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HEARING ON REAUTHORIZATION OF OPIC

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

ON

APRIL 14, 1999

Serial No. 106–51

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE
60–297 CC WASHINGTON : 1999

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HEARING ON REAUTHORIZATION OF OPIC

WEDNESDAY, APRIL 14, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:05 p.m., in room 2200, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen, (Chairman of the Subcommittee) presiding.

Mrs. ROS-LEHTINEN. The Subcommittee will come to order. This hearing highlights one of the most important areas of responsibility that this Subcommittee has—the reauthorization of the Overseas Private Investment Corporation, (OPIC).

In the last Congress, sessions evaluating OPIC's programs and the use of its appropriated funds to promote U.S. exports, spur U.S. foreign investment in overseas markets and promote economic development were held amidst an environment framed with concerns about the costs to American taxpayers and characterization of OPIC as corporate welfare.

Criticism of OPIC as a safety net for large multinationals dependent on Federal subsidies was supported by the introduction of numerous pieces of legislation calling for OPIC's termination or, at the very least, its privatization. Nevertheless, some analysts contend that the recent currency crisis and the tumultuous political developments around the globe have lowered the volume of the attacks.

Opposition remains, however, with legislation having been introduced in both the House and the Senate calling for the termination of OPIC within 180 days of the enactment of these proposals. The critics' concerns deal with the U.S. risking and spending billions of taxpayer dollars to subsidize foreign investment for American companies which are some of the richest in the world.

They also raise the issue of the government becoming involved in the process of rectifying certain market failures which could dissuade U.S. firms from investing in the least developed economies. Critics are concerned about the potential for direct investment abroad to the displace U.S. workers at home while still others worry about the tendency of Government subsidies to distort trade currents and investment flows.

Supporters of OPIC respond to the criticism launched at it by highlighting OPIC's self-sustaining status, by emphasizing that OPIC does not entail Government subsidies because expenses are derived from fees and premiums paid by members, which OPIC

then pays back to the U.S. Treasury in the amount of the appropriations. They further underscore OPIC's ability to contribute to the Government's overall budgetary resources.

Recently, OPIC supporters have focussed on the benefit that it provides to small businesses who would otherwise be unable to expand into foreign markets and compete on a level playing field without OPIC's support, financing, or insurance.

A factor which must be taken into account when evaluating OPIC's programs is the existence of OPIC counterparts, particularly in Europe, which are fully subsidized by the Governments or are largely so, placing U.S. companies at a competitive disadvantage when seeking entry into emerging markets.

Supporters ask: When the private sector does not offer the same services OPIC does, where can American businesses turn to?

Nonetheless, OPIC's purpose and the issue of its reauthorization cannot and must not be approached in a vacuum devoid of other considerations except U.S. business interests and trade priorities. As the Subcommittee of jurisdiction, it is imperative that we also look at OPIC's role relating to U.S. foreign policy and our national security interests.

In the past we have heard from companies that have been denied OPIC support because the projects they propose or governments they sought to do business with were subject to U.S. restrictions. However, some of these companies found the funding and insurance through foreign venues, which raises a new series of concerns about the activities of American businesses and their subsidiaries.

These and other matters will be addressed during this hearing as we focus on OPIC's budget request for fiscal year 2000.

Before we begin, I'd like to remind my colleagues that we are under time restraints due to the continuation of the Full Committee mark-up following this hearing.

Now I am pleased to turn to the Ranking Member of our Subcommittee, Congressman Menendez of New Jersey.

[The prepared statement of Hon. Menendez appears in the appendix.]

Mr. MENENDEZ. Thank you, Madam Chairlady. Just for the future, can I change my chair? There is a conspiracy here to have me several inches below the level of the table. I do not want OPIC's chances to sink here, by any stretch of the imagination.

Mrs. ROS-LEHTINEN. We will change it. Sorry, Bob.

Mr. MENENDEZ. That is all right.

Madam Chairlady, the question is to reauthorize or not and as someone who is an unabashed supporter of OPIC and was responsible the last time it was reauthorized for making sure that we worked with others on the other side of the aisle to bring it to the floor, the answer to that should clearly be yes.

Now that might not seem to be the view of some who suggest that this is corporate welfare. And it certainly might not seem to be the view of someone who is a Democrat from a very urban district in a very urbanized State, New Jersey. But as the Ranking Democrat on this Subcommittee, I clearly believe that OPIC is vital to the interests of the United States, to its economic well-being, to the growth and opportunity for Americans here at home and its re-

authorization, as well as TDA and ITA Programs, are essential for us to consider in this Congress and to pass.

I think perhaps the most overlooked fact about OPIC is that it is the only program in the 150 function account which returns money to the U.S. Treasury every year. OPIC has had a positive net income for every year of operation, with reserves now totaling more than $3 billion. Last year OPIC earned a profit of $139 million and in fiscal year 2000, OPIC will contribute $204 million in net negative budget authority. Net negative budget authority.

At a time when the Congress is striving to adhere to the constraints of a balanced budget, OPIC stands apart as a revenue-earning program. OPIC's budgetary contributions are returned to the function of 150 or international affairs account and help offset the deep cuts that have been made to our foreign aid and development programs.

That relationship is fitting, as OPIC was created by President Richard Nixon to complement our aid programs. OPIC not only complements our foreign aid programs; it is helping to sustain them.

OPIC, through its operation in 140 countries, fulfills the aid component of its mandate by bringing much-needed investment to developing nations while simultaneously providing a much-needed services and market opportunities to American businesses.

In my home State of New Jersey, OPIC has provided more than $1 billion in financing and insurance, generated $3 billion in U.S. exports and created 10,288 jobs, jobs here in the United States.

From Newark to Camden to Princeton, OPIC has supported New Jersey companies and their suppliers. More American exports means American jobs. U.S. exports of goods and services are estimated to support more than 12 million domestic jobs. Each $1 billion in U.S. goods and services exports supports some 13,000 U.S. jobs.

So if, through a program like OPIC, we can help American companies to export their goods and services, create jobs here at home, while also helping the economy and infrastructure of developing nations and furthering our foreign policy goals, I believe we have a program that constitutes a good marriage among all of these desired efforts.

Critics of OPIC who advocate for a divorce need to take a look at the impact of exports on our economy, on our jobs here at home. They need to take a look at OPIC's net revenues to the Government. They need to really consider that OPIC is not corporate welfare but, in fact, in the vital interest of the United States. It serves America's interests, both domestically and its foreign interests.

Last, earlier this year I had the opportunity to work with OPIC on the creation of a Central American investment facility, a joint venture between OPIC and Citibank which will provide much-needed capital to businesses and much-needed investment to the region.

And having just met with the Central American Ambassadors, again while we are in the midst of a humanitarian crisis in Kosovo, people have forgotten about the humanitarian crisis here in our own hemisphere. The devastation caused by Hurricane Mitch in Central America will take years to fully recover from. The OPIC Citibank investment facility will expedite the process by bringing

services and jobs to the region while helping American companies to get a foothold on the region.

That is exactly the type of Government program we should support. It fulfills domestic and foreign policy goals while returning revenue to the U.S. Treasury. I doubt there are many other programs that can make the same statement.

Thank you, Madam Chairlady.

Mrs. ROS-LEHTINEN. Thank you.

Would you like to make an opening statement, as well?

Mr. DELAHUNT. I will defer. Thank you.

Mrs. ROS-LEHTINEN. Thank you.

It is my pleasure to introduce Mr. George Muñoz, who has served as the president and chief executive officer of the Overseas Private Investment Corporation since 1997. Prior to taking the position at OPIC, Mr. Muñoz was the chief financial officer of the U.S. Treasury Department from 1993 to 1997 and most of his career has been focussed on international law and business. He was a partner in the law firm of Meyer, Brown and Platt and a principal with former Senator Adlai Stevenson in an investment banking firm focussed on international transactions.

Mr. Muñoz has also headed his own law firm, concentrating in corporate and international business, and it is a pleasure for us to welcome you today. Thank you, George. We will be glad to enter your statement in the record.

STATEMENT OF GEORGE MUÑOZ, PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. MUÑOZ. Thank you, Madam Chair and Members of the Subcommittee. I am here to answer any questions you may have with respect to the reauthorization. Therefore, Madam Chair, I request that my long written statement, as well as my oral statement that has been submitted to all of you, be submitted for the record.

I also want to thank you, Madam Chair, for your very well balanced opening statement that I think went to the crux of the debate, a healthy debate that has taken place regarding our reauthorization.

But I think most will agree, including this Congress that voted last year on a bill that would have cut back expenses, the operating expenses for OPIC when the Congress, by a two to one vote, voted to keep OPIC on a positive growth path.

I also want to acknowledge a good friend and welcome Congressman Bob Menendez as the new Ranking Member of this very important Subcommittee, especially because of his experience with working with OPIC firsthand.

As you know, OPIC is a critical element of U.S. foreign policy. It was established to mobilize American private capital to support the growth of developing countries and economies that are in transition to democracies and transitions to free markets as a means of increasing our own security and well-being, while helping bring about stability and development abroad.

OPIC is requesting reauthorization because we continue to make a valuable difference in meeting our mission of helping America compete while supporting development and stability in strategic regions around the world at no cost to the taxpayer.

Madam Chair, I just want to briefly outline that as president and CEO of OPIC, I want to make sure that we fulfill our mission in the most optimal manner. As a result, I have set out four priorities for our agency: first, that OPIC take a leadership role in implementing foreign policy investment and development priorities of the U.S. Government, as determined by the Administration and the Congress; second, that OPIC be prudent in its use and care of the full faith and credit of the U.S. Government, ensuring that OPIC's self-sustaining status remain; third, that OPIC facilitate the involvement of U.S. small business in international business development; and fourth, that OPIC operate and be recognized as a model, high-performance organization striving to have the best in people, products and systems. Today we can report that on all these priority items, OPIC has excelled.

Madam Chair, I would like to point out to all the Committee Members the pictures that I have brought with me today to show you the difference that we can make. On my extreme left is a picture of a project that we have helped in Africa. This is a project, the Tea Importers, that employs approximately 30,000 employees in that region. It is a project that has faced political problems, but because of OPIC political insurance, it has stayed the course and today it continues to be the sole source of cash income for approximately 30 farm families in Rwanda.

Next, it's a picture that was just taken last month in Honduras. This is one of the few remaining shacks that the hurricane left in its tracks. And right next to it, in Nicaragua, also taken last month, is the remains of where there was some development taking place, homes of other people.

We are now in a position to make a difference by again bringing the private sector to Central America, much as you see as the Tea Importers example. And we can only do it, Madam Chair, if the private sector believes that OPIC will be with them all the way, not year to year, depending on whether we will be reauthorized, not with more limitations or restrictions, but whether or not the U.S. Government wants to have an agency that will continue on the roots on which it was created with the Marshal Plan, bringing the private sector to fulfill the development needs of many of these countries.

I would like to say, Madam Chair, that I know that yourself and certainly the Ranking Member, Congressman Menendez, have shown your care and interest in Central America. I know that Madam Chair, as we traveled there a couple of months ago, people from Nicaragua and Honduras expressed their sincere appreciation for your leadership in bringing about some relief on the immigration level to those countries.

But they expressed a strong interest in having people stay in their own countries, to the extent there can be jobs and development and security in their own homeland, and I believe that OPIC is one of the few instruments that the U.S. Government has to partner up with the private sector in order for that to take place.

Madam Chair, we are asking that the Administration's request for reauthorizing OPIC for 4 years, because of its current reauthorization expires on September 30, 1999, be approved. I can report that this agency's reauthorization has received the full vote of con-

fidence in the Senate. The Senate Foreign Relations Committee, just last month on March 23, unanimously reported legislation reauthorizing OPIC for 4 years. The Senate Bill S. 688 sponsored by Chairman Jesse Helms sends a very strong message of OPIC's relevance in today's global markets. We are hopeful that this Subcommittee will also follow the lead that the Senate has taken with respect to our reauthorization.

Madam Chair, as I said, I am here to answer questions. My written statement has examples of the human face that OPIC has put on its project for bringing about jobs and development. But I would like to comment on a few matters that you mentioned in your opening statement with respect to the corporate welfare.

There are those who say that the term "corporate welfare" is something that should apply to OPIC. First, there is a question of what corporate welfare means. It has many definitions.

In one extreme, it could be viewed as a corporation getting something for nothing. This definition does not fit OPIC programs. It can only be a case of mistaken identity as applied to OPIC. All OPIC services are paid for by the private sector.

An alternative definition of corporate welfare may be that OPIC services are partially subsidized by the Government. That, too, does not fit our program. OPIC has not been a drain on the U.S. Treasury. To the contrary, in our history we have contributed to the Treasury more in private sector fees than we have taken out for our own operations.

Others have viewed corporate welfare as anything of value that is provided to a select group of businesses. This, too, does not characterize OPIC. We are an instrument of foreign policy. When the Foreign Assistance Act creating OPIC was signed, it was done with a clear objective in mind: the development of strategic countries important to our well-being and the well-being of the world. That is the mission that was established for OPIC and it is still our mission today.

Furthermore, even the GAO has looked closely at OPIC's cost to the Federal Government and their findings are noteworthy. According to the 1997 GAO study, "Historically, OPIC's combined finance and insurance programs have been profitable and self-sustaining, including costs due to credit reform and administration."

One last item, Madam Chair. You mentioned in your opening statement the arguments that sometimes are made that OPIC mostly helps the large businesses. It so happens that mostly it is the larger businesses that are involved in international development, so we are by their side in the development that takes place. But I would like to note two things.

One, as I mentioned, one of the priorities that we have set out at OPIC is for the small business, that small businesses be facilitated into international business. We have declared 1999 as small business at OPIC.

As a result and at the request of this Committee, Madam Chair, in the last meeting that we had, we have acted on streamlining our processes for small business applications. Two-thirds of the suppliers for OPIC projects are in the small business area and approximately 28 percent of all of the projects that OPIC does are with small businesses.

So I would like to underscore, Madam Chair, that this is the direction that we are going in and we believe that, as any of the critics have identified items that deserve merit and attention, we certainly have paid that attention to them.

I very much welcome any questions that this Committee may have for the reauthorization of OPIC. Thank you, Madam Chair.

[The prepared statement of Mr. Munoz appears in the appendix.]

Mrs. ROS-LEHTINEN. Thank you so much, Mr. Munoz. We appreciate it.

I want to talk about this photo that you have displayed about the Tea Importers in Westport, Connecticut. As all of us know, all but one country in Latin America has a democratic system of Government so why then is OPIC political risk insurance still needed for any businesses to do business in the region? Are American businesses in danger of expropriation of their properties or political violence?

For example, the one that you point to, the Westport, Connecticut company that obtained $500,000 in OPIC insurance to establish tea production and trading operations in Ecuador is an example and in Brazil OPIC also provided more than $200 million in insurance for three separate Enron power projects. Brazil and Ecuador may not, especially in Ecuador, may not have the strongest economy now but certainly that political risk insurance is kind of in question in those particular countries. What do you say about OPIC's involvement in Latin America? Why is it still needed, with the growing democracies and strong economies getting hold?

Mr. MUNOZ. Madam Chair, the projects that OPIC supports are all long-term. Most of them are infrastructure projects. And, in fact, it is because OPIC supports mostly long-term projects, projects that require 15 to 20 years before they really are up and running from a profit point of view to be commercially viable, the markets are just not there to support that, because of the risks. People know that over such a long period of time, the politics of a country can change, so there is that protection that American private sector investors need.

The market is the one that dictates such need and the market is saying that long-term projects require protection from political risks.

Second, Madam Chair, the political risk insurance that we sell has a double benefit. No. 1, it sends a signal to the governments of those countries where the project is going that that project meets international standards, so that it does not harm the environment and it is helpful to the development of the country.

But No. 2, it also sends a signal to the government that this is a project that will have the support of the U.S. Government and therefore, as times change and there is a risk of political violence or some actions on the part of the government to endanger the project, that because of the insurance, those risks are usually identified and tried to be negotiated before it turns into a difficult situation.

I would say, Madam Chair, that the market, the U.S. market has sent a very loud message that long-term projects in many of the emerging markets and certainly in all of the developing countries still run a risk that must be protected against.

Mrs. ROS-LEHTINEN. Thank you. Mr. Muñoz, please elaborate on the need for a $400,000 increase for OPIC's administrative expenses and how these additional resources will be used by OPIC.

Mr. MUNOZ. Madam Chair, OPIC is a very small organization. Most people do not realize that we are approximately 200 employees, yet every year we are being asked by Congress, as well as the Administration, to make sure that we are present and visible in very needy areas around the world, including sub-Saharan Africa, Central America, Latin America, the Caucuses and many other areas.

In order to carry out those responsibilities and look into the risk analysis that is required for us to support a project, we need the proper resources. In order for us to monitor our ever-growing portfolio, which is right now approximately $18 billion, we need to have the right personnel.

The one reason why we can assure the taxpayer that their exposure is not real in terms of real risk is because we are able to monitor all our projects.

As our portfolio grows and the responsibilities put upon us grow, then it is important that we have the proper resources. If anything, I would say that you will not find another agency that is as streamlined and low-cost as OPIC, given all the responsibilities that it is taking. So this is the natural growth that we will require for our monitoring requirements.

Mrs. ROS-LEHTINEN. Well, what mechanisms do you have in place to ensure that the contingent liabilities will not become obligations for the U.S. taxpayers?

Mr. MUNOZ. That is a very good question and one that we are very proud of our record. The first line of defense is that we do not approve a project that just does not make any sense economically. In fact, we approve no project that requires any kind of subsidy or concessions in lending rates or the like because we are mandated by Congress to be self-sustaining.

So the first line of attack is that we try to do good business transactions.

The second line is we have built up a substantial fortress of reserves against any liability for when political risk insurance must be paid for or we have financing that has failed, that the project has failed.

Right now our reserves are over $3 billion and we have had independent auditors and outsiders look at our books and they have stated that as far as the industry practice in the private sector, we actually have a buffer or a cushion of reserves greater than what even the industry would have required under the circumstances. I think that is the second one.

And then last, Madam Chair, we have the full knowledge and resources of the U.S. Government at play. When a project is endangered for political reasons—let us say like the Rwanda project or a project in Brazil—we have the State Department's U.S. Embassies, we have the Department of Commerce employees and we have OPIC employees who can come as a team and try to work out the matter so that the projects, in fact, do not fall into failure.

So I think with those three lines of defenses, it has proven that our track records is as good as it is.

Mrs. ROS-LEHTINEN. Thank you.

Mr. Menendez.

Mr. MENENDEZ. Thank you, Madam Chair.

First of all, Mr. Munoz, let me congratulate you on your tenure at OPIC and the work you have done there and I am glad to hear that this is the year of small businesses because that is an area that many of us are concerned about in terms of seeing some further efforts by OPIC and we are glad to see that. I read in your statement that is one of the areas that you intend to fulfill.

Let me ask you a couple of quick questions and maybe we can go through and get some of these myths versus facts on the table, if we can.

Myth No. 1 that I always hear is that OPIC subsidizes American businesses. What is the fact?

Mr. MUNOZ. We charge rates that are market, at the market we are active in. There is no concessionary lending or concessionary political risk insurance that we give. Fees are paid. $3 billion of reserves that I have mentioned earlier, its foundation and its base is the user fees that get paid by our clients.

Mr. MENENDEZ. Second myth I always hear is that private investors in OPIC funds are protected from losing their money. What is the fact?

Mr. MUNOZ. Well, we do not lend to anybody unless they have their own equity at risk, No. 1. And No. 2, if it is political risk insurance, by definition, we are protecting equity investments, so for the investment of the individual.

We do not, on the political risk insurance side, protect against commercial risks, so the investor is certainly at risk on the commercial side. And if we are on the lending, we require that the investor have equity at risk, also.

So there is no such thing as any investor having an investment that is risk-free.

Mr. MENENDEZ. The other myth I hear is that OPIC costs America jobs.

Mr. MUNOZ. That is a very good question, Congressman, because at one point this Congress, a Congress debated that issue and put into OPIC's legislation a requirement that we not support a single job that will be detrimental to the U.S. economy.

We have interpreted that internally as quite stringent, so internally we have a guideline that we will not support a single investment overseas that will show a loss of a single U.S. job.

So therefore any U.S. companies that are shutting down their operations here and opening up overseas, if they come to OPIC for their opening up overseas and we look at the record and find that their overseas operation is a cause for their shutting down jobs here, we will not extend any assistance.

Mr. MENENDEZ. And last, I hear this issue and although I think it is a much smaller segment that raises this issue, I hope you can respond to it as that—the argument that OPIC's partnership with the private sector interferes with the functioning of the markets.

Mr. MUNOZ. This is a good myth to take on and that is because for the longest time, our U.S. Government and private sector have boasted that the best way to conduct business, especially in transi-

tion times, is for a partnership to take place, a partnership between the U.S. Government and the private sector.

There is no way right now that the private sector, on its own, can go into many of the regions that the United States wants them to go into and there is no way that the United States, on its own, can go without the private sector.

So the partnership between the U.S. and the private sector is a perfect model that is often boasted about by both sides as the right model for development and investments to take place. So I think if anything, this is something that the U.S. should be very proud of, that it is, in fact, partnering up with the private sector to accomplish its goals.

Mr. MENENDEZ. I want to thank you for your answers. I think it is helpful. I am very happy to be working with Mr. Manzullo on this reauthorization and I do want to see it hopefully pass this year. Thank you.

Mr. MANZULLO—[presiding]. Thank you very much. I am sorry I am late. I just wanted to bring out a couple of things and have you tell my favorite OPIC story.

Mr. Munoz, your background is that of investment banker. Is that correct?

Mr. MUNOZ. That is correct. Attorney, CPA and investment banking.

Mr. MANZULLO. And you have an extensive background in international trade law. So this is not a situation where we are dealing with somebody who is what I call a political appointment, somebody who has no expertise in a particular area.

I want to thank you for lending us a couple of years out of your private life to devote to the public sector. I think that is commendable and I just wanted to publicly thank you for your public service.

Mr. MUNOZ. Thank you.

Mr. MANZULLO. Would you tell us the story about Monique Matty?

Mr. MUNOZ. About what? I am sorry.

Mr. MANZULLO. Monique Matty.

Mr. MUNOZ. This is one of our favorite stories because it does—Congressman Menendez talked about small business—a perfect example of a small business that basically without OPIC would not have taken place.

We had an investment for an African country that was in need of somebody to give some experience and holding the hand, if you will, for an investment that needed to take place, needed to believe in the investment to help finance the business.

Monique Matty has testified before Congress on the important role that OPIC played for them in terms of financing the business, making it grow. She has been very successful, expanding the business.

Mr. MANZULLO. If I could jog your memory a little bit, I may not remember every story on it but I believe she is an American citizen and she was born in Liberia and her background was in telecommunications. She set up two facilities, one in—maybe I should tell the story.

Mr. MUNOZ. Yes.

Mr. MANZULLO. She set up two facilities, one in Ghana and the other one in Tanzania, where I think in the latter country she has about 400 employees that manufacture these portable telephone booths. It is all hooked up with a system of satellites and you see in these developing countries these telephone booths that are just set up there.

What she did was I think she and one other person have an American company and went over there with an OPIC resource and if you want to talk about sustainable development that provided jobs for those people over there and she is not exporting to the United States.

Mr. MUNOZ. Right.

Mr. MANZULLO. But the profits are coming to the United States because she is an American citizen. I am sure next time you come you will probably——

Mr. MUNOZ. She brought not only the technology but she made it so easy. This was not a service that was meant for the well-to-do but rather, because of her little calling card, if you will, the phone card that she had with her, made it very accessible to many of the citizens, and that is one reason why it has been made profitable.

But this is a perfect example of where American ingenuity and entrepreneurship can be fostered overseas and that kind of know-how can be spread around.

Mr. MANZULLO. And that cost the U.S. taxpayers nothing.

Mr. MUNOZ. Nothing.

Mr. MANZULLO. She paid the premium on that insurance and talk about helping people in that continent that really needs some jobs—she did it.

Mr. MUNOZ. Congressman, and if someone were to say, "Well, why don't you just let the market work for itself?" Because the market would have not functioned there. That is that Monique would not have had someone to partner up with—not the international banks, not anybody else in the private sector, because of many of the unknowns.

We should realize that the U.S. Government has, because of our embassies and our long relationships and special relationships with many of these governments, that we have the proper information and we have the ability and resources to team up with a Monique and let that business transaction occur.

If we did not partner up with Monique or many of the other private sector entrepreneurs and businesses, many of these businesses would not take place. OPIC, in the earlier part of its history, was asked whether or not we have additionality, whether we do make a difference for a project, whether it will take place or not.

In many cases it is a very difficult question to answer but there is much anecdotal evidence, Monique being one of them, that without OPIC, that business investment would not have taken place.

Mr. MANZULLO. I appreciate you telling the story, with a little bit of my help. It is a great story. She is a great lady.

Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman. Thank you for the story.

Did I hear you say Senator Stevenson, Adlai Stevenson?

Mr. MUNOZ. Yes, sir.

Mr. DELAHUNT. Did you work for Senator Stevenson? You certainly don't——

Mr. MUNOZ. We worked together.

Mr. DELAHUNT. You worked together?

Mr. MUNOZ. Oh, yes. I am 48.

Mr. DELAHUNT. That was a very good question. You do not look old enough to have worked with Senator Stevenson. That was the point. It was an inverse compliment, Mr. Munoz.

Let me just say that I think you have a very easy sell here. The record speaks loudly. It speaks clearly.

In terms of the corporate welfare issue, I noted that you are no longer on the green scissors list, so that, I would submit, is some sort of benchmark that you ought to be very pleased with. I think most likely more and more constituencies and individuals are recognizing the good work that you do.

I was very pleased to hear your observation, your comment about internally not losing, putting at risk a single American job. And I know on a net basis, you generate American employment opportunities.

Also in some of the papers that you have submitted here you talk about respecting workers' rights and environmental standards. Do you have a mechanism in place? Do you conduct audits? How do you ensure that, in fact, you are realizing that goal? Because that is very important to me and to my part of the country.

Mr. MUNOZ. It is and we understand that the reason for the bipartisan support is because our assistance is balanced. That is we do not just help a U.S. business that is looking at purely the economics without also having to look at the international standards for environmental protection, as well as worker rights and human rights.

We have, because it is a statutory mandate that we look toward that sector of the investment, we have in our office a department that reviews all programs for compliance with the environmental guidelines that have been put out by the World Bank. We also review the worker rights impact of the project and the country's history with that, and also the State Department's designation for human rights.

Mr. DELAHUNT. Do you generate reports that are circulated in the public domain?

Mr. MUNOZ. Yes, sir. I believe that we supply a report annually to the Congress on that.

Mr. DELAHUNT. I see one of your staff nodding affirmatively. I would appreciate receiving that because again that is important to my district.

Mr. MUNOZ. There are two other levels of oversight that are helpful here. One is our board of directors. We are an independent agency that reports directly to the board of directors. The board of directors has, by statute, a representative from the bargaining unit, from labor, as well as the Department of Labor. And we have representatives from small business. We have representatives from a variety of sectors that oversee our operations.

And then last, we do monitor projects after they have been, on a sampling basis, after they have been approved by OPIC.

Mr. DELAHUNT. That is very important. And let me also just echo the sentiments expressed by Mr. Menendez in terms of I am really enthused to hear the focus is on small businesses because for many of us, small business in terms of our economy is where it is at. And again traditionally and historically, small businesses add to the community more than just simply the bottom line.

One more question, Mr. Manzullo?

Mr. MANZULLO. I thought maybe Mr. Sherman would have a question. If Mr. Sanford does not have them, we could finish up, if that is OK with you.

Mr. DELAHUNT. Whatever you say, Mr. Manzullo. I just had one more question.

Mr. MANZULLO. Just make it short.

Mr. DELAHUNT. I will make it short.

You know, I noted that one of your projects that you funded was the flour mill in Haiti.

Mr. MUNOZ. Yes.

Mr. DELAHUNT. Could you give me a very brief and concise update on the status of that particular project?

Mr. MUNOZ. Well, it is still moving forward. This is one of the projects that I went to visit myself. It is the only flour mill in Haiti. It used to be operated by the government. It basically went defunct. It sat there.

Mr. DELAHUNT. I am familiar with the history of it.

Mr. MUNOZ. It is still moving forward, Congressman.

Mr. DELAHUNT. Are you satisfied with it?

Mr. MUNOZ. Very satisfied with it.

Mr. DELAHUNT. Thank you.

I yield back, Mr. Manzullo.

Mr. MANZULLO. Mr. Sherman.

Mr. SHERMAN. Thank you.

If OPIC just made a profit for the Federal Government, it would be enough. If OPIC just represented the fact that we do not believe in unilateral disarmament in the economic contest with our trading partners in Europe and Japan but we wanted our companies to be able to compete where their companies are getting far more in the way of government help, that would be enough. And if it was just the help for development cognizant of human rights, workers' rights and the environment, that would be enough. So I would think that I should be allowed by the House to vote three times to reauthorize OPIC.

But the real question before us is Mr. Munoz's supposed age and I am here to vouch for that because we did go to the same law school and he was ahead of me. So we will be asking which version of Rogaine he uses.

[Laughter.]

Mr. MANZULLO. That company got an OPIC guarantee.

[Laughter.]

Mr. SHERMAN. And finally I would point out that when U.S. companies do business abroad, they face a greater risk than their competitors in Germany and Japan because they are a politically charged symbol. Some demagogue may want to nationalize all of the American assets. It has happened before and it is more likely perhaps to happen than—I cannot imagine somebody demagoging

the issue and saying, "And that is why we have to nationalize all the Norwegian-owned businesses in this country." But the United States is high profile. We intend to continue a high profile in foreign policy and I think our businesses need to be able to turn to a government organization to have some insurance against the effects of that, especially if we make money on it.

So Mr. Munoz, I do not know if you have a response.

Mr. MUNOZ. Congressman, I would like to report very happily that one reason why small business—you had a special comment on OPIC's application for small business, that you had asked us if we could streamline it and I am happy to report that we have and I think you have seen it. It is a very streamlined process and now small businesses are able to more quickly transact their business.

Mr. SHERMAN. I know there are people here who are part of the OPIC international investing world. I have never seen a government agency quite this responsive. Within 2 weeks after I believe it was your last authorization hearings when I pointed out that if somebody was seeking a $1 or 2 million guarantee or even $10 or 20 million guarantee, they might not have the legal expertise or just the money to buy the legal expertise to fill out a form that is applicable to a billion-dollar project.

You folks provided—not only was it a two-page form but as I recall, it requires reviewed but not audited financial statements. So it is not just two-fifths the length of the old form but I am sure it is well below 40 percent of the cost of filling out the old form.

Mr. MUNOZ. We are grateful for you, Congressman, as well as this whole Committee. I think I have heard one thing consistently from all Committee Members and that is that small business should be a priority and I am happy to say it is one of the top four priorities that I have identified.

I would like to, for the record, say that one of the individuals at OPIC who is taking the most lead in this thing is the executive vice president, Kirk Robertson, who is right behind me here. He has seen to it that 1999 is the year of small business at OPIC.

Mrs. ROS-LEHTINEN—[presiding.] Thank you. Thank you so much, Mr. Munoz.

We will hear from our second panel, the private panel, when we come back from these two votes and the Subcommittee is just suspended for a few moments.

[Recess.]

Mrs. ROS-LEHTINEN. The Committee will be reconvened. We thank the private panelists for being here today and I would like to introduce you and then you can make your opening statements and we will be glad to put all of your remarks as part of the official record.

I will start with Mr. John Hardy, Jr., who joined Enron International as vice president for project finance in 1997. His focus in that capacity is on international financing and project development through Washington-based resources. Prior to joining Enron, Mr. Hardy was director of corporate development and finance at Brown & Root, an international engineering and construction company headquartered in Houston, Texas. Prior to his work for Brown & Root, Mr. Hardy held several positions with the Agency for International Development.

Next will be Mr. Willard Workman, who has testified in our Subcommittee before. He is currently vice president of the International Division of the U.S. Chamber of Commerce, responsible for the formulation and implementation of the Chamber's policy position on international economic and trade issues.

He also serves as vice president of the Center for International Private Enterprise and Mr. Workman joined the U.S. Chamber in 1988 as deputy director for policy and programs in its International Division.

Before joining the Chamber, he was the special negotiator for international trade controls at the U.S. Department of State and prior to that position, he served as director of strategic planning and policy at the Bureau of Export Administration in the U.S. Department of Commerce. And we welcome Mr. Workman to our Subcommittee.

Mr. James Sheehan is currently director of international environmental policy at the Competitive Enterprise Institute. At CEA he specializes in policies concerning international environmental regulation, international financial institutions and world trade.

He is the author of *"Global Greens: Inside the International Environmental Establishment,"* a book dealing with international environmental advocacy groups. His writings have appeared in various leading publications and he has been featured as a commentator on various television programs, speaking on issues of international environmental policy. Thank you, Mr. Sheehan.

Next is Scott Fischer, who is the vice president of Citicorp Latin America North Division and that is based in my home town of Miami, where he is responsible for the bank's capital markets and corporate finance businesses. In this capacity he has been involved in transactions across the regions for both public and private sector clients, including debt fund-raising, privatizations, mergers and acquisitions and private equity.

Mr. Fischer spent over 9 years with Chase Manhattan as corporate finance head for Spain and a senior transactor for Chase Investment Bank Latin America and as relationship manager. So we welcome Mr. Fischer here with us.

Thank you, Mr. Hardy, if you could start.

STATEMENT OF A PANEL CONSISTING OF JOHN HARDY, VICE PRESIDENT OF PROJECT FINANCE, ENRON INTERNATIONAL

Mr. HARDY. Thank you, Madam Chairwoman. I appreciate the opportunity to speak to you today in support of OPIC. I am also pleased to appear at this hearing on behalf of the Coalition for Employment through Exports and the International Energy Development Council and the National Foreign Trade Council, which together represent a wide array of businesses, both large and small, and in the full spectrum of industry sectors. Each of these organizations and their Members view OPIC as a critical tool in promoting U.S. competitiveness.

OPIC supports the export of U.S. goods and services in markets throughout the emerging world and through those goods and services, the jobs of U.S. workers. Accordingly, we strongly support a 4-year reauthorization of OPIC.

What I would like to do is to give you a perspective from the field and make three points about OPIC: first, that OPIC financing is essential to U.S. sourcing of goods and services in major projects internationally; second, that OPIC has an essential role as a catalyst in attracting commercial bank financing to support these international projects; and third, that OPIC is not corporate welfare.

With regard to the first issue, a big part of what OPIC is doing today is providing finance and insurance for large infrastructure projects in developing countries. This is a huge market—the World Bank has estimated it in excess of $200 billion per year—in energy, telecommunications, water and transport.

But the market is extremely competitive. In the energy sector, essentially all of our export competitors produce the equipment for electric power plants and also have state-of-the-art design engineering services. The same is also true in the other sectors.

So the critical issue is in sourcing of such equipment and services, whether it comes out of the United States, whether it comes from Japan or from the European countries depends largely on the availability and terms of financing and the importance of OPIC is that OPIC makes available its financing to enable U.S. sponsors to source U.S. goods and services.

This is fundamentally a competitiveness issue. Each of the developed countries has one or more programs in place to provide precisely the same sorts of services in the exporter investment-related finance as OPIC. Some 40 industrialized countries have programs like OPIC and some 80 countries have programs like Eximbank.

If programs like OPIC were not available, we as sponsors of these projects would have no choice but to move our sourcing to other countries where financing is available. And indeed in my testimony I have provided an actual and immediate example of that in the context of India.

The availability of OPIC financing also has a critical impact on small, as well as large, U.S. manufacturers. Sourcing for a major infrastructure project has a tremendous ripple effect through the manufacturing sector because a great many of the larger suppliers in turn out-source components to smaller supplies, so there are many small companies involved that ultimately end up producing elements of goods that go into these major projects. If OPIC financing is not available, the support for these smaller suppliers is lost.

In summary, since it was created, OPIC estimates that its programs have fostered 237,000 jobs and in excess of $58 billion in exports.

As to the second point, OPIC's role is as a catalyst. Private banks and insurers cannot themselves provide the necessary loans and insurance to support these projects. OPIC has a catalytic role to draw commercial banks into supporting these projects in more difficult markets.

Asking why? It is because in transition markets, the key risks are risks of adverse government action by host countries where the projects are being built. Only OPIC or Eximbank, as government agencies, can bring governmental action to bear, and this is the key tool that separates OPIC and really makes it unique, in terms of being able to bring private lenders and insurers into the marketplace.

But once OPIC comes in for a piece of the financing or insurance, then private lenders and insurers will be able and willing to come into the deal for the remainder, the bulk of the financing. And appropriately, OPIC usually charges a higher price and thus receives a higher margin for the portion of financing that it provides than the private lenders charge for the portion they provide.

Let me spend just a moment on the corporate welfare issue. OPIC's programs are fee for service at market-equivalent rates. We need to look at the facts here because there has been an awful lot of rhetoric around this issue.

First, OPIC imposes charges for all aspects of the financing and insurance it provides to its customers. Second, OPIC's charges are usually higher than what private lenders do charge. And again in my testimony I have provided several examples of that.

OPIC's terms are also more onerous than private lenders' terms, as OPIC requires not only the projects be financially and technically sound but also that they satisfy numerous policy requirements which private lenders and many foreign government finance programs do not impose.

Last and perhaps most importantly, OPIC charges fully cover both OPIC's costs and OPIC's risks. OPIC's revenues have exceeded operating costs throughout OPIC's 30-year existence and OPIC's revenues have not only covered all of the risks that have materialized into problems but have accumulated $3.3 billion in retained earnings, now held by OPIC in Treasury securities. I think the fundamental lesson here is that OPIC is managing its programs in a very prudent manner.

In conclusion, OPIC is a real success story. In performing a catalytic role, it is making a profit, providing financing and insurance that private banks and insurers cannot provide alone, and it is generating American exports and jobs. OPIC is making it feasible for companies like Enron to keep the sourcing for their international projects here at home in the United States the winners are U.S. workers.

Accordingly, we urge your full support for 4-year reauthorization of OPIC. Thank you very much for the opportunity to testify.

[The prepared statement of Mr. Hardy appears in the appendix.]

Mrs. ROS-LEHTINEN. Thank you, Mr. Hardy.

Mr. Workman.

STATEMENT OF WILLARD A. WORKMAN, VICE PRESIDENT, INTERNATIONAL DIVISION, U.S. CHAMBER OF COMMERCE

Mr. WORKMAN. Thank you, Madam Chair. My name is Willard Workman. I am the VP International from the U.S. Chamber of Commerce. We represent about 3 million American companies here and abroad. We have accredited American Chambers overseas. We have 87 of those in 77 countries, the most recent one being in Lebanon, which was accredited 2 weeks ago.

We are pleased to be here. The bulk of our membership are small business. Ninety-six percent of our membership are companies that employ less than 100 workers. Sixty percent of our membership are companies that employ less than nine workers.

You have my statement. We support 4-year reauthorization for OPIC. And what I thought might be valuable for the Subcommittee

would be if I could sort of put this in a small business context. I just want to give you some statistics, and I will be glad to provide these for the record.

What is the business opportunity out there, looking into the 21st century? OECD expects that within the next 20 years, world GDP will double. That is a very conservative scenario. In the last 10 years, the percent of U.S. GDP to trade has doubled, so we can reasonably project that into the next 10 to 20 years.

Over the next 20 years emerging markets, the kind that OPIC operates in, which have currently populations 10 times the U.S. population, will account for 40 percent of all U.S. export opportunities.

Putting it on a more mundane level in terms of the business opportunities out there, only 50 percent of the world's people have ever made a phone call. Only 50 percent of the world's people have daily access to electricity. Less than 11 percent of the people in the world have ever owned a car. So that is the market. That is what very competitive, world competitive American companies, especially small and mid-sized companies, are interested in.

American small business. Currently, and these are census statistics, American small business, defined as less than 500 employees, employ 53 percent of the American work force, account for 51 percent of the private sector output, account for 96 percent of export firms. There are about 113,000 companies that are engaged in exporting and about 108,000 are small businesses. Their exports represent 30 percent of all American exports in 1998.

So that is who they are currently. What are the trend lines? I can report this from a variety of sources. Where are small and mid-sized companies in the United States going in the global trading and investment environment?

According to the Institute for International Economics, in 1987 only one in 10 manufacturers with fewer than 100 workers exported. That is one in 10. Five years later, in 1992, it was one in five, so it doubled in 5 years.

The share of small and mid-sized firms that get 10 percent or more of their sales from exports doubled between 1994 and 1996. That is in only 3 years.

In 1992 the Commerce Department 800 number to help small firms export received 39,000 telephone inquiries. In 1996 they received 72,000 inquiries.

At the U.S. Chamber we get a lot of calls not only from our member companies but from American business in general. We have seen over the 11 years that I have been at the Chamber a quintupling of the number of inquiries, either phone or fax or now e-mail, that are coming into my division related to what are the opportunities to invest, to be an importer, to export or what have you.

So clearly American small business has decided to go global. Activities in agencies and programs like the Overseas Private Investment Corporation are essential to that.

I must commend Mr. Munoz on the efforts that he has not only proposed but actually implemented in terms of helping small business access the programs of OPIC. From our point of view, we have been trying to get a lot of government agencies to do more than just talk about helping small business and I have to commend

President Muñoz and OPIC for actually getting the job done. I think as the time goes by, it will be interesting this time next year to come back and see how their 1999 OPIC for Small Business Program, statistically what kind of results that has yielded.

So again to sum up, small business is going global. They need programs like OPIC. This is one of the silver bullet Federal programs where it costs the taxpayer nothing, it makes a profit for the taxpayer. It is accountable and it only has a bureaucracy of 200 employees. I think the only political danger in this whole situation is if the general American public found out that we had a program like that, they would insist that we replicate it across the Federal Government, and I am not sure that is possible.

So I thank you for the opportunity to testify here.

[The prepared statement of Mr. Workman appears in the appendix.]

Mrs. ROS-LEHTINEN. Thank you, Mr. Workman.

Mr. Sheehan.

STATEMENT OF JIM SHEEHAN, DIRECTOR OF INTERNATIONAL ENVIRONMENTAL POLICY, COMPETITIVE ENTERPRISE INSTITUTE

Mr. SHEEHAN. Thank you, Madam Chair, very much for inviting me and this opportunity to testify today. My name is James Sheehan. I am director of international environmental policy at the Competitive Enterprise Institute. We are a free market think-tank.

It is fitting that we address this important subject today. It is the day before many taxpayers submit their tax forms and it is the taxpayers, after all, who are expected to finance programs like OPIC.

My employer does not receive any benefits or subsidies from OPIC of any kind.

OPIC is a Federal agency, as we know, that props up foreign investments of private corporations in developing countries. It offers subsidized political risk insurance and financing, guarding against losses in unstable markets. While private companies can make handsome profits using OPIC financing, the taxpayers actually bear the risk of any losses that would occur. With the Asian financial crisis and other currency debacles in Russia and Brazil, I think we have learned some important lessons about risk and what the conditions are like in the highest risk areas of the world.

The Federal Government has exposed the taxpayer to these risks, in an unwarranted fashion, I believe. Currently OPIC's insurance contingent liability is $12 billion and its exposure under investment guarantees is around $6 billion. The two countries with the largest finance and insurance exposure are Russia and Brazil, where currently devaluations have caused economic havoc.

OPIC's portfolio is backed by the full faith and credit of the U.S. Government. Should the multi-billion-dollar OPIC scheme prove to be as shaky as Federal Deposit Insurance was, it will need a costly bail-out. And I would hasten to note that many of the arguments we have heard today are very reminiscent of arguments that we heard before the S&L bail-out.

The Asian financial crisis—I would like to say a few words about OPIC's involvement in some of the countries that are embroiled in that crisis.

First of all, in Russia, the agency's exposure, as I mentioned before, in this reeling economy is a whopping $2 billion. In Brazil OPIC exposure totals $1.9 billion. And OPIC concedes that fully half of its loans in Brazil will be materially impacted by the crisis. In Indonesia, the maximum contingent liability is $600 million.

Now despite the recent turmoil in these markets, the agency claims it is still making a profit and it continues to rely on what I call clever accounting gimmicks to make that claim.

To start, OPIC is a Government agency. It does not pay taxes like a normal insurer or a financial institution would. In addition, most of its income is derived from the U.S. Government. While the agency reported $139 million in net income for fiscal year 1998, $193 million in revenues consists of interest on U.S. Treasury securities. This is really a shall game. It is a loss for the government. It is a loss for taxpayers of $54 million, but OPIC insists that that is called a profit.

Now Madam Chair, if this Congress would be so generous as to pay me $193 million in interest on Government securities, I will be happy to pay back next year only $139 million and we can all report that as a profit for the Government.

The question of corporate welfare is an interesting one. Just a few words about that. OPIC aid recipients, to them, the value of OPIC subsidized foreign investment is no different than a welfare check. They are getting benefits they could not get on the private market. Many of the companies benefiting from this, some sitting at this table, are very familiar names—Citicorp, AT&T, Pepsi-Cola, to name a few. Even the billionaire financier George Soros is getting a helping hand from OPIC.

The taxpayers' loss in this scheme is the politicians' gain. The Boston Globe reported last year that 27 American companies receiving OPIC aid have donated more than $2.3 million to the Democratic National Committee and there are several examples of very wealthy individuals who were on those infamous foreign trade missions with the late Commerce Secretary Ron Brown. If a Republican were in the White House, the story would be much the same. OPIC is a scheme for connected businessmen, not small businessmen, as I think some of the prior testimony has conceded.

Now let us talk about some of OPIC's negative economic impacts. OPIC's defenders say that it promotes economics stability in developing countries. In fact, private capital flows that are not subsidized at all to emerging markets are plentiful. We had $150 billion in private capital flows in 1998.

OPIC's entire portfolio is a small fraction of what the private sector invests on its own abroad. If anything, OPIC only makes the financial crises worse in places like Russia and Indonesia because it is diverting valuable resources from more viable projects into unstable countries.

In contrast to some of the claims we have heard, others argue that OPIC has a net negative impact on American jobs. In 1997, for example, OPIC issued a $29 million insurance policy to Levi Strauss for a plant in Turkey. That same year Levi Strauss work-

ers applied for trade adjustment assistance from the U.S. Labor Department—6,400 workers—because their jobs were displaced by cheap imports.

I am not going to rehash the arguments on small business. I think most of the witnesses and the president of OPIC today have conceded that OPIC is not really serving small businesses and they are increasing their efforts to do so. More than 90 percent of OPIC projects are for large businesses.

OPIC also claims to be creating innovative financial products for investors, these 26 investment funds abroad that it has created and capitalized. But despite OPIC's claims, publicly guaranteed investment funds are not desperately needed by the private sector. In fact, OPIC's activities duplicate the activities of many existing mutual funds.

In Asia, for example, OPIC's South Asia Capital Fund competes with the T. Rowe Rice New Asia Fund. In Africa, the OPIC-backed Africa Growth Fund competes with the Morgan Stanley Africa Investment Fund. And plenty of private firms have tried their hand in the Russian casino. Morgan Stanley has a Russia and New Europe Fund to bet against OPIC's Russia Partners Fund.

Along with foreign policy considerations, OPIC is forced to consider a lot of nonfinancial factors, including environment and labor standards, and we have heard some talk about these. While these political niceties may score points with the environmental movement or the Vice President's office, OPIC has really not made substantial changes to its operations.

John Sohn of Friends of the Earth, for example, has written that OPIC harms valuable ecosystems and impacts local populations and even though its environmental standards are practically brand new, it has already tried to violate them. It has a project that is under consideration in the Bolivia and Brazil rain forest right now that has green NGO's in a tizzy.

Export-Impact Bank has similar standards that it has tried to ignore and that is probably an example of what happens when a government agency has billions of dollars in portfolio and it is a very political process and some of the standards and rules can get bent.

Overall, I think the experience of Freeport McMoran in Indonesia several years ago is indicative of the future of business with OPIC. These political strings that are attached to OPIC subsidies, like environment and labor standards, caused Freeport McMoran to lose its insurance in 1995, I believe is the year.

Now companies like Enron and Shall are facing a similar challenge in the Bolivia-Brazil Pipeline and I think that this is an increased trend for the future that business will have to consider and I think it is going to lead them to the unfortunate conclusion that OPIC is not truly beneficial to their interests.

If OPIC's claims have any basis in fact and the agency can be run without government support, then it should not be asking Congress for new authorizations. If OPIC can truly be made a profitable enterprise, I argue it should be spun off as a private corporation.

Though OPIC might have to be sold off at a slight discount due to the riskiness of its portfolio, a privatization option is quite feasible. In 1997 a consortium of private insurers led by Export Insur-

ance Company submitted a proposal to Congress to privatize $5 billion of OPIC's insurance operations. If private insurers are willing to undertake OPIC privatization, who is Congress to stand in the way? Government bureaucrats whose own money is not at risk are not as capable of picking winners and losers in the private marketplace.

Keeping OPIC in business as a government corporation subjects private companies to unfair competition. They do not enjoy the full faith and credit guarantee that OPIC does. They do not have the deep pockets of the U.S. Treasury to cover their liabilities if things go wrong. If OPIC bureaucrats had any real expertise in foreign investment, they would be employed to do this work in the private sector.

Foreign investment subsidies are inconsistent with the ideals of open trade that we so often preach to undeveloped nations and former Communist states. If OPIC were an agency of the European Union or of the Chinese Government, many legislators in this Congress would be calling for counteractive trade sanctions against that country.

The time is ripe for Congress to set an example of real economic reform and to transfer OPIC from public to private hands. Madam Chair, thank you very much.

Mrs. ROS-LEHTINEN. Thank you, Mr. Sherman.

Mr. Fischer.

STATEMENT OF SCOTT FISCHER, VICE PRESIDENT, LATIN AMERICA NORTH DIVISION, CITICORP

Mr. FISCHER. Madam Chair, Congressman, I am happy to be here today in support of OPIC's reauthorization. I would like to just briefly give you Citibank's perspective and my perspective as a market practitioner on some of the benefits of the recently announced OPIC-Citibank facility for the Caribbean and Central America.

Essentially this facility increases Citibank's ability to act as a much-needed source of medium- and long-term capital in a region which has limited access to this type of loans, either from financial institutions or from the capital markets. Given the structure of the facility, the typical projects these loans will support will normally create significant direct and indirect employment, as well as improve infrastructure, such as power and telecommunications, which should have significant positive long-term and ripple effects on these economies.

The strengthening of these economies should have a favorable impact in the United States, particularly in South Florida, where I live, which has significant trade and financial interaction with the Caribbean Basin; I also might add that where Citibank has a number of employees who deal with this particular region.

My next point I want to preface by mentioning an example of some of the things that we are seeing coming from the recent announcement of the facility, specifically in South Florida. This is an example, I think, of how important the OPIC support can be.

We were approached recently by a small South Florida company which builds children's furniture in Honduras and they bring it to the United States and sell it into major retailing chains, such as

Toys R Us or Walmart. This company had some damage to its facilities from the hurricane. They are looking to term out some of their local debt, which tends to be very expensive, and also to build a new facility. This is a fairly small company by normal Citibank standards but we are looking at that transaction and I think if it does happen, it would be made possible by this OPIC facility.

The next point I also wanted to preface by saying that as the major U.S. institution in the Central American Caribbean region, I think it is safe to say that we see more projects, more investment proposals than probably anyone else in that region. So I can also safely say that the specific support provided by OPIC in this facility is unique and that it is not generally available from private or market sources and it may well make the difference in many cases in investment decisions of companies looking to take advantage of the otherwise attractive investment climate of these countries.

I think it is also important to note that the OPIC support does not represent a subsidy in this instance but has been structured as a risk-sharing exercise, which will allow Citibank to incrementally support the investment plans of our clients, many of which are U.S. multinationals doing business in the region. Thank you.

Mrs. ROS-LEHTINEN. Thank you so much. Thank you, gentlemen, for being here with us.

We have heard some testimony this afternoon about OPIC diverting resources from projects and competing with privately financed ventures. Is this not counterproductive and doesn't it run counter to the objectives of OPIC?

Mr. SHEEHAN. I would be happy to take that one.

Mrs. ROS-LEHTINEN. Somehow I figured that you would.

Mr. SHEEHAN. It is part of OPIC's mandate, through foreign policy, to spur investment in areas that the private market is not willing to invest in. Some of these countries are simply too risky, but the White House or the Federal Government has decided it is a political decision that it would somehow be in our interest for there to be more economic activity in Russia or in Indonesia, so let us try to divert some of it there using these very favorable financing subsidies. And I do call them subsidies because they are achieved at rates that are below what the market would otherwise bear.

Mrs. ROS-LEHTINEN. Now Mr. Sheehan pointed out in his testimony the risky ventures, the economic climate not being very positive in Russia; he mentioned Brazil, Indonesia. What do the rest of you say about OPIC's ventures in those regions of the world and what should we say to taxpayers when they see the level of involvement that OPIC has in those regions?

Mr. WORKMAN. I will take a hit at that. First of all, it has been asserted that there has been diversion from the commercial sector by OPIC, and that is all it is—an assertion. I do not believe—I listened to President Munoz's testimony and I thought he was pretty straightforward on that subject. So it is an assertion; it is not proved. And in practice it has been my experience that it does not occur.

In terms of operating in these new markets, these emerging markets, I think we are dealing with a new paradigm in global finance and in international trade. In 1982 when you had the peso crisis in Mexico and basically it rippled through the rest of Latin Amer-

ica, you had what was called the lost decade in Latin America. It took over 10 years for them to recover. In 1995, when you had the peso crisis in Mexico, you had the lost 18 months in terms of the economy turning around.

Something similar has happened with Korea. Those countries that take the tough economic decisions, we are now looking at positive GDP growth projected for 1999 in South Korea, whereas 16 months ago everybody said South Korea was in the tank.

First, things happen much faster now. I think probably it's because you can have a trillion dollars go around the world in a nanosecond now, where it was a little more difficult in 1985. So I think, that has changed.

Second, do we really want to take ourselves out of the game? Because no one else is taking themselves out of the game. At least 40 other industrialized countries have similar programs.

Now we at the Chamber, I would agree with my right to my right that we do not like subsidies. We have never liked subsidies and it has always been one of these things where you have to grit your teeth when you come before the Congress and say, "Well, we need an Eximbank and we need an OPIC and in a perfect world it would be nice if we did not have government subsidies."

But then our companies have to deal with the real-world reality that there is competitive subsidization going on by other governments—our friends, who are also our biggest competitors—the Europeans and the Japanese and the Koreans.

So I think yes, we have to be there. That is what we spent the past 15 years restructuring American business to be very competitive, to go out and win in the global market, and I say let's have at it.

Mrs. ROS-LEHTINEN. Thank you.

Yes, Mr. Hardy.

Mr. HARDY. If I could add to that, let us take Brazil as an example. I think a situation like Brazil really underscores the valuable role that an OPIC can and is playing.

Brazil is far and away the largest economy in South America. Brazil, over the last several years, has undergone a dramatic, almost revolutionary transformation in its economy. It has moved toward privatization, stripped away layers of bureaucracy. It has become much more efficient.

But in any sort of transformation like this, it is at a point now where it is sort of in the midst of this reform that is going on. It has gotten caught up in difficulties from Asia and from Russia. And indeed, as we know, it has gone through some very difficult times.

The commercial banks, the financial community were red hot on Brazil and had been over the last several years, but became increasingly nervous and have backed away and are that way at this point. If we remain totally dependent upon the ups and downs of the marketplace in terms of the financing, you end up with a lack of a coherent policy and an inability to provide the sort of level of support that a Brazil needs.

There are extraordinary opportunities in Brazil. We have moved fairly aggressively in the energy sector in both electricity and the gas markets, which have been totally transformed. We are facing

very stiff European competition, particularly from the Spanish but also from elsewhere in Latin America.

As Mr. Workman has said, there is financing that is available from those countries and for us to turn around and walk away from Brazil at this critical point, when the market is being shaped and market share is being determined would be, in our mind, a terrible disaster over the long term.

I think everybody is entirely comfortable with the direction that Brazil is going in and looking at 5 years out and 10 years out, you are looking at a market that already is but even increasingly so is going to be extraordinarily important to the United States and to the U.S. export community.

It is precisely this situation where OPIC can step in and signal to the marketplace a commitment on the part of the U.S. Government in terms of making stable, long-tern investments.

Let us remember that sponsoring companies like Enron and like others, we are putting hundreds of millions of dollars of equity into these projects and that equity is the first financing that is tapped into in the event that there are any difficulties.

So we are the ones who are significantly at risk. But OPIC support enables other banks to come in, in terms of the long-term sort of lending that is necessary for these projects, and has a very stabilizing sort of influence.

For us, and I think for the business community in general, it is a very pragmatic, a very positive sort of step that OPIC's participation plays and ultimately in terms of U.S. jobs.

Mrs. ROS-LEHTINEN. Thank you, Mr. Hardy.

I have three more questions for you but in the interest of time, because we do have to clear the Subcommittee to go to the Full Committee for the continuation of our mark-up, I would like to yield to my colleagues. Mr. Delahunt.

Mr. DELAHUNT. Thank you, Madam Chairperson. I will stay after the formal hearing because this is fascinating and, as you know, I am new to the Committee, as well as to the Subcommittee, so this is very informative and educational and I appreciate everyone coming and providing this testimony.

The chair said something earlier about these economies and democracy now in Latin America and clearly I think we all applaud the fact that there has been electoral reform and that we see people and suffrage occurring in Latin American societies, but I dare say we are a long way from democracies that are stable because of the history of Latin America. And my sense is that OPIC here serves a real foreign policy imperative in terms of seeing that these nations secure some sort of economic justice so that they continue to mature as democracies. In my own sense, this is what is so intriguing about this particular program.

I think I will direct these questions to Mr. Workman or Mr. Hardy. Are either one of you aware, and I meant to ask this earlier to the president, Mr. Munoz, but he has already gone; is there a relationship between OPIC and the SBA, given what we are hearing about clearly from the members in terms of outreach to the small business community, to see that this program is focussed and is available and at least the small business community is aware of its existence, because oftentimes the reality is that it is not.

And I did ask him one question on the way out as he was leaving, and I would be interested in your response, in terms of the limitations of the program. I think it was Congressman Sherman earlier who enumerated three reasons to vote for it and I think clearly this Subcommittee is very positive about the program, but in my question to the president, I said to him, "What are your limitations?" and he needs more resources.

In other words, the demand and the capacity of OPIC to provide the kind of services I think that at least there appears to be a consensus and support of is not there.

Comments. Mr. Hardy, Mr. Workman?

Mr. WORKMAN. On the relationship between OPIC and SBA, yes, they do cooperate. We cooperate with OPIC in trying to get the word out to the American small business community.

Mr. DELAHUNT. Is the SBA doing the job?

Mr. WORKMAN. It is my understanding yes. There is always room for improvement. There is room for improvement, quite frankly, in the U.S. Chamber's effort to reach out to American small business, and that is an on-going sort of communications problem.

I think in terms of the way they have designed the small business outreach program, it is more than just—when I used to write regulations and we got the word down from on high to reduce the number of pages, we just went to a smaller font and wider margins.

Mr. DELAHUNT. I did that when I was writing papers in college and in law school.

Mr. WORKMAN. But in this case I can testify because we have heard from the small business members of the Chamber that yes, this is really a streamlining exercise.

I think it is of recent enough vintage that, as I mentioned earlier, we think it is something that this Subcommittee should take another look at a year from now but clearly in design, it eliminates a lot of paperwork for small companies, which is their biggest complaint. The threshold, in terms of their eligibility, has gone from $2 million, I think, to a quarter of a million, which is more in line with the kinds of average contracts and investments that they are thinking about making. So this is beyond just changing the font size. This is substance.

On the limitations of OPIC, I can tell you that with OPIC, with Eximbank, with the Trade Development Agency, with the programs that we traditionally have to support American business overseas, we do not come close to doing, by any measure—by per capita, by per billion dollars of exports or anything—we do not come close to what our G–7 partners are doing to support theirs. I mean Canada, with a population of 25 million people——

Mr. DELAHUNT. You will agree with the statement that the demand far exceeds the ability of these various institutions to respond.

Mr. WORKMAN. Absolutely. And I will let John weigh in.

Mr. DELAHUNT. I think that is something that this Subcommittee should consider in its deliberations on reauthorization. Mr. Hardy?

Mr. HARDY. I don't have any direct knowledge in terms of the relationship to the SBA, but I do want to emphasize the fact that even in the context of the large projects in which we are involved,

the infrastructure projects and in the telecommunications area, there are a myriad of small firms that are indirectly involved.

And it is important for us to recognize, again to go back to the issue that if the ability to source out of the United States is lost because financing is not available, because OPIC is not present or not available, whether it is because of sanctions or because of other policy issues there may be or because of decisions that have been made regarding reauthorization, then it is very clearly the end result that sourcing will move off-shore and that it will not be so much the Enrons or the larger companies but it is going to be the small manufacturing facilities that do not have the ability to move off-shore.

I mean G.E. has facilities all over the world. The smaller manufacturing facilities do not and do not have the ability to move. So, in effect, they are the ones who ultimately are hurt far and away the most because they lack that flexibility and I think it is very important for us to recognize that whether it is power plants or pipelines or telecommunications facilities, that so much of that work and so much of that production goes back to small businesses throughout the country.

With regard to the limitations of OPIC, I concur that in significant part, it is a resource issue. This is absolutely an extraordinary time in the emerging markets because——

Mr. DELAHUNT. My concern is that we are missing opportunities by not having adequate resources available to the business community.

Mr. HARDY. Absolutely, and it runs across the interface between what the business can do in terms of——

Mr. DELAHUNT. I do not want to take any further time except one additional question.

Mr. Sheehan, you said something about a politician's dream?

Mr. SHEEHAN. Politician's gain, sorry.

Mr. DELAHUNT. Gain?

Mr. SHEEHAN. Yes.

Mr. DELAHUNT. I mean do you really believe that, that anybody on this panel would cast a vote to support a program predicated on a trip?

Mr. SHEEHAN. I am not going to speak for anyone who is in the room, sir, but I do know that many of the companies that receive benefits from OPIC also turn around and make contributions to the Democratic Party or the Republican Party or whatever they think they need to, and that seems to be business as usual in Washington. It is not just OPIC. There is a problem across the board with pork barrel spending.

Mr. DELAHUNT. Well, that might be something to do with campaign finance but I am sure, and I think I speak for every Member here, both Republican and Democratic, that clearly any decisions that are made are far removed from the invitation to a trip to some foreign nation. I mean believe me, Mr. Sheehan, let me disabuse you of that particular thought.

And I think that unfortunately, you have made the statement and I would submit to you that it diminishes the credibility of the rest of your statement, at least as far as this Member is concerned.

Mrs. ROS-LEHTINEN. Thank you.

Mr. Cooksey.

Mr. COOKSEY. Just to add to the comment, I have traveled a lot more internationally before I got my new day job in Congress. I have only done one trip. There may be some people who would vote that way but I took a cut in pay to take this job and my wife is still unhappy. So I resent these kinds of statements, too.

I am very familiar with Enron. Enron is a company that had a lot of vision and took a lot of risks 20 years ago when you were formed and you have done a good job internationally and nationally. I know you have brought a lot of production to my area because we have a lot of oil and gas production in my state and some in my area.

But the independent producers had been suffering and they were particularly suffering, felt like they were really paying a price 2 weeks ago or 2 months ago when the price of oil was down and I had a couple of them who reminded me that 20 years ago when the DOE or the Administration that was in place 20 years ago or Congress—surely Congress would not have made any dumb mistakes, but when they put the windfall profits taxes on these people, that some of them felt like they should have that returned now because a lot of them are going out of business.

My question is what can be done to help someone that belongs to the IPA, that is not as large as you are, not as successful as you are, does not have the resources? What can be done to help them participate in this world economy that we are in?

Mr. HARDY. I am afraid that your question pulls me sort of out of my area of focus. Enron is a company that has remade itself in a number of evolutions, as the market has changed, as the market has moved. As you know, it started with the merger of two gas pipeline companies in the mid-1980's, so it is a relatively new company and it is a long way, where we are now from where we were then.

I think that there has been, in my own view and I am relatively new to the company, tremendous vision, as you say, in terms of getting from where we started to where we are now.

There is no question it has been an extraordinarily difficult time for the energy community. We have focussed in the areas where we think that there are tremendous future opportunities. We are heavily involved in infrastructure throughout the emerging markets and this really underscores again the long-term perspective. This has been a very difficult time, as I said, in much of the industry, near-term. We do not believe it is going to stay that way.

We think that the energy industry worldwide, but particularly in the emerging markets, is going to be totally transformed into the next decade, 15 to 20 years. I think that this company has moved aggressively to try and shape that vision and become a significant player in that market. And frankly, I am grateful to be a part of it.

It means taking a lot of risks. It means coming to grips with the political uncertainties in terms of operating in a lot of difficult environments, and that is one reason why we look to OPIC.

We are certainly prepared to place at risk our equity funding in projects, and that is very significant—hundreds of millions of dol-

lars. We are certainly prepared to look at the risks on the commercial and the economic side.

The difficulty is, as has been mentioned before, the difficulty of looking 20 years out and determining what is going to happen in Indonesia or what is going to happen in Bolivia, and that is where a partnership between the government and the business community has indeed, with OPIC, has worked extraordinarily well.

I think to come back to the sort of baseline here, OPIC has been an extraordinarily successful agency in working with the business community?

Mr. COOKSEY. Let us say you are going to do a $100 million project in Bangladesh. What percentage of that funding would be likely to come from OPIC, on average, that would not be your money at risk or your stockholders' money at risk?

Mr. HARDY. Our equity in a project is generally 30 to 35 percent, right in that area, so you are talking about 30 to 35 percent equity. OPIC has certain limitations in terms of the percentage. It cannot provide any more than half of the equity, half of the debt that would be provided, so there are limitations.

Its value is not in terms of providing the bulk of the debt financing to the project. It is really in providing that sort of participation, really a slice of participation that enables and attracts the private financing and commercial bank community to come in and participate because it has that ability, in the event that the Bangladesh Government, for whatever reason, takes steps after this project is up and running, to undermine the economics of the project, to be able to sit down and to, on a government to government basis, work that out.

And, as a consequence, it has an extraordinarily good track record.

Mr. COOKSEY. That is probably more important to the funding, I guess, almost.

Mr. HARDY. Exactly. What it does, it really prevents the Government from taking those sorts of steps because it is taking those sorts of steps against the U.S. Government.

Mr. COOKSEY. Right. We need to get that message out probably a lot more so because when this comes up, this bill comes up here every year, as is the case with most all the legislation, there is a certain amount of misinformation, disinformation and demagoguery. I know that comes as a surprise to you that any politicians would do that but it does occur. I have noticed that. Thank you.

Mrs. ROS-LEHTINEN. Well, thank you so much. I thank all of our panelists for being here and the audience, as well. The Subcommittee is now adjourned.

[Whereupon, at 4:08 p.m. the Subcommittee was adjourned.]

A P P E N D I X

April 14, 1999

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SUBCOMMITTEE ON
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Statement of Hon. Ileana Ros-Lehtinen, Chair
Subcommittee on International Economic Policy and Trade
Committee on International Relations
for Hearing on:
"Should We Reauthorize OPIC?"
Wednesday, April 14, 1999
2200 Rayburn

This hearing highlights one of the most important areas of responsibility this Subcommittee has – the re-authorization of the Overseas Private Investment Corporation.

In the last Congress, sessions evaluating OPIC's programs and use of its appropriated funds to promote U.S. exports, spur U.S. foreign investment in overseas markets and promote economic development, were held amidst an environment framed with concerns about the costs to American taxpayers and characterizations of OPIC as "corporate welfare".

Criticism of OPIC as a safety net for large multinationals dependent on federal subsidies was supported by the introduction of numerous pieces of legislation calling for OPIC's termination or, at the very least, its privatization.

Nevertheless, some analysts contend that the recent currency crises and tumultuous political developments around the globe, have lowered the volume of the attacks.

Opposition remains, however, with legislation having been introduced in both the House and Senate calling for the termination of OPIC within 180 days of enactment of these proposals. The critics concerns deal with the U.S. risking and spending billions of taxpayer dollars to "subsidize" foreign investments for American companies which are some of the richest in the world.

They also raise the issue of the government becoming involved in the process of rectifying certain "market failures" which could dissuade U.S. firms from investing in the least developed economies. Critics are concerned about the potential for direct investment abroad to displace U.S. workers at home, while still others worry about the tendency of government subsidies to distort trade currents and investment flows.

Supporters of OPIC respond to the criticism launched at it by highlighting OPIC's self-sustaining status; by emphasizing that OPIC does not entail government subsidies because expenses are derived from fees and premiums paid by members, which OPIC then pays back to the U.S. Treasury in the amount of

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the appropriations. They further underscore OPIC's ability to contribute to the government's overall budgetary resources.

Recently, OPIC supporters have focused on the benefits it provides to small businesses who would otherwise be unable to expand into foreign markets and compete on a level playing field without OPIC support, financing, or insurance.

A factor which must be taken into account when evaluating OPIC's programs is the existence of OPIC counterparts, particularly in Europe, which are fully subsidized by the governments or are largely so, placing U.S. companies at a competitive disadvantage when seeking entry into emerging markets.

Supporters ask: When the private sector does not offer the same services OPIC does, where can American businesses turn to?

Nonetheless, OPIC's purpose and the issue of its reauthorization cannot and must not be approached in a vacuum devoid of other considerations except U.S. business interests and trade priorities.

As the Subcommittee of jurisdiction, it is imperative that we also look at OPIC's role relating to U.S. foreign policy and national security interests.

In the past, we have heard from companies who have been denied OPIC support because the projects they proposed or governments they sought to do business with were subject to U.S. restrictions. However, some of these companies found the funding and insurance through foreign venues, which raises a new series of concerns about the activities of American businesses and their subsidiaries.

These and other matters will be addressed during this hearing as we focus on OPIC's budget request for FY 2000.

STATEMENT OF

GEORGE MUÑOZ

PRESIDENT AND CHIEF EXECUTIVE OFFICER

OVERSEAS PRIVATE INVESTMENT CORPORATION

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

COMMITTEE ON INTERNATIONAL RELATIONS

HOUSE OF REPRESENTATIVES

APRIL 14, 1999

STATEMENT OF GEORGE MUÑOZ
PRESIDENT AND CHIEF EXECUTIVE OFFICER
OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. Chairman and Members of the Subcommittee:

Madam Chair and Members of the Subcommittee, I am very pleased to be here today in support of OPIC's reauthorization. I want to thank you, Madame Chair, for your courtesy in scheduling this hearing so expeditiously. I also want to welcome a good friend, Congressman Menendez, as the new ranking member of this important panel.

As you know, OPIC was established 28 years ago by President Richard Nixon and Congress to mobilize American private capital to support the growth of developing countries and economies that are in transition to democracies and free markets. Today, OPIC's mission and reauthorization is more important than ever. OPIC is an investment in:

- Helping America compete;
- Supporting development and stability in strategic regions around the world; and
- Encouraging government that operates at no net cost to the American taxpayer.

Madam Chair, this is my first appearance before the subcommittee. When I arrived at OPIC less than two years ago, the future of the agency was uncertain. Frankly, after many years of widespread bi-partisan support, some had come to misunderstand the purpose and accomplishments of OPIC.

Against this backdrop, I set out four priorities for our Agency. High among these was leadership in implementing the foreign policy investment and development priorities of the U.S. Government.

Second, is prudent use and care of the full faith and credit of the United States Government; and ensuring OPIC's self-sustaining status.

Thirdly, we want to expand our reach to U.S. small business.

And lastly, we want to have OPIC operate and be recognized as a model high performance organization striving to have the best in people, products and systems.

Today, I believe that OPIC has turned the corner. We are meeting our priorities. OPIC is better known and more widely understood. And Congress is calling on OPIC to undertake new initiatives in areas of U.S. interest from Central America to Africa.

People across America are hearing about OPIC's excellent track record in promoting U.S. interests, creating American jobs, and operating on a self-sustaining basis at no net cost to taxpayers. Since 1971 OPIC has supported $121 billion in U.S. investments that are expected to generate $58.5 billion in U.S. exports and create more than 237,000 U.S. jobs.

I can also confirm for the Subcommittee today that OPIC in 1998 for the 27th consecutive year operated at no cost to the taxpayer. Our revenues were greater than our expenditures, including our setting aside of reserves against any potential claims or losses. Our portfolio is financially sound. Last year, a difficult year for many international financial institutions, OPIC had net income of $139 million.

Reauthorization Request

Thirty years ago, Congress debated the creation of OPIC. It was established as the most efficient way to promote development in less developed countries, which is the principal purpose of our foreign assistance program, but to do so without the expenditure of tax dollars. The program was intended to lead to the development of better relations with the countries where investments are made. During the 1969 floor debate on OPIC Senate Ted Steven of Alaska put it well – he characterized OPIC as "an enlightened and significant new program which can be financed without the burden falling upon the Treasury."

Today, the mission of OPIC endures. Our objective to make America business acumen and capital available to developing nations where it can be the most beneficial has not been fully realized. Our objective of building up countries so that they can be better customers of ours and so they can be better places for their people to live and thereby contribute to the peace and progress of all mankind is a goal that has not been fully accomplished.

But thanks to the vision of a few, we are making a difference for many. Our results are nothing short of amazing in countries of strategic importance to the U.S. Today, OPIC is supporting U.S. projects in 96 developing countries. For example in Haiti, a country nearby Florida, OPIC's private sector programs are making a significant difference in improving people's lives and promoting U.S foreign policy and economic interests.

The Administration has requested a reauthorization of OPIC for four years. OPIC's current authorization will expire September 30, 1999. Support of OPIC's four-year reauthorization will ensure OPIC's continued support of U.S. private sector activities that advance U.S. foreign policy and development goals, and contribute to our own economy. Unlike previous years, no increase in OPIC's statutory program cap is required. This 4-year proposal is in line with those approved by Congress before 1992 and would facilitate greatly long-term planning by program users whose projects often require years of feasibility study and development before coming to OPIC.

Commerce Secretary William Daley, Chairman of the Trade Promotion Coordinating Committee, echoed support for OPIC in recent Congressional testimony on U.S. trade policy. According to Secretary Daley, "multi-year reauthorization of OPIC, a vital TPCC agency, will be

critical to promoting U.S. private sector efforts in many developing markets and emerging economies."

I am pleased the reauthorization is being very well received in Congress. The Senate Foreign Relations Committee on March 23, 1999 reported a bill reauthorizing OPIC for four years. The Senate bill, S. 688, by Chairman Jesse Helms, sends a very strong message of OPIC's relevance in today's global market.

I urge this Committee to act favorably and promptly. I hope my testimony today will provide you with the facts and information to go forward on a broad bipartisan basis. I will cover five main points which will help this Committee continue its support of OPIC.

I. MAINTAINED OPERATION AT NO TAXPAYER COST

First, I can confirm that in FY 1998 the Agency for the 27th consecutive year operated at no cost to the taxpayer, where our revenues were greater than our expenditures, including our setting aside of reserves against any potential claims or losses. I stated this first Madam Chairman, because as you know, our statute requires that we be self-sustaining. I am happy to report that for such an important mission as we carry out, continuing to be self-sustaining is an accomplishment that is a great tribute to the hard work and professionalism of our employees.

II. EXAMPLES OF PRIORITY FOCUS

Second, OPIC is taking on projects which the Congress and the Administration have articulated as priorities for our government. I would like to highlight a few of these.

Africa

OPIC has made Africa a priority area for increased trade and investment. As you know, Madam Chair, as the former Chair of the Africa Subcommittee, Africa is one of the areas in greatest need of developmental assistance and one of the biggest growth opportunities for American business in the world today. I want to give you some examples of projects in which we are involved that illustrate clearly how we are making a difference in people's lives and also review some of our program initiatives.

One project involves OPIC support for a minority-owed small business from California that is working in **Uganda** with farmers to grow flowers to extract an oil that is used as a natural, nontoxic insecticide. A network of independent Ugandan farmers, many of who are women, grows the flowers. And not only is it an African business benefiting many local workers, a Minnesota-based company is purchasing the extract to market in the U.S.

Another opportunity for OPIC in Africa comes as a result of the mandate in the Africa **Seeds of Hope** legislation passed in the last Congress. This new initiative calls on OPIC to

support additional projects in development and rural agriculture. OPIC is working with Bread for the World and other NGOs to identify opportunities for future OPIC involvement.

OPIC is proud of the work it has already done and is doing in Africa. OPIC is currently providing $890 million in insurance and financing to projects in sub-Saharan African countries. Although a small agency, OPIC is making a significant impact in Africa and we are committed to do more. Our Executive Vice President Kirk Robertson has made two visits to Africa in the past year to help advance our initiatives and this region will continue to be a high priority for us.

As appealing as the promise of future investment is, with the tight financial constraints on traditional U.S. foreign assistance, the immediate role of OPIC in mobilizing private sector resources is a vital component of U.S. foreign policy for Africa.

A vivid example of helping a U.S. company mitigate political risks associated with a very important and humanitarian project is an OPIC-supported flour mill privatization project in **Lesotho**. Lesotho, located in southern Africa, is one of the world's poorest countries with a per capita GNP of approximately $578. OPIC executed its first insurance contract in Lesotho for a $5 million investment in the privatization, restructuring and operation of a flour mill.

The mill and related facilities process and sell wheat and wheat products and are also involved in maize milling, the sale of maize products, sugar packing and sale, and the processing and sale of animal feed. The project will sell 80 percent of its production in Lesotho to institutional purchasers and retailers, with the remaining 20 percent will be sold in South Africa.

Although the mill was operational at the time of privatization, it was only operating at about 65 percent of full capacity. The restructuring of the mill will greatly benefit the local people and economy. The project will provide more consistent products for the local market and will benefit local suppliers of tools, hardware, and other equipment. The mill employees will also benefit through on-the-job training and through international milling courses.

This project is by Kansas-based Seaboard Corporation. With its strong experience and track record of operating in developing countries, and its support from the U.S. Government through OPIC, we are making an important difference in helping people feed themselves.

Another project supported by OPIC in Africa is Tea Importers in **Rwanda**. OPIC originally supported this project in the late seventies, providing insurance coverage in 1976 and financing in 1978. The project obtained additional insurance coverage in 1980, and was expanded in 1997.

The project has experienced political problems over the years as political violence hit that region, but because of OPIC support the company has stayed the course. Today, that tea processing plant is the sole source of cash income for approximately 30,000 farm families in Rwanda. Elsewhere, in 1997 the company undertook another project with OPIC support in a rural and underdeveloped region of Ecuador.

Another OPIC project, in **Morocco**, has received international recognition. OPIC's partnership in the Jorf Lasfar power project in Morocco has been heralded not only as an important foreign policy success, but also as Project of the Year by Project Finance Magazine. This project, the first private power facility in Morocco, is being developed by CMS Energy Corporation of Dearborn, Michigan and will use $664 million in U.S. goods and services, creating 1,695 American jobs while servicing the people of Morocco.

Lastly, for the future, OPIC is responding expeditiously to the bipartisan Congressional and Administration initiative on Africa by calling for fund proposals of up to $500 million for one or more additional infrastructure funds for sub-Saharan Africa. Using an open competitive process and strict eligibility criteria, OPIC will select the successful proposal(s) and make a recommendation to OPIC's Board of Directors this spring. This fund promises to support the wave of privatization of infrastructure projects taking place throughout Africa.

Central America and the Caribbean

Another important strategic region where the U.S. development mission of helping people remains unfinished and where OPIC is working hard is Central America.

I was in Central America one month ago today. Today the mud is dry and the sun shines brightly. The weather following the hurricane has changed for the better. What has not changed or faded are the effects of the hurricane on the people. As I spoke with hurricane victims, one of their biggest concerns is neglect by the U.S.

I was able to assure the people that the U.S. Government, through OPIC and other U.S. Government program, is into the rebuilding program for the long-term. OPIC projects generally range from 10-20 years.

Thanks to Congressional support, OPIC will be part of rebuilding agricultural operations, privatization of infrastructure, creating local jobs and stability, and helping the local economy recover. House Foreign Operations Appropriations Subcommittee Chairman Sonny Callahan, a stalwart supporter of humanitarian and private sector efforts in Central America and the Caribbean who has long advocated an active U.S. role in this region, is leading the effort to focus U.S. resources in this area which is our own backyard.

Others, including you Madame Chair and Congressman Menendez, have also joined Chairman Callahan in recognizing the strategic importance of Central America and the Caribbean to our economy, security and society. Significant attention has been placed on Central America and the Caribbean by the Hispanic Caucus and Congressional Black Caucus. Led by Congressman Menendez and Congressman Chaka Fattah of their respective caucuses, and House International Relations Committee Chairman Ben Gilman, OPIC worked to develop a new vehicle to facilitate local economic development in the Central America and the Caribbean.

In February 1999, OPIC launched a $200 million loan facility with Citibank to support private sector projects in the region. Potential projects are now under consideration involving agriculture, infrastructure and the services sector.

Elsewhere in Central America, OPIC helped TECO Power Services Corporation of Tampa expand outside the domestic energy market and take advantage of new markets in Central America. TECO purchased $50 million in OPIC insurance for its first overseas power plant. It is now building a second plant with OPIC support. The TECO project has several benefits: it has increased Guatemala's power supply by 10 percent and it has procured at least $57 million in U.S. goods and services from companies in 17 states in a single year to support the project in Guatemala.

The TECO project also created new opportunities for U.S. industries and small businesses to expand their markets. For example, Environmental Consulting and Technology of Gainesville, Florida, was hired by TECO to complete the environmental impact analyses required by OPIC. The company's CEO credits OPIC for helping to open new opportunities for his company and other companies in the environmental consulting industry.

But much more remains to be done. The massive flooding caused by Hurricane Mitch in November 1998 has left a devastating impact on Honduras, Guatemala and Nicaragua. The private sector is poised to assist in the rebuilding and improvement of critical infrastructure systems. The continued long-term availability of OPIC programs is critical to this undertaking.

The U.S. response to this humanitarian tragedy caused by the hurricane has been capably led by the U.S. Agency for International Development and Administrator Brian Atwood. AID has spearheaded the U.S. effort to provide critically needed food, shelter and medical attention. Administrator Atwood is also Chairman of the OPIC Board of Directors and his agency is providing invaluable support to OPIC in coordinating the rebuilding program.

The tremendous damage and human tragedy affected not only those in Central America, but those in the U.S. as well. Many U.S. states, such as California, Florida, Louisiana, New Jersey, New York, and Illinois, to name a few, are inextricably linked to Central America. Without providing local employment and meeting basic human needs, an influx of Central American workers can be expected in the U.S.

Your own efforts, Madam Chair, in support of fair and proper adjustment of Central America immigrants has not gone unnoticed. Many Nicaraguans remain appreciative of the support they received in their plight to flee the enemies of democracy. And today, Salvadorans and Guatemalans in the U.S. who face extreme hardship and devastation in their homeland if deported are also grateful for your care and interest in their plight.

OPIC will take an active role in bringing the private sector into the Central America reconstruction effort. OPIC will expedite qualified applications and engage in a business outreach program to identify new private sector investment opportunities.

Based on OPIC's preliminary needs assessment of the region, OPIC has identified the infrastructure, housing, agriculture and energy sectors as areas where OPIC's programs can have a significant impact. OPIC's participation will contribute to the long-term recovery and growth of these sectors, as well as promote private investor involvement, privatization, and free market principles at a time when immediate needs often favor government directed solutions. Additionally, OPIC's participation will be efficient in the sense that OPIC activities leverage significant private dollars for every OPIC dollar spent. Typically, for every $100 in financing that OPIC commits to a project, $368 are invested from all other sources. This investment not only helps the host country, but also has positive effects on the U.S. economy in the form of exports generated, and American jobs created.

The Central America outreach will build on OPIC's recent experience and support for that region. In **Nicaragua**, OPIC has signed a contract to provide Coastal Corporation with up to $54 million of insurance for the Tipitapa power project that will commence operations shortly. In addition, OPIC is working with the government of El Salvador to host a conference to highlight their upcoming initiative to privatize the electricity sector.

As for our future efforts, OPIC is prepared to help mobilize the private sector in the rebuilding process. We are providing AID with an inventory of the activities OPIC will be able to identify and undertake using the additional resources requested in the pending emergency supplemental appropriations legislation. We look forward to reporting back to this Subcommittee and others in the Congress on this important initiative, and we welcome your support.

Haiti

Haiti is the least-developed country in the Western Hemisphere and one of the poorest in the world. With a per capita GNP of $400, about 75% of the population lives in abject poverty.

Since the 1994 military action to restore democracy, millions of dollars have been pledged to foster democracy and alleviate poverty. Although the badly needed economic reform agenda has been slow to materialize, one project supported by OPIC in 1998 with a U.S. based company is making a real difference in people's lives and serving as a model for privatization of state-owned enterprises.

Spearheading U.S. foreign policy efforts to encourage Haitian economic development, OPIC has helped an American company participate in Haiti's first privatization of a state-owned enterprise. OPIC provided $8.1 million in political risk insurance to Seaboard Corporation of Kansas for its investment in a Haitian flour mill and animal feed project.

This new project will provide a new source of local food to address chronic food shortages in Haiti. Further, increased availability of animal feed will increase livestock production.

The project itself represents one of the largest U.S. investments in Haiti. The venture will reactivate a dormant local flour mill using U.S.-made agriculture equipment and expand production of wheat flour and animal feed. The project will result in greater U.S. wheat exports to Haiti. In Haiti, the OPIC supported project will employ more than 200 local workers. On-the-job training will be provided and some workers will receive additional specialized training.

There are other residual benefits to supporting private sector commercial enterprise. In this case, reopening the mill will increase business activity for other industries including transportation and distribution systems; suppliers of tools, hardware, and uniforms, and construction services for buildings and roads. The project will also stimulate local enterprises by providing assistance for local bakers to improve yields.

Ultimately, this OPIC-supported project in Haiti will help foster democracy, promote economic reform and help alleviate poverty. Support of the private sector in Haiti is also important to the U.S. because of Haiti's geographic proximity and the need to stem the steady stream of immigrants that strain our own resources.

Much more needs to be done in Haiti to prevent poverty and improve living conditions. But, thanks to OPIC and the U.S. private sector, we are taking an important first step toward supporting Haiti without using U.S. tax dollars.

Supporting Caspian Sea Energy Development

At the direction of Congress and the Administration, OPIC is taking an active role in the proposed East-West oil and gas pipelines. OPIC is a participant in the U.S. Government's Caspian Interagency Working Group and is providing input on pipeline financing issues and on the mitigation of political risks. OPIC, EX-IM and TDA announced a Caspian Initiative to coordinate these agencies' response to U.S. investors developing projects in the Caspian region. As part of this initiative, OPIC has temporarily stationed an officer in Turkey to support the Caspian Finance Center with EX-IM and TDA.

OPIC will also play an important role providing support for the pipeline-related projects that will be developed along energy transportation corridors. These include hotels and office space, telecommunications projects, transportation facilities, and distribution projects (e.g., local distributorships that U.S. companies might establish to sell and service vehicles and equipment).

OPIC has announced its willingness to use its programs to support the Baku-Ceyhan pipeline advocated by the U.S. Government and supported by regional governments. OPIC has also announced its willingness to support the Trans Caspian pipeline, another important United States Government priority in the region.

Support for Environmentally Sensitive Development

Supporting projects with sound environmental standards is not new to OPIC, but we are opening the process and updating standards. OPIC applies the most current World Bank standards to its projects. In recent months, OPIC has even become a leader in promoting

harmonization of environmental standards among OPIC's counterparts in other nations. We welcome the strong Congressional and public interest we have received in this matter.

Since 1997, OPIC issued an Environmental Handbook that incorporated policies and procedures used by the most progressive international lending institutions into its environmental assessment and monitoring policies. These include:

- ✓ Public disclosure of environmental assessments, and initial audits of environmentally sensitive projects and a designated public comment period prior to OPIC's final commitment to such projects.
- ✓ Adoption of the World Bank Group's most recent guidelines on pollution prevention and abatement.
- ✓ Independent third-party audits of certain categories of environmentally sensitive projects.
- ✓ Categorical prohibition of OPIC support for certain types of projects having strong potential to violate OPIC statute or policy.

We received extensive public comments on the handbook through its publication in the Federal Register and posting on OPIC's Website. The comments represented a wide range of views from business and the environmental community. OPIC has worked hard in raising its standards to find an important balance between strong environmental protection and America's competitive stance in the global economy.

Based on the comments and our experience in implementing these policies and procedures on a trial basis during FY 1998, OPIC has finalized the Handbook and has begun implementing the revised policies on a permanent basis. The new Handbook makes OPIC a leader in the world among bilateral and multilateral agencies for environmental policies. It also means that upward international harmonization of environmental standards will become critical if there is to be a level playing field.

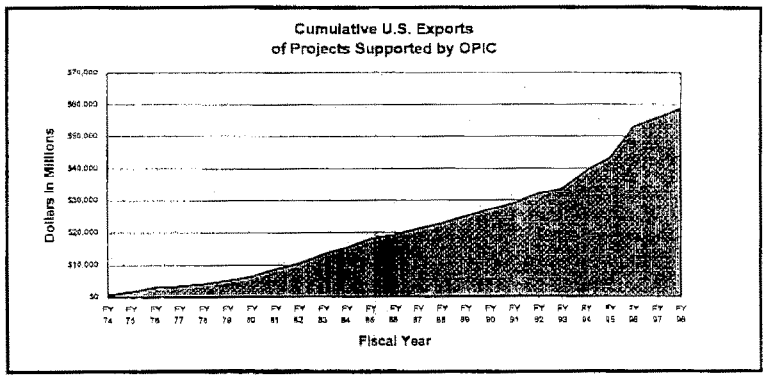
In addition to OPIC's ongoing environmental assessment and monitoring activities, these new policies will require OPIC to:

- ✓ Engage the public in outreach and dialogue concerning the potential and actual impacts of OPIC-assisted projects.
- ✓ Increase its working relationship with the World Bank and its affiliates with respect to the application and interpretation of the World Bank guidelines.
- ✓ Review third-party audits of environmentally sensitive projects and require remedial actions where necessary.
- ✓ Evaluate major infrastructure projects and projects in protected areas with respect to the application of categorical prohibitions.

- ✓ Monitor, analyze and report, in aggregate form, annual greenhouse gas emissions from OPIC-assisted power plants.
- ✓ Support Administration efforts to engage other G-7 trade and investment agencies in harmonization of environmental standards applied to projects.

III. OPIC'S POSITIVE IMPACT

Thirdly, this Committee and other Members of Congress have asked us to demonstrate the positive impact of our Agency and programs, not only on the developing countries, but the impact on our own country. Since 1971 OPIC has supported $121 billion in U.S. foreign investments that are expected to generate $58.5 billion in U.S. exports and create more than 237,000 U.S. jobs. The most recent review of actual performance verifies OPIC's expectation of the positive impact on the U.S. economy.



OPIC helps America compete not just by supporting our clients, but by supporting projects that call on the resources and talents of businesses – small and large alike – across the country. This contributes, in part, to the growing U.S. economy.

To more fully understand how many U.S. companies are indirectly participating in the global economy because of OPIC support, we have been working to identify for public release suppliers — from all 50 states — to OPIC-supported projects. The 1,100 suppliers identified in the past few months alone have sold nearly $1.7 billion in goods and services in a single year to 125 OPIC-supported projects. Nearly two-thirds of these suppliers were U.S. small businesses. The following illustrates the multiplier benefit associated with OPIC projects:

- F.C. Schaffer, a Baton Rouge, Louisiana company, identified more than $83 million in goods and services purchased in one year to support their agribusiness project in Ethiopia. These goods and services came from 264 companies in 32 states across America.

- Teco Power Services Corporation of Tampa, Florida identified more than $57 million in goods and services that they purchased in a single year to support their electric power project in Guatemala. These products and services came from companies in 17 states across the country. In fact, projects like this are creating opportunities for U.S. industries to expand their markets. For example, a small business benefiting from the Teco project is Environmental Consulting and Technology of Gainesville, Florida, which was hired by Teco to complete the environmental impact analyses required by OPIC. The company's CEO credits OPIC for helping to open up new opportunities for his company and other companies in the environmental consulting industry.

- Marriott Corporation of Maryland, a long-time client of OPIC, identified more than 220 U.S. companies that were suppliers to their OPIC-supported projects in Argentina and Hungary. Suppliers for the Marriott projects were located in 28 states and represented companies of all sizes. Products and services provided to the projects included refrigerators and appliances, fabrics, linens, legal services, lamps, carpets, artwork, computers, uniforms, and video services.

- Maple Gas Corporation of Dallas, Texas identified nearly $114 million of goods and services procured from companies in 19 states for their OPIC-supported energy project in Peru. Some 180 companies, in fact, provided goods and services including pumps and drivers, instrumentation, piping, heat exchanges, and site services to the project.

The fiscal 1998 portfolio of projects assisted by OPIC will result in significant economic benefits to the U.S. economy. A substantial portion of the initial procurement for OPIC projects will be supplied by American firms, resulting in an estimated $2.3 billion in U.S. exports of capital goods and services. In addition, the value of American materials and equipment required for ongoing operations is estimated at $500 million during the next five years. As a result of this level of initial and operational procurement from the United States, the projects will generate an estimated 34,459 person-years of direct and indirect employment for U.S. workers. This is equal to an average of 6,892 U.S. jobs over a five-year period.

The projects approved by OPIC are also carefully screened for their U.S. employment effects to avoid any negative impact. OPIC does not support any projects that might harm the U.S. economy or that will result in a loss of U.S. jobs. OPIC collects and analyzes, both geographically and sectorally, the projected U.S. employment and associated economic effects of the projects it assists.

State and Local Support for OPIC

As you are aware, economic development is an issue that affects state and local government nation-wide. For the most part, state and local officials are deeply involved in advising their area business leaders on ways to perfect or expand business operations. This helps build a healthy local economy. State and local government leaders are also fully aware that their area businesses are developing the strength and sophistication to operate in overseas markets. With this in mind, government leaders are beginning to incorporate OPIC into more of their local economic development plans.

In fact, just within the past two years, OPIC has received praise by state and local government associations on its positive impact on U.S. economic development. Most recently, the Agriculture and International Trade Committee of the National Conference of State Legislatures (NCSL), at its December 1998 meeting, endorsed the activities of OPIC. The NCSL committee encouraged the 106th Congress to support OPIC so it can continue working to strengthen our nation's economy by providing business opportunities for Americans worldwide. Similar expressions of support have come from the National Association of Counties and U.S. Conference of Mayors.

Reaching Out to Small Business

Another of my management priorities at OPIC is facilitating increased small business investment. 1999 has been designated the "Year of the Small Business" at OPIC. As part of efforts to enhance the services we offer to American small business, OPIC will increase outreach efforts.

I am pleased to report that we are already making progress. In FY 1999 and FY 2000, it is anticipated that this attention will result in an increased level of support for small business. For example, OPIC's finance program has developed a system to expedite processing of small business loans and decrease the fees associated with direct loans. But we can do more, and OPIC is also exploring mechanisms for risk sharing with commercial banks in order to support additional small businesses.

During fiscal years 1994 through 1998, 100 percent of OPIC direct loans, totaling $216 million, went to projects involving U.S. small businesses, and 29 percent of the projects receiving OPIC loan guaranties ($1.6 billion) involved small businesses. Smaller businesses or cooperatives were involved in 13 out of 47, or 28 percent, of all OPIC-assisted projects in fiscal 1998.

Although many smaller businesses do not have the financial and personnel resources to make an overseas investment on their own, they can benefit from such investment by larger U.S. firms. Large companies often turn to small U.S. businesses with which they are familiar for products and services to support an overseas project. During their first five years of operations, the projects OPIC assisted in fiscal 1998 are expected to procure at least $204.8 million from U.S. small businesses located in 37 states and the District of Columbia which will generate and support 576 U.S. jobs.

It is estimated that approximately two-thirds of identified suppliers to OPIC-backed projects around the world are U.S. small businesses, according to newly collected data. In recent years, OPIC has increased its efforts to collect data on the specific U.S. companies that will provide OPIC-assisted projects with goods and services. This helps to ensure that procurement estimates are as accurate as possible and to identify specific regions of the country which benefit from these foreign investments. According to the data collected for fiscal years 1994 through 1998, OPIC has identified the specific U.S. suppliers for $8.9 billion in expected procurement for OPIC-assisted projects. These identified U.S. companies are located in 44 states, Washington, D.C., and Puerto Rico.

With its insurance program, OPIC has developed a package of products designed to make it easier for small investors to obtain insurance. OPIC has a small business insurance application that is shorter than the standard insurance application but still provides OPIC with the information necessary to process the request. In FY 1998 OPIC trained its staff on the small business insurance contract, which features streamlined coverage elections and simpler pricing, in preparation for active marketing of the contract to small businesses in FY 1999. Also, to reduce the burden on small businesses with limited cash flows, OPIC offers small business applicants a 25 percent discount on the retainer fee that is charged to all investors at the time of their application for insurance. On a case by case basis, OPIC also issues Letters of Interest to small business insurance clients indicating OPIC's interest in a project. The Letters of Interest often help companies gain financing or additional investment in a project.

OPIC anticipates that the increased focus on small businesses will result in a near record number of small business finance projects in FY 2000. Project size, however, does not change the amount of due diligence, structuring, and attention to detail that must be a part of every finance deal. In fact, due to the relative inexperience of many small businesses in the international marketplace, small business projects often require more customer support on OPIC's part. This makes small business projects more labor intensive -- requiring more staff time per investment dollar -- than larger projects.

IV. STRONG RISK MANAGEMENT

Fourth, if there ever was a year in which OPIC was put to the test, it was 1998. As Treasury Secretary Robert E. Rubin noted in December 1998, "the financial crisis of the last 18 months has often been referred to as in some ways the most significant financial crisis of the last 50 years." Federal Reserve Board Chairman Alan Greenspan has also noted the storm coming our way as a result of weakness in many foreign economies.

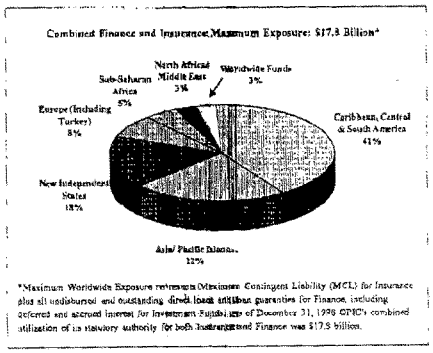
This period of instability started approximately in 1997. Since that time, I am pleased to report OPIC has met the test and continues to perform favorably. Our independent auditors from PricewaterhouseCoopers have just completed their review of our portfolio and we have applied the most current thinking on portfolio risk assessment. I can conclude that our portfolio remains strong and still yields a net return after expenses.

The fact that OPIC has received a clean audit opinion from its outside independent auditors for every year of its history is strong evidence of OPIC's ability to protect the full faith and credit of the U.S. Government. According to OPIC's 1998 financial statements, OPIC is financially strong. Revenues are up, loss history is low, recovery rates are high and the portfolio is performing well.

One way that OPIC manages and safeguards the soundness of its insurance and financial portfolio is setting aside reserves on its financial statements prepared according to generally accepted accounting principles. The worldwide nature of the current economic difficulties have heightened OPIC's awareness of and sensitivity to the potential long-term impact of world events. While signs of recovery are evident in Asia, and some of the stronger Eastern European and Latin American nations appear able to resist the spread of global infection, there is continued uncertainty in world economic activity that could impact even the strongest of projects. In order to be prepared for such events and maintain good performance and prudent risk management, despite an apparent low likelihood of occurrence OPIC has decided to increase its level of general reserves. OPIC continues to demonstrate its financial strength through a total combined capital and reserve position of $3.4 Billion. This approach of reserving a significant portion of OPIC's current strong earnings to provide for the possibility of a protracted economic downturn in world events is both prudent and proper. Even with this, we still have a positive net income in FY 1998.

OPIC also continues to prudently manage its portfolio through diversification. Currently OPIC is supporting finance or insurance projects in over 90 countries. OPIC's portfolio is also diversified by sector. Power projects remain OPIC's largest exposure concentration at 32 percent, followed by financial services at 27 percent.

OPIC'S PORFOLIO IS DIVERSIFIED BY REGION
As of December 31, 1998



*Maximum Worldwide Exposure represents Maximum Contingent Liability (MCL) for Insurance plus all undisbursed and outstanding direct loan and loan guaranties for Finance, including deferred and accrued interest for Investment Funds. As of December 31, 1998 OPIC's combined utilization of its statutory authority for both Insurance and Finance was $17.3 billion.

In addition to diversification, OPIC safeguards its portfolio by thorough due diligence and underwriting, customized structuring, careful legal documentation, intensive monitoring, and advocacy. OPIC customizes insurance and finance contracts to reflect appropriate sharing of risks with sponsors and third parties, and to enhance its remedies in case of project difficulties. OPIC works closely with customers to understand each project, taking into account industry and host country issues. This combination of communication and knowledge helps to safeguard OPIC's portfolio by identifying potential complications before they become problems.

OPIC also provides important advocacy for its clients. In Russia, OPIC's advocacy on behalf of clients avoided claims in two cases during 1998. OPIC is also advocating on the behalf of a small business client in the Kyrgyz Republic. In Indonesia, OPIC is working closely with projects that have encountered difficulty because of the economic crisis. OPIC does not work alone; decisions and activities are coordinated with the Treasury, State and Commerce Departments, as necessary, to assure appropriate coordination with other interested parties.

OPIC is a strong performer in the area of loss management and recovery. OPIC has an exemplary record regarding claims. Since FY 1971, OPIC has settled or paid claims totaling $541 million. In terms of number of claims, the majority are for currency inconvertibility and are relatively small in size. Expropriation claims, while fewer in number, account for a higher percentage of the total compensation paid to investors Of the $541 million in claims payments paid to investors as of September 30, 1998, all but $29 million has been recovered. This makes for an overall OPIC claims recovery rate of almost 95 percent. Over the same period, OPIC has earned over $1 billion in premium revenue.

V. Successfully Achieving a Self-Funded Program

As you consider reauthorization, I want to assure the Committee of OPIC's success in operating as a self-sustaining program as required by our statute.

OPIC's fiscal year 2000 budget request maintains OPIC's status as one of only a small number of U.S. government agencies that operates on a self-sustaining basis. The FY 2000 budget request will provide OPIC a solid base to help America compete globally while mobilizing private sector investment in support of U.S. foreign policy goals, all at no cost to the taxpayer.

OPIC's budget proposal requires no direct appropriations for the agency and its operations. Instead, the budget requests that Congress authorize OPIC to use $35 million from its user fees to cover administrative expenses and $24 million -- also from OPIC's own funds -- to finance its credit-related programs.

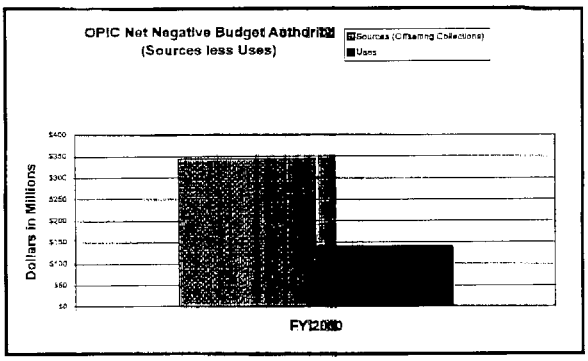
OPIC collections in FY 2000 will continue to exceed uses and will result in a net budget contribution of $204 million. This amount will be used to offset expenses for other international affairs activities of the government.

OPIC's administrative expenses request for FY 2000 is $35 million. Much of this is important to the monitoring of OPIC's portfolio of financing and political risk insurance. All of OPIC's administrative expenses will be fully offset from revenue generated by the users of OPIC programs.

Because of the economic problems in many parts of the developing world, many companies are coming to OPIC. OPIC is already seeing an increased number of requests for project assistance. Such an increase in OPIC business will have to be met with adequate resources. OPIC-supported projects require complex, individually crafted contracts that require a large amount of time and expertise to produce, but which protect the interests of the U.S. government. If OPIC is to meet the demand for its product and guard its portfolio, sufficient administrative expenses funding will be required.

OPIC CONTRIBUTION TO INTERNATIONAL AFFAIRS BUDGET (Function 150)	FY 2000 Request
Net Negative Budget Authority*/	(204)

*/ Net negative budget authority is the difference between OPIC's net collections (such as insurance revenue and interest on Treasury securities, net of internal transfers) and OPIC's obligations for program expenses (uses of funds). Because OPIC's sources exceed its uses, OPIC generates net negative budget authority which is available to support other programs in the Function 150 budget.



Corporate Welfare

Before closing on financial matters. I know the issue of "corporate welfare" has been a serious concern to some Members of Congress. Because of misperceptions of OPIC's unique

structure and self-sustaining mandate, the agency has been wrongly accused of providing "handouts" to clients.

The term "corporate welfare" has had many definitions. In one extreme it is viewed as a corporation getting something for nothing. This definition does not fit OPIC programs. All OPIC services are paid for by the private sector.

A middle level definition may be that OPIC's services are partially subsidized by the government. That too does not fit our program. OPIC has not been a drain on the U.S. Treasury. The contrary is true. In our history, we have contributed to the Treasury more in private sector fees than we have taken out for our operations.

Lastly, corporate welfare may be labeled by some as anything of value that is provided to a select group of businesses. This too does not fit OPIC. We are an instrument of foreign policy. When the Foreign Assistance Act creating OPIC was signed, it was done with a clear objective in mind – the development of strategic countries is important to our well being and the well being of the world. That is the mission established for OPIC and it is still our mission today.

Since the agency was created, OPIC's clients have paid over $1 billion in fees to OPIC. These fees have more than covered the costs of operating OPIC. In addition, OPIC has accumulated $3.4 billion of reserves.

The GAO has looked closely at OPIC's costs to the Federal Government. Their findings are noteworthy. According a 1997 GAO study, "Historically, OPIC's combined finance and insurance program have been profitable and self-sustaining, including costs due to credit reform and administration."

On a budgetary basis, the "corporate welfare" argument against OPIC does not stand up to scrutiny. In FY2000, OPIC programs will generate a positive $204 million for the Function 150 account. Despite newly realized federal budget surpluses, the budget resolutions approved this year in the House and Senate would reduce the funds for international affairs in Fiscal Year 2000 and beyond. With these cuts, OPIC -- the only self-sustaining foreign policy development program -- will take on added importance. Without OPIC, the anticipated cutbacks would be even more severe.

VI. OPIC PRODUCTS MEET THE MISSION

Finally, for the benefit of the new subcommittee members, let me include for the record a brief review of OPIC's products.

Political Risk Insurance

OPIC protects U.S. investors against political risks overseas by providing insurance for American investments in new ventures and expansions or privatizations of existing enterprises. OPIC offers insurance against the following political risks:

✓ Currency inconvertibility — deterioration in an investor's ability to convert profits, debt service, and other remittances from local currency into U.S. dollars, and transfer U.S. dollars out of the host country;

✓ Expropriation — loss of an investment due to expropriation, nationalization or confiscation by a foreign government;

✓ Political violence — loss of assets or income due to war, revolution, insurrection, or politically motivated civil strife, terrorism or sabotage.

OPIC can provide up to $200 million in insurance coverage per project. Coverage is available for equity investments, parent company and third party loans and loan guaranties, technical assistance agreements, cross-border leases and other forms of investment. Coverage is also available for contractors' and exporters' exposures, including unresolved contractual disputes, wrongful calling of bid, performance, advance payment and other guaranties posted in favor of foreign buyers, and other risks. OPIC has special programs for small business, infrastructure development, financial institutions, leasing, natural resources, and oil and gas projects.

Financing

OPIC's finance program provides direct loans, loan guaranties, and investment funds of up to $200 million per project that enable U.S. companies to take advantage of opportunities in emerging markets. OPIC's finance and insurance programs often work cooperatively, with OPIC providing political risk insurance to projects also receiving OPIC financing. The finance program is divided into two departments, the Finance Department, which provides direct loans and loan guaranty financing for individual projects, and the Investment Funds Department, which provides financing for investment funds managed by private sector entities.

Investment Funds

The investment funds program is a public private initiative created to mobilize U.S. private equity investment in high priority developing country markets. OPIC-supported investment funds have a multiplier effect on investments in developing countries and regions. All OPIC-supported investment funds are profit-oriented entities managed by experienced private sector professionals with demonstrated track records making private equity investments. OPIC has twenty-six investment funds, each focused on a specific region or industry.

OPIC's investment funds program was created in 1987, as part of a Reagan Administration foreign policy initiative, to address the lack of sufficient private equity capital in regions or sectors in emerging markets and developing countries identified as U.S. foreign policy priorities. Regions supported include Russia and the former Soviet Union, the West Bank and Gaza, Southeast Asia, and the Andean region of South America. Sector-specific funds have focused on other U.S. priorities, such as small business and preservation of the environment.

OPIC's recent funds have been in direct response to Congressional mandates regarding Sub-Saharan Africa and the Caucasus region.

The aim of OPIC's investment funds program is to encourage investments in regions or markets that do not attract sufficient private capital. Over the last ten years there has been a tremendous increase in the number of investment funds investing in emerging markets. Following the lead of agencies such as the World Bank, and the European Bank for Reconstruction and Development, and Commonwealth Development Corporation, OPIC supported funds have helped mobilize private capital to invest in more challenging markets.

The funds program is operated on a self-sustaining basis and in a prudent manner with several risk mitigants. The private equity invested in a fund by the private equity investors is fully at risk and is not guaranteed by OPIC. OPIC must be repaid in full with interest before the private equity investors or the fund managers recover their equity investment or profits. OPIC also receives commercially based fees as well as a profit participation as compensation for the financing provided to the fund. And all Fund assets are collateral for OPIC's loan.

OPIC Funds have made over 240 investments in over 30 countries around the world and play a critical role in providing capital, technical know-how and management assistance in important emerging markets of strategic foreign policy interest to the United States. Every fund subproject must meet the same statutory guidelines that apply to OPIC's other finance and insurance projects. This includes the prohibition against causing a negative impact on the U.S. economy. To ensure statutory compliance as well as sound financial practices, during fiscal years 1999 and 2000, approximately 150 subproject applications are reviewed per year.

I have also established an open and transparent competitive selection process to select fund managers. Before creating a fund, OPIC now publishes a call for proposals for a specific kind of fund in a variety of business and trade publications and on the Internet. Proposers are required to submit a complete package of information that is then examined and considered by a selection panel. OPIC's goal is to maintain a fair unbiased process open to all qualified applicants that produces quality fund proposals with competent, experienced management.

OPIC funds are an effective and prudent vehicle to promote private sector investment in developing countries which increase skills and business opportunities in the host countries while generating jobs and exports for America. We will continue working on funds as directed by Congress.

Conclusion

With the current challenges facing our global economy, OPIC will play an even more crucial role in U.S. foreign policy by helping to stabilize emerging markets and promote economic security.

OPIC remains self-sustaining and has recorded a positive net income for every year of operation. That's a pretty good deal for America and the American taxpayer.

As then Senator Bob Dole noted in 1969 OPIC brings "considerable benefits to the United States and to the people of developing nations around the world." We strongly urge the Congress to revalidate this important mission and approve legislation to reauthorize OPIC for four more years.

Again, thank you, Madam Chair. I will be pleased to respond to any questions.

Testimony of

John Hardy, Jr.
Vice President, Project Finance
Enron International

on behalf of

Coalition of Employment Through Exports

International Energy Development Council

National Foreign Trade Council

before the

Subcommittee on International Economic Policy and Trade

U.S. House of Representatives

April 14, 1999

TESTIMONY OF JOHN HARDY, JR.
ENRON INTERNATIONAL

before the

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY & TRADE
COMMITTEE ON INTERNATIONAL RELATIONS
U.S. House of Representatives

April 14, 1999

Good afternoon. My name is John Hardy, Vice President, Project Finance, at Enron International. Enron is a global energy company focused in all phases of the natural gas and electricity markets, from exploration and production to electric power generation to pipelines to wholesale and retail delivery, and a variety of related merchant functions, financing and risk management products.

I am very pleased to have an opportunity to appear at this hearing on behalf of three business organizations: the Coalition for Employment Through Exports, the International Energy Development Council and the National Foreign Trade Council, which together represent a wide array of businesses, both large and small, in the full spectrum of industry sectors.

Each of these organizations and their members view the Overseas Private Investment Corporation (OPIC) as a critical tool in promoting U.S. competitiveness. OPIC supports the export of U.S. goods and services in markets throughout the emerging world, and through those goods and services the jobs of U.S. workers. Accordingly, we strongly support a four-year reauthorization of OPIC.

What I would like to do today is give you a perspective from the field – from the marketplace in which we are competing today – on how OPIC plays a critical role in helping us compete, and why it is strongly in the U.S. national and commercial interest (including the interests of U.S. taxpayers) for this subcommittee to support its reauthorization.

I would like to focus my comments on OPIC's role in enabling U.S. companies, which are engaged in international business, to source equipment and services in the U.S. rather than abroad. I also will address and debunk critics' claims that OPIC is "corporate welfare". These charges by OPIC critics do not hold up under any scrutiny of the facts.

OPIC IS AN ESSENTIAL TOOL TO KEEP THE SOURCING (AND THUS JOBS) FOR INTERNATIONAL PROJECTS IN THE U.S., RATHER THAN OFFSHORE

A big part of what OPIC is doing today, and has been doing for the last five years or so, is providing finance and insurance for large infrastructure projects in developing countries. A simple review of OPIC's portfolio shows that OPIC has concentrated substantially on infrastructure projects for a number of years now. According to OPIC's 1998 Annual Report, infrastructure projects represent 64% of OPIC's portfolio.

OPIC'S SUPPORT OF INFRASTRUCTURE PROJECTS HAS BEEN EXTREMELY IMPORTANT TO THE U.S. ECONOMY. During the past decade, infrastructure projects in developing countries have become a critically important new growth area for high-wage, export-related U.S. jobs. Despite the recent financial turmoil in emerging markets, the demand for basic infrastructure is today and will remain in the future a key driver of U.S. export growth.

These global infrastructure needs are creating a scale of business opportunities that is absolutely unprecedented: according to World Bank estimates, developing countries need to build more than $200 billion per year of infrastructure – electric power plants and transmission systems, telecommunications networks, water supply and waste treatment facilities, roads, ports and the like – every year for at least the next ten years, perhaps as much as twenty years. Enron alone, for example, currently has $21 billion of infrastructure projects under development or in operation in emerging markets.

THE U.S., HOWEVER, IS BY NO MEANS THE ONLY PLACE WHERE THE CAPITAL EQUIPMENT AND SERVICES FOR THESE PROJECTS CAN BE SOURCED. In the energy sector, the Germans, Swiss, Finns, Italians, French, Japanese, Koreans and others all make state-of-the-art, highly efficient equipment for electric power plants. They also are ready, willing and able to provide state-of-the-art design, engineering, and other services. The same is true in other sectors, such as telecommunications and the water sector.

THE MAIN FACTOR DETERMINING THE SOURCING OF SUCH EQUIPMENT AND SERVICES IS THE AVAILABILITY AND TERMS OF FINANCING. Project sponsors like Enron, and other U.S. companies, typically structure the overall project and put together the whole package of equipment and services. Quality and price are, of course, significant factors, but tend to be very close among competing suppliers. Furthermore, we do not even reach those considerations unless financing is available. With infrastructure projects costing anywhere from $100 million to $1 billion and over, per project, project sponsors like Enron put up significant cash equity (typically 25-30% of project costs), but the rest must be financed with long-term financing (typically 10-15 years). OPIC provides a critical source of U.S. debt financing. Without sources like OPIC, we have no way to fund all of the project costs.

BY MAKING THE FINANCING AVAILABLE IN THE U.S., OPIC HAS MADE IT POSSIBLE FOR US COMPANIES TO SOURCE EQUIPMENT AND SERVICES FOR OUR INFRASTRUCTURE PROJECTS FROM THE U.S. Each of the developed countries has one or more programs in place to provide export- or investment-related finance: some 40 industrialized countries have programs like OPIC, and some 80 countries have programs like Ex-Im. Not surprisingly, each of these countries' programs links the availability of financing to the purchase of equipment and services in their country. As a result, in order to get the financing needed, a project sponsor like Enron has no choice but to buy the equipment and services from whatever country is willing and able to provide that financing, which is why OPIC's role has been so valuable for the U.S. economy. U.S. firms want to compete on an equal footing with foreign competitors and we want to use U.S. goods and services for our projects in the emerging markets. OPIC allows this competition to include the prospect of more U.S. jobs.

IF PROGRAMS LIKE OPIC WERE NOT AVAILABLE, WE WOULD HAVE NO CHOICE BUT TO MOVE OUR SOURCING TO OTHER COUNTRIES WHERE FINANCING IS AVAILABLE. Critics of OPIC like to discount or reject this point, but it is a clear and demonstrable fact of life, and should not be ignored by policymakers who care about U.S. jobs.

Let me give one recent example that illustrates the point. Over the past 18 months Enron has been arranging the financing for Phase II of our Dabhol project in India. We anticipated using and applied for $500 million in financing from Ex-Im as part of the approximately $1.4 billion debt package, with which we intended to purchase U.S. goods and services. When economic sanctions were imposed against India last spring, we were compelled, because Ex-Im financing was no longer available, to move that financing component offshore, resulting in the loss of approximately $250 million in U.S. exports that would have been utilized if the financing had been available in the U.S. I do not intend by this illustration to comment on the policy underlying the decision to sanction India; but rather to underscore the steps project sponsors like Enron are forced to take in moving their sourcing out of the U.S. when U.S. financing is not available. Other examples can certainly be given, but this should suffice in making clear what happens when U.S. financing is not available.

THE AVAILABILITY OF OPIC FINANCING HAS A CRITICAL IMPACT ON SMALL AS WELL AS LARGE U.S. MANUFACTURERS. The sourcing for a major infrastructure project has a tremendous ripple effect among manufacturers around the country, a great many of whom are small in size. Typically, dozens of suppliers, both large and small, in many different states, as well as their own sub-suppliers, are engaged in supporting a major project, even some suppliers and sub-suppliers may not even be aware of the ultimate project in which their goods will be used. For example, for Enron's power plant project in Turkey, we have purchase $240 million worth of U.S. equipment and services from sixty-six separate suppliers in fifteen states.

In summary, OPIC helps American companies compete globally, creating high-skilled, well-paying jobs for American workers. Since it was created, OPIC estimates that its programs have fostered 237,000 jobs and $58 billion in exports.

PRIVATE BANKS AND INSURERS CANNOT PROVIDE THE NECESSARY LOANS AND INSURANCE BY THEMSELVES

OPIC'S CONTINUED ROLE TO FACILITATE PARTICIPATION BY PRIVATE LENDERS REMAINS ESSENTIAL. In more difficult markets, private lenders and insurers cannot, alone, provide all of the necessary financing and insurance because no matter how well they evaluate the risks on the front end, they have no tool to solve the problem if the risks materialize. Why? Because the key risks are risks of adverse government action by the host countries where the projects are being built. Decades of experience have shown that the only effective tool for responding to adverse government action is appropriate action taken in response by another government (arbitration, claims tribunals, sanctions, aid cut-offs, etc.). Such governmental action

taken in response is the key tool that OPIC is able to bring to bear and private lenders and insurers are not.

But, once OPIC comes in for a piece of the financing or insurance, then private lenders and insurers know that if a problem occurs, OPIC will be able to bring to bear the tool of government response action and thereby facilitate a solution for everyone. So, the private lenders can then come into the deal for the remainder of the financing. And, appropriately, OPIC usually charges a higher price (and thus receives a higher margin) for the portion of financing it provides, than the private lenders charge for the portion they provide.

As importantly, OPIC is a steady presence in the financial and insurance markets supporting prudent investments in the developing world, even in the face of the Asian crisis, difficulties in Latin America and the struggles of countries in transition from nonmarket to market economies. Since the summer of 1997, U.S. financial institutions have displayed significantly reduced appetites for risk in the emerging markets. However, the demand for infrastructure projects in these same regions has remained quite strong. Enron, as well as many other companies, both U.S. and foreign, continue to see great long-term opportunities in the emerging markets.

OPIC plays a vital role in such tight credit market conditions. From a foreign policy perspective, OPIC facilitates foreign direct investment precisely at the time that U.S. financial institutions are withdrawing support for infrastructure projects in developing countries. Often only with OPIC support will U.S. financial institutions assist these infrastructure projects. So, OPIC plays a critical market role in tight credit conditions, in stimulating the participation of the commercial banks and other sources of financing so that development projects can proceed.

OPIC'S PROGRAMS ARE FEE-FOR-SERVICE, AT MARKET-EQUIVALENT RATES, NOT "CORPORATE WELFARE"

Critics of OPIC have been very insistent that OPIC should be considered "corporate welfare". The critics have implied that corporate customers of OPIC are getting some kind of free ride, some kind of easier treatment than they would get from private lenders. But, the actual facts are quite the opposite.

The facts are that: (a) OPIC imposes charges for all aspects of the financing and insurance it provides to its customers; (b) OPIC's charges are usually higher than what private lenders charge; (c) OPIC's terms are also more onerous than private lenders' terms, as OPIC requires not only that projects be financially and technically sound, but also that they satisfy numerous policy requirements which private lenders (and many foreign government finance programs) do not impose; and (d) OPIC's charges fully cover both OPIC's costs and OPIC's risks. I believe it is well worth the Committee's time to look closely at each of these key facts about OPIC's programs.

OPIC IMPOSES USER FEES FOR ALL ASPECTS OF ITS SERVICES. OPIC provides no giveaways. OPIC charges fees, interest rates and premiums for all aspects of its financing and insurance services, just as private lenders do. These include commitment fees (typically amounting to several hundred thousand dollars) when OPIC approves a transaction and agrees to allocate capacity for it, front-end fees when the transaction

actually goes forward, interest rates throughout the life of its financings, and premiums throughout the life of the insurance it provides. And, of course, it goes without saying that OPIC's customers repay the full principal amount of all financings, in addition to these fees and interest.

OPIC CHARGES HIGHER PRICES THAN PRIVATE LENDERS. The level of the charges OPIC imposes is quite high – usually more expensive than financing obtained from private lenders when they participate together with OPIC in the same transaction. For example, in our $135 million power plant project in the Philippines, the OPIC portion of the financing was priced at 10.09%; the private bank portion was 8.18%. In our $1079 million power plant project in India, the OPIC portion of the financing was priced at 9.75%, while the financing from private banks (both international and Indian) was between 8.0% - 9.0%. Similarly, in our $450 million power plant project now underway in Turkey, the OPIC portion of our financing is shaping up to be more expensive than the private bank portion. Thus, OPIC's pricing gives its customers every incentive to minimize – not maximize – their use of OPIC.

OPIC IMPOSES MORE ONEROUS TERMS THAN PRIVATE LENDERS. Likewise, OPIC imposes more onerous terms that give its customers every incentive to minimize their use of OPIC. Both OPIC and private lenders require that a project be financially and technically sound. But OPIC, unlike private lenders, also goes way beyond that and requires each project to satisfy numerous policy requirements, including the effect on the U.S. economy and jobs, the developmental benefits to the host country, the environmental quality of the project, worker conditions in the host country, and any U.S. foreign policy considerations that may be applicable (e.g., country restrictions, due to drug-related, nuclear-related, or other sanctions).

OPIC'S CHARGES FULLY REFLECT OPIC'S COSTS AND RISKS. The fact that OPIC's pricing fully covers OPIC's costs can be seen from the fact that OPIC's revenues have exceeded operating costs throughout OPIC's 28-year existence. The fact that OPIC's pricing also fully covers OPIC's risks can be seen from several factors. These factors include (a) that OPIC's annual loan write-off of 1% of outstanding loans has consistently been at or below those of private lenders; (b) that OPIC's cushion of capital and reserves (generated by OPIC's pricing) are larger relative to OPIC's exposure (risks) than those of private insurers, as spelled out in the J.P. Morgan study of OPIC's portfolio which was mandated by Congress; and (c) that OPIC's revenues have not only covered all of the risks that have materialized into problems, but have accumulated $3.3 billion in retained earnings, now held by OPIC in Treasury securities. If OPIC had inaccurately evaluated the extent of the risks it was taking on, it would have had higher amounts of losses, and if OPIC's pricing had been too low to fully cover the risks OPIC was taking on, OPIC would not have had enough revenue to generate enormous retained earnings. Moreover, OPIC has maintained its accuracy in evaluating and pricing risks consistently for 28 years – including throughout the market turbulence and debt problems of the 1970s and 1980s.

Once all of these facts are known about OPIC's programs, and all of the charges and terms OPIC imposes, it is hard to see how one could possibly label OPIC "corporate welfare". Governments at all levels – federal, state and local – provide a wide variety of services to citizens, and charge for them directly or indirectly. In no other context have such fee-for-service programs ever been considered "welfare" – either personal or

corporate. In every other context where "welfare" has been at issue, there was some form of giveaway going on – not full payment for services rendered.

OPIC MANAGES ITS PROGRAMS IN A PRUDENT MANNER

OPIC HAS MAINTAINED EXTREMELY STRONG LENDING PRACTICES. It not only scrutinizes the soundness of projects itself, but also has leading outside advisors (such as engineering and law firms) confirm each project's soundness. OPIC requires strong project sponsors and cash equity of 25-40%, and has each project reviewed and approved by its Board and publicly announced. OPIC's 28-year track record of unbroken profits and more than $3.3 billion in accumulated reserves is a clear reflection of sound lending practices.

OPIC has also steadily maintained both industry diversification and geographic diversification. For example, OPIC's recent portfolio includes the following geographic breakdown: Asia/Pacific – 22%; Americas – 41%; Africa/Middle East – 8%; Europe (including Turkey) – 8%; New Independent States – 18%, and elsewhere – 3%. Similarly, OPIC's portfolio includes the following industry sector breakdown: manufacturing – 13%; communications – 8%; financial services – 27%; power – 32%; oil, gas and mining – 15%; tourism and other services – 4%; construction – 1%. [Source: OPIC 1998 Annual Report] Thus, a problem in one of these industries or areas would only affect a limited portion of OPIC's portfolio.

Most importantly, OPIC's very low loan write-off experience demonstrates how successful OPIC has been in maintaining the credit strength of its portfolio. Critics of OPIC have trumpeted loudly that the amount of OPIC's business has increased substantially in the last several years (reflecting enormous growth in the business U.S. companies are winning in developing countries), and have heavily implied that OPIC has not maintained the strength of its portfolio as it has expanded. Once again, though, the facts are quite the opposite.

The most exhaustive evaluation of OPIC's portfolio is set forth in the 1996 J.P. Morgan study that was mandated by Congress. As this analysis reveals, while OPIC's business (and hence exposure) has grown at a compound annual growth rate of 17.5% per year since 1990, OPIC's reserves (funds set aside to be used in case of problems or losses) have grown at a compound annual growth rate of 43.8% per year during the same period since 1990. Thus, OPIC has been increasing its reserve cushion more than its exposure. (See J.P. Morgan study, table p.58.) As stated in a 1997 GAO report, OPIC's reserves are "extremely large relative to exposure by private sector standards" and "more than adequate to cover any losses that OPIC might experience".

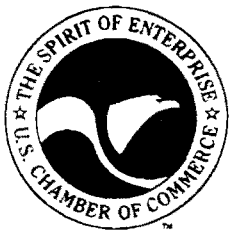
The J.P. Morgan study found that OPIC maintains a ratio of equity and reserves to assets (exposure) of 96.5%, while private insurers studied in comparison were found to have ratios of only 53%, 69% and 87% (see J.P. Morgan study, table p.59).

As all of these factors show, OPIC has been very careful to maintain the strength of its portfolio, and OPIC critics' claims about risks "possibly" spiraling out of control are not supported by the facts.

CONCLUSION

OPIC IS A REAL SUCCESS STORY. It is performing a catalytic role, making a profit, providing financing and insurance that private banks and insurers cannot provide alone and it is generating American exports and jobs. OPIC is making it feasible for companies like Enron to keep the sourcing for their international projects here at home in the U.S. As I have explained, we are willing to pay "full freight" for these services – pricing that fully covers all of the costs and risks in providing the services to us – and we are even willing to comply with extensive policy requirements that private lenders (and many foreign government finance programs) do not impose. The one thing we are not willing to do is give up or lose the international competition for these major infrastructure projects. We would like very much to be able to buy all of the equipment and services for those projects from the U.S., but the message I must leave you with today is that we can only do so if the necessary financing and insurance is available in the U.S. Congress has an important role to play and we urge your full support for a multi-year reauthorization of OPIC.

Thank you very much for this opportunity to appear here today. I would be happy to answer any questions the Committee may have.



Statement of the U.S. Chamber of Commerce

ON: REAUTHORIZATION OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION

TO: SUBCOMMITTE ON INTERNATIONAL ECONOMIC POLICY AND TRADE OF THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

DATE: APRIL 14, 1999

BY: WILLARD A. WORKMAN

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 more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 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 -- numbers more than 10,000 members. 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 83 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. Currently, some 1,800 business people participate in this process.

STATEMENT
on
REAUTHORIZATION
OF THE
OVERSEAS PRIVATE INVESTMENT CORPORATION
before the
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
AND TRADE
Of The
HOUSE COMMITTEE ON INTERNATIONAL RELATIONS
for the
U.S. CHAMBER OF COMMERCE
by
Willard A. Workman

April 14, 1999

Thank you, Madame Chairwoman, for inviting me to testify before this subcommittee. I am Willard A. Workman, Vice President, International, for the U.S. Chamber of Commerce. The U.S. Chamber is world's largest business federation representing three million businesses and organizations of every size, sector, and region. The subject before your committee today is important to a growing number of U.S. Chamber member companies and their employees. These companies are going global, and incorporating the programs of agencies like the Overseas Private Investment Corporation (OPIC) in their market entry strategies as they do so. I appreciate the opportunity to present today the U.S. Chamber's views on OPIC programs and the importance of OPIC reauthorization.

As the committee examines the appropriate support role government should play in facilitating U.S. trade and investment abroad, it should do so with an eye to the competitive global environment in which U.S. companies operate. In an ideal world,

governments would play a very limited role in international commerce. The reality, however, is that our competitors show no signs of relenting in their own government-backed attempts at gaining global market advantage.

To compete effectively in emerging markets around the world and improve the outlook for future exports and U.S. jobs, many U.S. companies choose to establish an on-the-ground presence in overseas markets. To protect U.S. assets in these markets requires insurance, and in some of the riskier but fastest growing markets, private sources of finance or insurance are not available. A 1997 GAO report stated that "in some risky markets, private insurers are only willing to provide insurance when a public sector entity is involved."

OPIC was established by Congress in 1971 to support U.S. investment overseas and aid economic development and stability in foreign countries. OPIC offers political risk insurance and financing in the form of loans, loan guarantees, and direct equity investment funds. With its status as a U.S. government-owned enterprise, OPIC's participation can leverage additional private sector financing and insurance that might otherwise not be forthcoming. U.S. projects can then move forward, opening up new markets for U.S. business and creating the exports and jobs that serve those markets. As a self-sustaining agency, OPIC charges market-based fees and premiums for its services, and operates at no cost to American taxpayers.

All of America's major trading partners have OPIC equivalents that help their companies compete for overseas business opportunities. Not only do OPIC programs serve to level the playing field for U.S. companies, but they insure that those companies can use American suppliers and their workers to service their overseas projects. When U.S. companies receive support from foreign export credit agencies (ECAs), they are often required to use suppliers from the ECA's home market, resulting in lost opportunities for U.S. companies and their employees.

OPIC also plays a key role in working with small and medium-sized businesses as they seek to enter foreign markets and establish trading relationships in these markets. Between 1993-1996, the number of small manufacturers (less than 100 workers) with 10 percent or more of total sales as exports went from 1 in ten to 1 in five. As small businesses consider investing in emerging markets around the globe, they can avail themselves of OPIC's city and state outreach programs for small business, small business hotline, specialized loan structures and streamlined insurance application procedures.

At a time of financial uncertainty in Asia and other places around the world, OPIC's programs have contributed to financial recovery by allowing critical investment to move forward while safeguarding U.S. commitments. The U.S. Chamber was pleased to see OPIC reopen last year in the Republic of Korea so that American companies can better capitalize on the many investment opportunities in that important market. OPIC continues to view long-term investment as a key ingredient of stability in markets from

Europe and the Newly Independent States to the underdeveloped markets of the African continent.

Government participation in international trade should always be subject to careful scrutiny. Are the programs fulfilling needs that cannot be met by the private sector? Are they carrying out the defined objectives of their agencies, but not others? Are they helping to create a level playing field for American companies? OPIC programs meet these critical tests and for that reason the U.S. Chamber is pleased to support a four-year reauthorization of the agency. Thank you, Madam Chairwoman, and I would be happy to take any questions you might have.