through Exports, Ex-Im's 2010 commitments totaled approximately \$25 billion. In contrast, the Japanese export credit agencies committed last year well over \$100 billion in support of their exporters and the Chinese over \$300 billion.

Make no mistake, Ex-Im is a valuable tool for U.S. exporters, including Caterpillar. However, you probably recognized from the numbers cited above, we have not utilized Ex-Im to a very great extent— especially considering the percentage of our exports financed through the Bank. Ex-Im could be much more effective and more competitive with other global ECA's.

To enable this success, certain structural changes are necessary. Implementing these changes would remove the self-imposed constraints that keep Ex-Im from being as effective as it can be. There are three such issues that are most relevant to Caterpillar.

First, the Bank should be re-authorized with an expanded lending limit. With approximately 90 billion in commitments already outstanding, the Bank is near its current \$100 billion lending cap. Increasing the cap to \$160 billion will put the Bank in a situation where it should not have to decline a qualifying financing opportunity due to capital authorization concerns. This level of authorization will also move the Bank closer to leading global ECA's. No addition to the federal budget deficit should result from this authorization, as the Bank's profitability over the past several decades should continue in the current environment of global economic recovery.

Second, Ex-Im should revise its local content policy which currently constrains its level of support to the lesser of (a) 85 percent of the export value or (b) the value of the U.S. content. This level of local content requirement is completely out of line with the

rest of the world. The next lowest supportable percentage, in Austria, is 50 percent.

The Bank, itself, concludes in its 2010 Competitiveness Report:

As Ex-Im Bank is the only G-7 ECA that does not allow for any direct support of foreign content and doesn't consider other factors (e.g., national interest) when determining its level of support, Ex-Im Bank's foreign content policy is increasingly less competitive relative to other G-7 ECAs.

We agree.

Our large mining trucks sole-sourced from Decatur, Illinois, for example, have local content between 75-88 percent. In many deals in the strategically important market of Indonesia, our off-highway mining trucks compete head-to-head with trucks built and shipped out of Komatsu City, Japan, or Chennai, India. Because their production facilities are closer to Indonesia, our Asian competitors already have an advantage in quoting these deals due to lower transportation costs. Ex-Im's inability to provide full financing support because our local content is 80 percent, rather than 85 percent, puts us at an even bigger competitive disadvantage against Japanese and Indian competitors partnering with their respective Export Credit Agencies. Lowering the local content requirement to a more competitive level will allow Caterpillar customers to use Ex-Im financing to a greater degree, thus supporting thousands of jobs in our U.S. assembly facilities and within our supplier base.

We disagree with those who argue that lowering the local content requirements will directly result in the loss of jobs in the U.S. At Caterpillar, we select and develop suppliers based on criteria that will allow us to be globally competitive. Thus, we evaluate a supplier's ability to deliver a quality product, quickly, at a competitive cost. On that basis, the local content in our U.S. assembled product typically ranges anywhere

from 65 to 88 percent. The primary impact of lowering the local content requirement will be to make more U.S.-assembled product eligible for Ex-Im support—thus expanding export and job opportunities for our U.S. assembly facilities and supply base. In a recent report, the highly respected and non-partisan Peterson Institute for International Economics notes, “an alignment of Ex-Im’s domestic content requirements with other ECAs will encourage additional U.S. exports and expand the overall export base.”

Finally, although we understand it may be outside the jurisdiction of this subcommittee, no discussion of Ex-Im Bank competitiveness would be complete without at least mentioning the barrier created by cargo preference requirements. A Congressional Resolution enacted for security purposes in 1934 requires U.S. government-financed transactions to be shipped in U.S. flagged vessels. The Bank interprets the resolution to require that most transactions receiving direct loan or guarantee support from Ex-Im must be shipped by U.S. flagged vessels. The supply of U.S.-flagged vessels is heavily constrained, resulting in cost increases and time delays that customers are simply unwilling to accept.

Let’s take an example from an actual transaction that is currently pending. In a \$200 million dollar proposed sale of U.S.-sourced equipment in Indonesia, very similar to the one I cited above, the incremental freight cost driven by the U.S.-cargo restriction is \$6 million, or roughly 3 percent of the total transaction cost. As you can imagine, in a competitive bidding situation, customers view this incremental cost as unacceptable. In fact, we are often asked by customers and dealers to source product from other locations so that customers can leverage less-restrictive ECA financing outside the United States.

For Ex-Im Bank to become a truly competitive ECA that fully supports U.S. exporters and their employees, the cargo restrictions must be lifted.

In conclusion, I would like to repeat that Caterpillar believes that Ex-Im is a good institution staffed by dedicated and hard-working employees. The Bank, however, is constrained by several structural inhibitors that keep it from being globally competitive. Raising the Bank's authorization level, relaxing the local content requirements, and doing away with the cargo preference requirements will improve competitiveness and support U.S. job growth going forward.

Thank you for your time and attention.