

**OVERSIGHT AND REAUTHORIZATION OF THE
EXPORT-IMPORT BANK OF THE UNITED STATES**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED TWELFTH CONGRESS
FIRST SESSION
ON
EXAMINING THE OVERSIGHT AND REAUTHORIZATION OF THE EXPORT-
IMPORT BANK OF THE UNITED STATES

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TUESDAY, MAY 17, 2011

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:03 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. Good morning. I will call this hearing to order.

Today, the Committee welcomes the Chairman and President of the Export-Import Bank of the U.S., Fred Hochberg. This hearing will allow us to continue our ongoing oversight of the Bank's recent activities. In addition, we will hear from the Chairman about the Bank's ideas for reauthorization.

The Bank's current authorization expires on September 30, 2011, and it is my goal to work with Ranking Member Shelby, Senator Crapo, and other Members of the Committee to reauthorize the Bank.

I want to thank all Members of this Committee for their support of Wanda Felton and Sean Mulvaney last week. It is imperative that the Senate confirm these nominees as quickly as possible.

The Export-Import Bank is the official export credit agency of the U.S., and it assists in financing the export of U.S. goods and services to international markets. Following the financial crisis, the Bank experienced a dramatic increase in its activities as many companies struggled to find financing in the private market. In fiscal year 2010, the Bank saw a 70-percent increase in authorizations from 2008. In fact, last year the Bank committed almost \$25 billion in support of U.S. exports—a record.

The Bank is one of the few Federal agencies that actually makes money for the U.S. and, since 2008, has been self-funding. This is a testament to the Bank's leadership under Chairman Hochberg, as well as the good work of the dedicated staff and Board of the Bank.

All of the Bank's transactions are backed by the full faith and credit of the United States. Therefore, it is important for this Committee to make sure that the Bank is working as efficiently and effectively as possible to protect the taxpayers.

Equally important is the Bank's goal to use exports to help create and maintain jobs here at home. This mission, embodied in the Bank's charter, is at the very core of what Congress intended the Bank to do. I believe that while the Bank is doing a good job, it can—and must—do more.

Over the next several years, the Bank will face some challenges. After weathering the financial crisis, the Bank may see a shift in the types of deals it is asked to finance as the economy recovers. In addition, the President has called for the doubling of our exports by 2015 in an effort to create as many as 2 million American jobs. As the Nation's official export credit agency, the Bank will play a critical role if we are to meet that goal.

I am eager to hear from Chairman Hochberg about the Bank's recent activities and his ideas for reauthorization.

I now turn to Senator Crapo for any opening remarks he may have. Senator Crapo.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you very much, Mr. Chairman, and welcome, Mr. Hochberg. We appreciate you being here today.

As you have noted, Mr. Chairman, the President declared in his State of the Union address that he hopes to double the American exports in 5 years, and he has identified the Export-Import Bank of the United States as one of the leading Government agencies to help accomplish that goal.

Financing is a key element in global trade competition, and extending the Bank's programs is a vital and integral component in supporting the export of American-made goods and American-provided services for both small and large companies.

In 2006, I had the privilege of working with my colleagues on the Banking Committee and then-Export-Import Bank Chairman Jim Lambright to reauthorize and reform the Export-Import Bank in a process that reflected broad bipartisan agreement.

The last reauthorization changed the Economic Impact Procedures to ensure that the Bank's support for transactions not only helps U.S. exporters but does not negatively impact domestic companies. Since the Bank was not meeting its 20-percent small business mandate, the legislation made structural changes to make sure that the small business community has advocates to advance its needs and to address its concerns. And while it is appropriate to review the content requirements, tied aid requirements, and funding limits, we should be mindful that the Bank's authorization expires in just a few months.

We need to quickly assess the results of these changes from 2006 and determine if there are any other reforms to the Bank's operations that are needed to maintain or improve its competitiveness with export financing while not negatively impacting domestic business.

There are literally billions of potential global consumers, both established and emerging, in the markets for goods and services made in America. Getting these American goods and services into consumers' hands worldwide is the key to our export challenge.

And one of the challenges the Bank and our exporters face is that other nations also use very aggressive export policies, which

often limit the attractiveness of our export market to foreign buyers if we do not deal with them. Hopefully today's testimony will shed some light on these issues and contribute to our speedy reauthorization process.

Thank you, Mr. Chairman.

Chairman JOHNSON. Are there any Members who wish to make opening statements?

[No response.]

Chairman JOHNSON. If not, today's witness, Fred Hochberg, is the 23rd President of the Export-Import Bank, the U.S. Government's official export credit agency. In this capacity, he also serves as Chairman of the Board.

Mr. Hochberg, thank you for being here today. You may proceed with your testimony.

**STATEMENT OF FRED P. HOCHBERG, PRESIDENT AND
CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES**

Mr. HOCHBERG. Thank you, Chairman Johnson and Senator Crapo and distinguished Members of the Committee. Thank you for the opportunity to testify today about the Export-Import Bank and our reauthorization.

The Export-Import Bank of the United States helps U.S. companies and workers compete in the global marketplace. In 2010, at Ex-Im Bank's annual conference, President Obama kicked off the National Export Initiative with the goal of energizing our export base and creating jobs through a doubling of exports by 2015.

The Export-Import Bank is our Nation's official credit agency, export credit agency. Our mission is to enable American companies, large and small, to compete for sales that help maintain and create U.S. jobs.

In 2008, as the financial crisis unfolded, Ex-Im Bank stepped in to assist businesses when the private sector was unable or unwilling to provide financing. This ensured that American businesses and their employees were able to compete for sales that helped their companies and their workers weather the tough economic times.

The Bank fulfilled its mission with reasonable assurance of repayment by providing export financing through its loan, guarantee, and insurance programs. This is something that Ex-Im Bank has been doing since it was established in 1934. Ex-Im Bank helps U.S. companies compete with foreign competitors that receive support from their export credit agencies. In short, we help level the playing field so that U.S. businesses can compete based on quality and price of their products and services and not be undercut by overly aggressive use of export financing. We provide our exporters and the workers with a competitive edge.

In fiscal year 2010, Ex-Im Bank authorized a record \$24.5 billion worth of financing which supported more than \$34 billion worth of U.S. exports and 227,000 U.S. jobs at more than 3,300 companies. We proudly added more than 500 businesses over our fiscal year 2009 levels.

We are now halfway through fiscal year 2011, and I am confident we will have another record-breaking year. We are already ahead

of where we were mid-year 2010. And I would like to note that we do this work at no cost to the American taxpayer.

Since October of 2007, Ex-Im Bank has operated as a self-sustaining Federal agency. Given the importance of lowering our Nation's deficit, I am pleased to report that over the past 5 years our agency has generated \$3.4 billion for the U.S. Treasury.

Ex-Im Bank helps businesses, large and small, sharpen their competitive edge in every part of the country.

Mr. Chairman, in your State we have supported nearly \$18.5 million in exports since 2007. I have results for Senator Shelby. Let me continue. In fact, for all Members of this Committee, total exports supported more than \$19 billion, of which more than 40 percent was for small business, and that is since 2007.

Let me briefly touch on three issues that we are particularly proud of at Ex-Im Bank: our support of small businesses, our support of renewable energy projects, and our support of Sub-Saharan Africa projects.

First, the Bank dedicates substantial resources to assisting small businesses, and it is paying dividends. More than 85 percent of all transactions at the Bank assist small companies. Our total for small business transactions have increased from \$3.2 billion in fiscal year 2008 to \$5.1 billion in 2010, which was a record for the Bank. We have been able to meet our 20-percent small business mandate even as our total authorizations grew 70 percent in the past 2 years. In fact, in 43 of 50 States, we are well above the 20-percent small business mandate.

In order to reach more small businesses, we are partnering with the U.S. Chamber of Commerce, the National Association of Manufacturers, and several financial institutions to leverage their networks.

In January of 2011, Ex-Im Bank launched a new initiative called Global Access for Small Business because for small businesses to compete they need access to capital and liquidity. It includes new financing products for small exporters and concrete goals to double small business financings to \$9 billion by 2015, as well as add 5,000 more of these companies to our portfolio.

Ex-Im Bank along with these partners has already organized nine Global Access Forums across the country. As I mentioned to Senator Hagan just before, we will be doing one in North Carolina in early June. We plan to hold 20 in the course of this year.

Second, I want to share with you the strong results we are achieving in financing renewable exports. In fiscal year 2008, the Bank authorized \$30.4 billion in renewable energy exports. That grew more than tenfold by 2010 when we authorized \$332 million in renewable energy exports. We are optimistic that for fiscal year 2011 we will have doubled last year's numbers, which would set another record for renewable energy exports in 2011.

Third, we are breaking records with our work in Sub-Saharan Africa. For fiscal year 2009, the Bank supported \$412 million across 20 countries. In fiscal year 2010, that grew to \$812 million, a new record, and it represents 5 percent of all U.S. exports for the region, more as a percentage than any other region of the world. In fiscal year 2011, Ex-Im Bank expects to top \$1 billion in Sub-Saharan African authorizations.

Last, let me take a moment to discuss our reauthorization legislation that was sent to you yesterday. Our legislation extends Ex-Im Bank's authorization through September 30, 2015. We clean up outdated language that references programs we no longer need and countries like Yugoslavia which no longer exist.

The final highlight of our language is that we gradually increase our existing exposure cap from \$100 billion to \$140 billion over 4 years. This will enable the Bank to continue to support U.S. exports and meet the President's goal of doubling them by 2015.

I am proud of the excellent work that the 400 strong Ex-Im Bank staff is doing to create jobs, and, again, this is at no cost to the taxpayer.

I look forward to working with you on our reauthorization. This will allow the Bank to continue to help grow exports and jobs while at the same time making American businesses more competitive in the global markets.

I thank you for this opportunity to testify. I look forward to your questions.

Chairman JOHNSON. Thank you for your testimony.

As we begin questioning the witness, I will ask the clerk to put 5 minutes on the clock for each Member's questions.

In large part due to the economic crisis, the Export-Import Bank has seen a 70-percent increase in its authorized transactions over the last 2 years. As the economy continues to recover, how do you think the Bank will be affected?

Mr. HOCHBERG. Senator, thank you for that question. I am very proud of the fact that we have stepped in to the financial crisis and increased our authorizations over 70 percent.

That said, although the financial crisis and the banking crisis is subsiding, we still see a need for extensive export assistance partly to address foreign competition. Our companies are facing brutal competition, and it is important that we continue to create jobs here in the United States through exports.

Second, more and more exports are going to emerging economies which have less access to the capital markets, less access to banking, and, therefore, there is still a great need for our services.

Chairman JOHNSON. The President has announced a National Export Initiative to double exports by 2015, which could create 2 million new jobs. How can the Bank best advance the goals of this initiative?

Mr. HOCHBERG. Chairman Johnson, the best way that we can address those is by making sure that when American companies are competing for orders, competing for sales overseas, that financing is never an impediment to making that sale. So we are helping companies, large and small, make sure that they have the financial resources—small companies primarily through access to liquidity and insurance on receivables, large companies making sure they have a competitive financing offer so that they can meet the foreign competition.

Chairman JOHNSON. At the close of fiscal year 2010, the Bank had \$75 billion in total obligations outstanding. The Bank is prohibited from exceeding \$100 billion in outstanding obligations. If Congress were to raise this cap, what impact would that have?

Mr. HOCHBERG. Senator, we are increasing our authorizations each year. So far this year we have authorized \$13.4 billion, and I expect this year we will in all likelihood top last year's record of \$24.5 billion. So each time we add to those authorizations, we need to add to our portfolio. Roughly speaking, we added \$20 billion; about \$10 billion stays on the portfolio because they are longer-term deals, and the balance will be paid off for the short term. So we need an increase in the exposure cap to continue to support American companies as they compete overseas and compete for jobs here at home.

Chairman JOHNSON. The Bank is required to ensure that at least 20 percent of its annual authorizations goes toward small business. Under your leadership the Bank has met this goal this year. Can you talk about how the Bank works to meet and possibly exceed this mandate?

Mr. HOCHBERG. Senator, I think that one of the reasons that President Obama asked me to take this position was my work at the Small Business Administration under President Clinton as the Deputy and the fact that I ran a company that was once small for 20 years, a family business called Lillian Vernon.

The key to our growth in this economy is small business, and it is central to our work and central to my work at Ex-Im Bank. We have launched a number of these Global Access Forums around the country. I know that you and are working to find a date in South Dakota, for example. Most of this is about information. We do need resources to meet small business owners. They frequently do not understand how we can be a resource and help them grow their businesses. So resources are critical, and that is a separate matter in terms of appropriation.

We have also added new products, Express Insurance and a number of fast products to improve turnaround time to make sure that small companies get answers and get answers quickly.

But it is a real challenge to meet the 20-percent threshold each and every year based on the resources that we have.

Chairman JOHNSON. The Bank limits foreign content in many of the transactions it approves. Can you explain how the Bank calculates domestic content for the products and services it supports?

Mr. HOCHBERG. We work with our exporters. We have an engineering department that will certify, working with their self-certification and reviewing that, to ensure that in the case of full support 85 percent of the content is U.S. made and domestic.

To the extent that content is less than 85-percent U.S. content, we simply adjust the amount of credit facilities or insurance to be commensurate with the amount of U.S. content in those transactions.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you very much, Mr. Chairman.

Chairman Hochberg, the last reauthorization changed the Economic Impact Procedures to ensure that support for transactions not only helps U.S. exporters but does not negatively impact domestic companies. Has the Sensitive Sectors List succeed in making the process more predictable about financing that is unlikely to be provided while still allowing the transactions to proceed?

Mr. HOCHBERG. Senator, we have the Sensitive Sectors List that we look to and that is a guide to exporters to understand that there is particular heightened scrutiny on those particular transactions. It is a process that we review each time, and sometimes it requires outside of that area more in-depth analysis depending on the nature of the industry or the nature of the product. But the Sensitive Sectors List has not changed since the last reauthorization.

Senator CRAPO. So do you feel that there is an adequate focus on the part of the Bank's operators and those who implement its processes to making sure that we focus on the possible negative impacts on domestic companies?

Mr. HOCHBERG. Without question. We take that very seriously.

Senator CRAPO. All right. Thank you.

Also, in the last reauthorization we made structural changes to make sure that the small business community has an advocate to advance its needs and required the Ex-Im Bank to authorize banks to process medium-term transactions on behalf of Ex-Im Bank to facilitate the approval of such transactions. Do you think these initiatives have been successful? And are we meeting our small business targets effectively?

Mr. HOCHBERG. We are meeting our small business targets. I will tell you that, despite enormous effort, it is a large challenge. Small business owners need much more one-on-one contact and one-on-one work on those transactions. They do pay dividends and they do bear fruit, but it is labor intensive at this time.

We have brought in a new Senior Vice President of Small Business, someone I actually worked with at the Small Business Administration. I personally put—a majority of my time is spent on working with the small business community.

Senator CRAPO. All right. Thank you for that.

My last question is, as you know very well, gaining an edge in financing is critical in terms of export competition, and last year, the Bank invoked an almost never used provision in the charter to level the playing field, so to speak, in a transaction involving American and Chinese locomotives.

What changes to U.S. export credit financing generally do you see necessary to help us level the playing field?

Mr. HOCHBERG. This was a sea change for the U.S. Government. We had evidence that the Chinese were offering financing assistance to a Chinese manufacturer that did not comply with OECD guidelines that the other 31 industrialized countries follow. China now is the largest exporter in the world and the second largest economy, and yet they do not follow the same rules and protocols that the other industrialized countries do.

As a result, having that evidence, we worked with the White House and the Treasury Department, and we were able to come up with a competitive financing arrangement. We informed the OECD that we were going to do so and have offered that to the exporters to make sure that when the Pakistan Rail Authority makes a decision, it can be based on the products, the attributes, service, and price and not on financing terms. We are still waiting for that transaction to be resolved.

Senator CRAPO. Do you think we need to change anything in the law in order to facilitate your ability to achieve these kinds of efforts to level the playing field?

Mr. HOCHBERG. I think the most important thing we need to do is make sure that the exporting community realizes that and does not give up on competing against China because they feel they are such a formidable competitor. So I think we have the tools, and I am looking to make sure that other exporters in other sectors realize that we will back them fully to make sure that we protect U.S. jobs and are competitive and go toe to the toe with the Chinese or any competitor that is trying to make sales in the global marketplace.

Senator CRAPO. Well, thank you, and I appreciate your attention to these issues.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Reed.

Senator REED. Thanks very much, Chairman Johnson, and, Chairman Hochberg, thank you for your leadership not only at the Ex-Im Bank but, as you indicated before, at the SBA. You bring great experience and great energy to this effort.

One of the impressions I have is there are a lot of particularly small businesses throughout the country that could be in the export sector but are not for many reasons. What are you doing proactively along with your other colleagues in the Administration, the Department of Commerce, *et cetera*, to get potential export companies, small business companies, in the game?

Mr. HOCHBERG. Senator, actually we are going to be in your State in early June with Congressman David Cicilline. Perhaps you can join us as well. We are going to be doing one of our Global Access Forums, along with Karen Mills, because we frequently do these with the SBA or the Commerce Department.

One of the most effective tools we have are these Global Access Forums where we bring in small companies and explain to other small business owners how they have successfully exported, created jobs, and actually created sales and profits through that.

The best way we can do that, candidly, is with Members of this Committee who can help bring the business community to the table, and we will do that education.

Part of this, again, this is not an appropriation hearing, but this is about resources. These are labor intensive and time intensive, and we are at the same level as the CR, which has not increased our appropriation in any way, to take an account for additional volume or outreach to small businesses.

We have a greater Web presence. We are doing webinars on a monthly basis. And, importantly, we are also changing our products. I have been challenging the agency to streamline our operations to get exporters quicker answers. We launched a product called Express Insurance where we are giving an answer to an exporter, a quote on insurance within 5 days, and frequently better than that.

So those are some of the tools, but a lot of it is also communications.

Senator REED. Let me ask a question, because you raised this in the context particularly of very constrained budgets, you have got

to be able to show that you are adding value to the process. And in terms of what Ex-Im Bank is doing, some critics have suggested it merely sort of does not increase overall economic activity, it just reallocates it to the export sector.

Do you have measurements and metrics that show, you know, jobs are growing in this country, particularly in the small business community, that otherwise would not?

Mr. HOCHBERG. Well, what we do, Senator, is we work with the Department of Commerce and have made an estimate that about 7,400 jobs are created for every \$1 billion worth of exports that we support, and that is looking at the entire supply chain. You cannot just look at the company that actually ultimately ships the goods. You have to look at all the equipment and material that work to get it to that point. So we use that number of 7,400 jobs per \$1 billion of exports, and by that calculation, last year we either created or sustained 227,000 jobs through the financings that we did.

I would just add one more thing. American companies are continually facing a very, very tough competitive environment. The Senator referred to the transaction on Pakistan where we are competing against the Chinese. We compete against the Koreans, the Germans, the Japanese, the French, the Italians, and many, many other countries. And sometimes if it were not for the financing we offer, comparable financing, those sales would be lost and those products would be made by workers in those countries versus workers in America.

Senator REED. I think your goals are not only laudable but actually essential to the success of the country going forward. As we all know, the President has pledged to do everything they can to double exports. As you look at that challenge, what do you have to do more, what do we have to do more to try to reach that goal of double exports?

Mr. HOCHBERG. Well, we are actually on a good track. Exports are up 17 percent in 2010. January was a record month of exports for the United States, and then that record was broken again in March. So we are actually on a good trajectory in terms of increasing exports.

It takes greater dedication to manufacturing, a greater dedication to services, which actually we run a trade surplus in, and ag products as well. Secretary Vilsack is working very hard on making sure we increase our agriculture exports as well.

I think that it requires the resources at Ex-Im Bank and the Commerce Department because we are clearly outgunned when it comes to foreign competition. My competitor export credit agencies have offices throughout the world. The Chinese have offices, the Japanese have offices, the Canadians have offices. You know, I would give you one example. Our offices are in the United States, and our appropriation is somewhat limited right now.

Senator REED. Thank you very much, Mr. Hochberg.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Moran.

Senator MORAN. Thank you, Chairman Johnson.

Mr. Chairman, thank you. My first opportunity to extend an— an opportunity to say hello to you and get acquainted, and I appreciate that very much.

I want to just follow up on your last response to what you were saying to Senator Reed. Tell me about the competitors. If we are doing OK, and you say we are on the right trajectory, what do we see our competitors doing, particularly as it relates to access to credit, assisting their exports? You talked about offices around the world. Tell me more about what they have that we do not have.

Mr. HOCHBERG. I would say primarily what some countries—and I will name China, for example. There is a lot of support before a company exports, either free facilities, a tax holiday, 1-percent or no-percent interest loans. There are a number of those kind of programs that actually assist their manufacturing base and then make them very formidable competitors on price as well. So that is something that some foreign competitors are doing. China is particularly noteworthy in that particular area.

Senator MORAN. Before we ever get to the export market, they are subsidizing the production of manufactured goods, for example. We see that in agriculture in which part of what we do is support the production of agricultural commodities, but part of what we do is try to encourage their sale abroad. And so we may not be competing well in the support for the industry. Tell me about the access to credit. How are we different than other countries? And what disadvantages do we have?

Mr. HOCHBERG. Well, actually, we have a number of advantages. One of the things we do is we can make a direct loan when a guaranteed loan does not work. Most of our foreign competition, the traditional OECD, you know, the European countries, cannot do direct lending. So that actually gives us an advantage.

We have employed a number of new financing products—that is something called a take-out option—that if there a material adverse condition, we will take a loan away from a bank if they would like to send it back to us so that they can no longer service it.

So there are a number of programs like that that we have put in place, and I would say with pride we have taken the small business mandate far more seriously than our competition has.

Senator MORAN. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Warner.

Senator WARNER. Thank you, Mr. Chairman. And let me welcome my friend, Chairman Hochberg, whom I have had the opportunity to know and work with back to the days when he was in the private sector. Congratulations on your success at Ex-Im Bank.

I want to follow up on both Senator Moran's comments and Senator Crapo's comments in terms of competition with the other export credit agencies.

I guess the first point I want to make is that clearly China is not playing by the same rules that all the other participating OECD countries are playing by. Is there any coordinated effort, since China does these enormous subsidies and has a very, very low cost of capital, where, you know, the rest of the world is playing by one set of rules, is going to have some kind of united action vis-a-vis these kind of outside-the-fair-boundaries rules that China is playing with?

Mr. HOCHBERG. I have been with Secretary Geithner and Secretary Clinton, who have advocated China to more comply with the rules and protocols that other export agencies do. Last week, there

was the China Strategic and Economic Dialogue, and that was one of the central themes that was discussed with the Chinese.

I was at a G-11 meeting, which was the G-7 plus the BRICs, so the Chinese were with us last week, and I had a meeting in Europe and discussed at length having them move closer toward OECD protocols so that they would be providing financing on the same terms that the United States and other exporters do.

Senator WARNER. Are other OECD countries putting that same kind of pressure on as well? Is there any kind of coordinate action?

Mr. HOCHBERG. It is coordinated. I would say that we have to take the lead. As the United States, people look to us to take a leadership role. I think we did that in our financing of the rail for Pakistan. Offering that was a clear statement that until you comply, we will not sit idly and let orders go away because you have better financing than we do.

Senator WARNER. We would look toward, as we look at the reauthorization, how we make sure we have got those tools.

Now, in terms of some of the other export credit agencies, obviously, you mentioned, they are more aggressive. We have got a deal in our State, the iridium deal, which I am sure you are familiar with, where France came in and topped us out and, you know, I just was curious. How can we make sure some of these areas, satellite technology, something that we have an advantage on, that we can stay competitive?

Mr. HOCHBERG. I would say there is one other area I should mention that also Ambassador Kirk is taking the lead on, as well as Secretaries Clinton and Geithner, and that is on a level playing field, to make sure that when American companies—I am convinced that American companies will compete and win their fair share of orders when there is a level playing field and the bidding is truly open to all competitors, not simply State-owned enterprises or local companies.

That is something that we are continually working toward, and it is a challenge for American companies when they are bidding, be it in—not just in China but in Asia and Latin America, to make sure that American companies can bid on the same terms as local companies.

Senator WARNER. But if my information is correct, Ex-Im did not even make an offer on the iridium circumstance.

Mr. HOCHBERG. On the iridium transaction, they ultimately did not even make an application to us in the end, and from the preliminary data, we felt that the risk profile in that transaction was looking outside of the level that we were comfortable financing. And as a result, we never actually did receive an application.

Senator WARNER. Mr. Chairman, one of the things I hope that we will have a chance to look at as we work through this reauthorization—and I look forward to working with you since this falls in our Subcommittee, and I would like the Chairman's comments on any proposed changes to the content rules. Obviously, content rule in terms of what type of activity you can help finance. We have had a lot of changes in the 50 years since, I believe, the content rules originally were laid out in terms of global supply chain, a lot more move toward technology products and services where—and, again, I commend your efforts on the small businesses, but particularly a

lot of small businesses are in that technology and supply chain, service in the supply chain as well.

Do you have any comments for the Committee in terms of proposals that you would want to see changes in the content rules?

Mr. HOCHBERG. The content rules now require that as long as the content is 85 percent, we will fully support the export. If the U.S. content is 50 or 60 percent, we will provide 50 or 60 percent of the financing. So we adjust our financial support based on the U.S. content.

With close to—well, actually, we are back at 9-percent unemployment, I find it very—it is hard to justify dropping the content as a way of increasing employment. We use content as a proxy for American workers and American labor. So I think the content rules, as we currently enforce them, are the best way we can help increase employment.

Senator WARNER. Even as we look on the service side and kind of—

Mr. HOCHBERG. On the service side, we can support services. About 10 percent, Senator, of our exports last year were on the service side. We are working with Black & Veatch, a company in Kansas, that is 100-percent service export. So the service side we can support, be it engineering, architectural, legal, insurance.

Technology companies are the ones that present somewhat of a challenge, and that is really—we need the product to be shipped from the United States to be a true export, and we need verification that it was create by U.S. workers. In that case we can support it.

Senator WARNER. Well, I would just like to look at kind of—since on technology so much of where it is shipped from may be one indication, but there are so many different parts along the way. I look forward to working with you on that.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Merkley.

Senator MERKLEY. Thank you very much, Mr. Chair.

Thank you for your testimony. I wanted to start by asking about the economic impact studies on productive machinery. I believe you do a couple a year or you pick out topics. How do you decide what to choose to explore in those studies?

Mr. HOCHBERG. For economic impact?

Senator MERKLEY. Yes.

Mr. HOCHBERG. It is on a transaction-by-transaction basis. When we get a transaction that would be of capital equipment that, therefore, might impact or hurt American competitive businesses and American companies, we will at that point do an economic impact study to ascertain whether this would be harmful or not to the U.S. economy. So it is really on each transaction.

Senator MERKLEY. So, for example, in the Pacific Northwest, we have lost a lot of paper manufacturers to low-cost paper coming from China, and I know that China has shipped in major production machinery from around the world, I believe including U.S. machines. I do not know if they were subsidized at all by the Export-Import Bank, but is that the type of issue you would explore? And have you explored that specific issue?

Mr. HOCHBERG. I have not explored that specific issue, but what we would—the way we would approach situations like that, if there was an export of paper-making equipment that we were being asked to finance, we would look at that export of paper-making equipment and see whether that would hurt American competitiveness by producing paper and giving capacity and capability to a foreign company in a foreign country. So it is more on the export of the capital equipment that we would be making that assessment.

Senator MERKLEY. Do those studies come in advance or are they backward-looking?

Mr. HOCHBERG. Well, they are both backward-looking and, as best we can, making a forecast of what would this additional capacity on the part of a foreign company and could that compete in a material way with the marketplace for American goods and services.

Senator MERKLEY. When you are guaranteeing loans to foreign companies to buy American products and those companies do not pay up in a certain amount of time—I do not know if it is 60 days or 90 days—how do you go about essentially holding those companies accountable?

Mr. HOCHBERG. Senator, I think that is one of the key reasons why American companies work with us, and they work with us in challenging environments. We have at our disposal—frankly, the United States Embassy is very helpful. We do a thorough review of the creditworthiness before we get there. So our write-off rates average about 1.5 percent, which, if you look at it on a commercial basis, is actually very strong and a low write-off basis. And we are dealing with far more challenging credits than the average bank.

Senator MERKLEY. Certainly any private lender would be envious of that write-off rate. Are there private lenders that find that there is enough business in the export world that you are not attending to that you have the complement of private financiers in this sector?

Mr. HOCHBERG. Oh, without question. I mean, the United States Export-Import Bank finances or is engaged with about 1.5 percent of U.S. exports—frankly, a low-intensity level, lower than most other developed countries. So we really as the United States far more on the private sector to support trade finance than almost any other country.

Senator MERKLEY. I really think of the Bank as serving in that role where the private market does not attend because of the fact that it is too risky, the buyer is too uncertain, *et cetera*. And yet with a write-off rate of only 1.5 percent, that is quite remarkable. Are there a lot of loans that you simply turn down guarantees for or turn down direct loans for because they are too high of a risk?

Mr. HOCHBERG. Well, first let me say one thing. Companies and countries do not like to default on the U.S. Government. It is not a good idea. We are a very good ally and a good friend and not someone you want to make an enemy of. So that helps in our ability to collect.

Frequently a transaction will—people will work with the Bank, and if we feel that it is not creditworthy enough, we may not even see the application maybe early enough.

That said, the instruction I have given to our Bank is that I want to find a way to get to yes, and if that means perhaps a slightly higher fee or instead of guaranteeing 85 percent we might only guarantee 80 or 75 percent, or ask the exporter to take on some other risk, we want to find a way that we can help a U.S. exporter so that they can make that sale. And we will either look at the pricing or the coverage ratio as a way of getting to yes in one way or another.

Senator MERKLEY. Thank you.

Chairman JOHNSON. Thank you, Chairman Hochberg, for your testimony today.

We will leave the record open for 7 days so that Members can submit additional questions. Chairman Hochberg, please submit your answers to us as soon as possible.

This hearing is adjourned.

[Whereupon, at 10:46 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN TIM JOHNSON

Today, the Committee welcomes the Chairman and President of the Export-Import Bank of the United States, Fred Hochberg. This hearing will allow us to continue our ongoing oversight of the Bank's recent activities. In addition, we will hear from the Chairman about the Bank's ideas for reauthorization.

The Bank's current authorization expires on September 30, 2011, and it is my goal to work with Ranking Member Shelby and other Members of the Committee to reauthorize the Bank.

I want to thank all Members of this Committee for their support of Wanda Felton and Sean Mulvaney last week. It is imperative that the Senate confirm these nominees as quickly as possible.

The Export-Import Bank is the official export credit agency of the United States and it assists in financing the export of U.S. goods and services to international markets. Following the financial crisis, the Bank experienced a dramatic increase in its activities as many companies struggled to find financing in the private market. In Fiscal Year 2010, the Bank saw a 70-percent increase in authorizations from 2008. In fact, last year the Bank committed almost \$25 billion in support of U.S. exports—a record.

The Bank is one of the few Federal agencies that actually makes money for the U.S. and, since 2008, has been self-funding. This is a testament to the Bank's leadership under Chairman Hochberg, as well as the good work of the dedicated staff and Board of the Bank.

All of the Bank's transactions are backed by the full faith and credit of the United States. Therefore, it is important for this Committee to make sure that the Bank is working as efficiently and effectively as possible to protect the taxpayers.

Equally important is the Bank's goal to use exports to help create and maintain jobs here at home. This mission, embodied in the Bank's Charter, is at the very core of what Congress intended the Bank to do. I believe that while the Bank is doing a good job, it can—and must—do more.

Over the next several years, the Bank will face some challenges. After weathering the financial crisis, the Bank may see a shift in the types of deals it is asked to finance as the economy recovers. In addition, the President has called for the doubling of our exports by 2015 in an effort to create as many as 2 million American jobs. As the Nation's official export credit agency, the Bank will play a critical role if we are to meet that goal.

I am eager to hear from Chairman Hochberg about the Bank's recent activities and his ideas for reauthorization.

PREPARED STATEMENT OF FRED P. HOCHBERG

PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

MAY 17, 2011

The Export-Import Bank of the United States ("Ex-Im Bank" or "Bank") is the official export credit agency of the United States. The mission of Ex-Im Bank is to enable U.S. companies—large and small—to turn export opportunities into real sales that help maintain and create U.S. jobs which contribute to a stronger national economy. The Bank achieves this mission by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing. Ex-Im Bank also provides support when export financing is necessary to level the playing field due to financing provided by foreign governments to their exporters that are in competition for export sales with U.S. exporters.

All Ex-Im Bank products carry the full faith and credit of the U.S. Government and are only provided if the Bank is convinced that there is reasonable assurance of repayment. As a result of our diligent review and management of credit, the Bank has a loan loss rate of roughly 1.5 percent—well below most commercial banks. Since FY2008, Ex-Im Bank has operated in self-sustaining financial status at no cost to the taxpayer, while achieving its mission.

Over the past 2 years, Ex-Im Bank addressed the market contractions caused by the financial crisis by stepping in where private banks and other lending institutions were unwilling or unable to meet the trade finance needs. In recent years, the Bank has supported a level of authorizations that is far higher than historical averages.

In FY2008, Ex-Im authorized \$14.4 billion to support transactions that resulted in roughly \$19.6 billion in U.S. exports. Just 2 years later, in FY2010, Ex-Im authorized a record \$24.5 billion in export financing which supported roughly \$34.3

billion worth of U.S. exports and 227,000 U.S. jobs at more than 3,300 U.S. companies.

I am proud to say that we have accomplished all of this work at no cost to the U.S. taxpayer. Ex-Im Bank more than covers our administrative and program expenses through the fees that we charge to borrowers of the U.S. exports Ex-Im Bank helps to support. In the past 5 years, we have sent \$3.4 billion to the U.S. Treasury.

Ex-Im Bank offers three financial programs to keep the U.S. competitive in the world markets: direct loans, guarantees, and insurance. There are various products within these programs, such as Working Capital Guarantees and Export Credit Insurance, which primarily benefit small businesses.

Direct loans provide financing directly to foreign buyers of U.S. goods and service and cover up to 85 percent of the U.S. contract value or 100 percent of the U.S. content, whichever is less.

Loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the outstanding principal and interest on the loan. We provide support up to 85 percent of the U.S. contract value or 100 percent of the U.S. content, whichever is less.

Working Capital Guarantees provide repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. The working capital guarantee may be approved for a single loan or a revolving line of credit. Ex-Im Bank's working capital guarantee protects the lender from default by the exporter for 90 percent of the loan.

Export credit insurance helps U.S. exporters sell their goods overseas by protecting them against the risk of foreign buyer or other foreign debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and support short-term or medium-term sales.

By utilizing these various products, Ex-Im Bank levels the playing field for U.S. exporters and workers so U.S. jobs are not lost to foreign competitors.

To ensure that the needs of small businesses are met, Congress mandates that 20 percent of our authorizations directly benefit small businesses. I am happy to report that we are meeting this mandate. Our totals for small business transactions have increased from \$3.2 billion in FY2008, to \$5.1 billion in FY2010, which reflects a 58-percent increase over the 2-year period. We have been able to maintain the 20-percent small business mandate over the last 2 years, in a time that has seen our total business grow from \$14.4 billion in FY2008 to \$24.5 billion in FY2010, a 70-percent increase.

We recently submitted our 2011 Small Business Report to Congress on March 31st which details our small business activity for fiscal year 2010 and the plans that we have already initiated for 2011 to continue growing our small business portfolio.

While we have met our 20-percent Congressional mandate and we continue to implement new programs and strategies to grow that percentage, it is increasingly difficult to do given our limited administrative budget and our inability to deliver the highest level of quality customer service as a result of our aging Information Technology (IT) infrastructure. The Bank utilizes its various products to respond to the needs of the market and as such, we provide financing based on what business is coming in at any given time. We continue to aggressively pursue small business transactions, but ultimately our percentage of the total portfolio is a function of the sectors that need Ex-Im financing at any given time. Small business transactions account for more than 85 percent of our total transactions at the Ex-Im Bank but are just over 20 percent of the authorization dollars. Meeting our 20-percent small business mandate is something that is highly labor intensive and requires significant resources. To maintain and grow our small business percentage, we will need an increase in our administrative budget.

In order to further expand the small business activity, Ex-Im has initiated the following initiatives:

- *Global Access for Small Business Initiative.* Earlier this year, I was joined by Tom Donohue from the Chamber of Commerce and Jay Timmons from the National Association of Manufacturers in announcing Ex-Im Bank's Global Access for Small Business Initiative. Ex-Im Bank is sponsoring a series of 20 forums across the country to assist small business exporters in understanding how the Bank's programs and programs at the Small Business Administration (SBA) and Department of Commerce can help them begin exporting or increase their international sales. In addition to presentations by successful small business exporters, the Global Access forums include panels of Ex-Im, SBA, and Depart-

ment of Commerce staff based in local United States Export Assistance Centers (USEACs) as well as one-one-one counseling by Ex-Im Bank Export Finance Managers and other Federal agency representatives. These half-day events are free for attendees and held in collaboration with elected officials, representatives from Federal and local government agencies, lenders, and insurance brokers involved with supporting exporters. We also provide small business owners as panelists who highlight their success in using Ex-Im Bank products to start or grow their exporting and we provide one-on-one counseling for businessmen and women at the event.

- *Expanded Bank and Broker Training.* Ex-Im Bank has expanded its lender and broker training options to include monthly trainings around the country. Webinars have also been added to the training curriculum to help exporters, lenders and insurance brokers learn how to use Ex-Im products and services.
- *Supply Chain Finance Guarantee.* The Supply Chain Finance Guarantee provides competitively priced working capital financings to businesses that supply products or services to larger U.S. exporters. These businesses are considered indirect exporters. The product works through approved lenders with an existing supply chain finance program.

It enables the lender to purchase accounts receivable from small business suppliers whose goods will be part of an export. The suppliers are paid for their goods in approximately 5 days which improves their cash flow and liquidity. Ex-Im Bank provides the lenders with a 90-percent guarantee of repayment by the manufacturers. In turn, the Bank requires that at least 50 percent of the credit be to small-business suppliers.

- *Reinsurance.* Reinsurance assists private-sector insurers that provide short-term export-credit insurance covering foreign receivables to predominantly U.S. small business exporters. This new product will increase the capacity of insurance companies to offer insurance to small business exporters that have had difficulty obtaining short-term export credit since the financial crisis. The Bank's reinsurance product will mitigate risks for private insurers and enable them to expand their underwriting capacity for short-term small business credits. It will also help Ex-Im Bank achieve economies of scale in originating, underwriting, and servicing these credits—accomplishing substantially more for small businesses with fewer resources by expanding the reach of private-sector insurers.
- *Express Insurance.* In response to the requests of exporters and Ex-Im Bank broker-partners, Ex-Im is adding a new program to its flagship Trade Credit Insurance product—Express Insurance. Express Insurance specifically targets small businesses. Ex-Im Bank has designed an express insurance product that streamlines the application process for the Bank's short-term export credit insurance. The target turnaround time for a quote is 5 days, down from the current average of 15. Cutting the processing time by $\frac{2}{3}$ and cutting the length of the actual application from 4 pages down to 2 pages and using credit scoring in the processing of new applications and renewals reduces the time frame and the complexity of insurance that small businesses need to protect their export receivables from foreign buyer and country risk.

Authorizations—Small business authorizations in FY2010 increased 15.9 percent to just over \$5 billion as compared with new small business authorizations for FY2009 of roughly \$4.4 billion and FY2008 of roughly \$3.2 billion. In FY2010, small-business authorizations represented 20.7 percent of total authorizations. During FY2010, the number of transactions that were made available for the direct benefit of small-business exporters increased by 21.7 percent to 3,091 transactions compared to 2,540 in 2009.

As referred to earlier, Ex-Im Bank offers two products that primarily benefit small businesses: Working Capital Guarantees and Export Credit Insurance. In fiscal year 2010, Ex-Im Bank authorized roughly \$1.5 billion in Working Capital Guarantees to small businesses compared to \$1.2 billion in 2009. In fiscal year 2010, Ex-Im Bank authorized more than \$2.6 billion in Export Credit Insurance to small businesses.

Increased Lender and Broker Participation—Ex-Im Bank leverages its resources on behalf of small businesses by working with private-sector lenders, insurance brokers and other financial and trade institutions. In fiscal year 2010, 18 new lenders received Delegated Authority to provide working capital guarantees. Delegated Authority provides lenders a preapproved credit line which allows them to approve loans and receive Ex-Im Bank's guarantee without having to submit individual applications for approval. An additional 14 brokers serving small businesses trade insurance needs were added to the roster. At the fiscal year's end, Ex-Im Bank had

a total of 100 delegated authority lenders and 194 registered brokers helping deliver the Bank’s small-business products. While these numbers are significant, we continue to seek additional brokers and lenders to partner with Ex-Im Bank.

Export Initiative With State and Local Constituencies—One effective approach to developing strong partnerships is our initiatives with our City/State Partners. More than 60 Ex-Im City/State Partners in 40 States work with Ex-Im Bank and report their activity annually. Their mission is the promotion, creation and expansion of businesses in a given region by making available financing assistance and entrepreneurial services. Examples of eligible partners include: State, County, City Governments—either directly or indirectly funded; local nonprofit economic development entities funded through universities and colleges; and Small Business Development Centers.

Many of the small business owners are veterans, women, and minorities. Ex-Im Bank wants to do more to reach these key groups which historically are less likely to approach the Bank for financing. In an effort to increase our interaction with these groups, Ex-Im Bank has worked with the Department of Commerce and other sources to increase our outreach. I would also ask Members of this Committee and your colleagues to provide suggestions of organizations, constituencies, and events that you think we should be participating in so we can grow participation among veterans, women, and minorities.

Ex-Im Bank recently created a new position of Director of Veterans’ Relations to better reach out to all veterans groups and to connect export finance opportunities with their knowledge of foreign cultures, people, and businesses. Ex-Im Bank hosted the Vet-Force meeting for Veteran Owned Business (VOB’s), Veteran Community Organizations (VCO’s) and various Government agencies to introduce veterans to export financing. In coordination with SBA’s Georgia District Office Ex-Im’s Director of Veterans’ Relations was the keynote speaker at the first ever Veteran’s Export Symposium.

In fiscal year 2010, Ex-Im Bank authorized \$481 million to support exports by U.S. small businesses known to be minority-owned and woman-owned (this information can be volunteered on applications, but we cannot require it). In fiscal 2009, Ex-Im Bank authorized \$492.7 million to support exports by U.S. small businesses known to be minority-owned and woman-owned. Although support for minority and woman-owned small business declined slightly, the total support increased by \$65.2 million when taking into account medium and large exporters in this group.

(Millions)	2008	2009	2010
Minority and Woman Owned			
Medium/Large Business	\$80	\$70.3	\$147.2
Small Business	\$386	\$492.7	\$481.0
Total	\$466	\$563.0	\$628.2

Significant emphasis is placed on events attended by small business exporters, as well as minority, rural, and woman-owned entrepreneurs. During 2010, staff from within the Small Business Group at the Bank attended 85 outreach events reaching approximately 5,500 Minority and Woman-Owned Business exporters and intermediaries. Ex-Im Bank made presentations at 75 percent of the events attended in 2010.

Significant steps are being taken to boost this segment of the Ex-Im Bank business. First and foremost, during 2010, Ex-Im Bank hired as our new Senior Vice President of the Small Business Group a former banker with 20 years in community development and minority lending and investment experience. In addition, we hired a Vice President of Marketing and Sales, a Community Reinvestment Act professional from a major bank. In addition to their managerial responsibilities, these two officers will further expand Minority and Woman-Owned Business Outreach activities. We have also reallocated resources to achieve our 20-percent small business mandate.

In order to expand the reach and service to small businesses, Ex-Im is doing the following:

- *Global Access Events.* Developing at least 4 Global Access media and training events specifically for Minority and Woman-Owned Businesses.
- *Community Development Financial Institutions.* The Small Business Group attends the conferences for the National Federation of Community Development

Credit Unions, Opportunity Finance Network, National Community Reinvestment Coalition, and events sponsored by Federal regulators concerning Community Reinvestment Act initiatives. The chief objective is to expand the number of local and community development banks and other intermediaries using the Ex-Im Bank trade credit and working capital products and services.

- *Direct Calling on Minority and Woman-Owned Exporters.* In order to expedite the communication with the exporter, Ex-Im has established a “smart database” program. The program, which includes exporter names from the Trade Promotion Coordinating Committee (TPCC), is designed to support direct outreach to minority and woman-owned exporters through systematic cold calling by experienced Ex-Im Bank export finance officers. While targeting the use of Ex-Im Bank’s trade credit insurance, the officers are also trained and encouraged to refer exporters to the appropriate Department of Commerce and SBA functions as reflected by the exporter’s needs.

The global marketplace is brutally competitive for businesses small and large. At Ex-Im we have seen a decrease in sovereign loans and an increase from the private sector in emerging markets. And commercial lenders routinely limit the amount of exposure a company can have in particular regions and consequently those businesses are coming to Ex-Im Bank for financing.

Businesses in the United States are second to none when it comes to manufacturing. The U.S. is the number one manufacturer in the world. We make more goods than China, Germany, and Japan.

However, when it comes to selling overseas, we fall to number three behind China and Germany, which is unacceptable. There is nothing third-rate about American products and American business and there should be nothing stopping us from selling more of the products and services we make into the global marketplace.

By ensuring that more American companies—big and small—go after our share of this global business, Ex-Im Bank is helping build the type of export powerhouse that is at the heart of President Obama’s plan to win the future and double exports by 2015. At Ex-Im, our goal is to provide the financing to make this a reality.

We have targeted nine emerging markets in Brazil, Colombia, India, Indonesia, Mexico, Nigeria, South Africa, Turkey, and Vietnam. Let me provide examples of the work Ex-Im Bank is doing to support exports to a couple of these countries.

India plans to spend \$1 trillion on infrastructure between 2012 and 2017, which is double what they spent in the previous 5 years.

As part of these investments, India needs to build one million square miles of new paved roads and roughly 4,600 miles of new metros and subways. That rail system and those roads mean billions of dollars worth of capital goods and services—from trains to rails to engineering services to paving equipment.

In addition to infrastructure demands, India also has growing power needs. Today, nearly 400 million people in India have never seen a light bulb. India is powering up and they are working to do it responsibly. India recently announced its National Solar Mission, a far-reaching plan to add 20,000 megawatts of solar power by 2020. That is enough to power nearly 10 million homes with renewable energy.

At Ex-Im, we are working with U.S. solar companies to make sure they have the competitive financing they need to be part of these projects. One of these companies is Infinia, which is based in Washington State. Ex-Im recently authorized a \$30 million direct loan to finance a solar project in Rajasthan, India. The project is using Infinia’s PowerDish technology. This was Infinia’s first major sale for foreign delivery and their largest sale to date.

Brazil is another market that we are targeting due to its forecasted growth in the coming years. With the World Cup in 2014 and the Olympics just 2 years later, boosting power production and building out infrastructure are two of the country’s critical priorities. Brazil will invest more than \$200 billion on everything from roads and public transportation, to airports and sports stadiums.

Ex-Im will support American companies—and American workers—exporting to these projects. That’s why just a few weeks ago, President Obama announced a \$1 billion credit facility in Ex-Im financing for the State of Rio de Janeiro. Its purpose is to finance the purchase of more American-made goods and services. All around the world we are seeing similar opportunities for American companies.

In many cases, Ex-Im Bank’s financing levels the playing field when it comes to international competition. Let me give you an example. General Electric (GE) was recently bidding on a \$500 million rail project to supply 150 diesel-electric locomotives to Pakistan. These locomotives are critical to building the infrastructure of Pakistan’s economy, so products and commodities can get to market.

GE was told by Pakistani officials that they preferred GE locomotives and they were willing to pay a premium for their high-quality and dependability. However, there was only one sticking point and it was financing. The Chinese government offered financing that did not conform to international standards and practices. The intended was to provide Chinese manufacturers an advantage that GE could not make up in quality, price or service. This put the entire sale and more than 700 jobs in Erie, Pennsylvania, at risk.

To remedy this, the Administration put together a matching financing package. And for the first time, we went to the OECD, the organization that governs global export financing, to inform them of our decision to match China. While the final deal is not yet completed, this significant policy change signals to foreign competitors that Ex-Im will compete on financing, allowing American companies to compete solely on the quality and value of its products—and the service it provides.

Let me share with you exciting results we have accomplished in financing renewable energy. The Ex-Im Bank has made significant strides when it comes to increasing financing of renewable energy products. In FY2008 the Bank authorized \$30.4 million in renewable energy exports. That grew to \$101 million in FY2009. We tripled our previous year's totals by authorizing \$332 million for renewable energy exports in FY2010. To put this number in perspective, according to data gathered by the Department of Commerce, the U.S. exported a total of \$2.1 billion in renewable energy products in 2009. Ex-Im Bank is playing a major role in supporting U.S. renewable energy exports. In FY2011 we are projecting to more than double our authorizations from FY2010.

We are also breaking records with our work in Sub-Saharan Africa. For FY2009, Ex-Im Bank supported 109 transactions totaling \$412 million across 20 Sub-Sahara African countries. In FY2010 those totals grew to 132 transactions totaling \$812 million in 20 Sub-Saharan African countries, which represents nearly 5 percent of all U.S. exports for the region. In FY2011, Ex-Im Bank expects to top \$1 billion in Sub-Saharan African authorizations.

We are supporting U.S. exports and transactions across various economic sectors including: power, aviation, transportation, construction, agriculture, and mining.

Ex-Im Bank is providing a key service to businesses large and small in the United States. In order for us to continue helping to grow and sustain jobs through exports, the Bank needs to be reauthorized.

Our legislation provides for a gradual increase in our exposure limit over 4 years from the existing \$100 billion to \$140 billion in FY2015, removes outdated references from our Charter—such as removing references to the former Yugoslavia which disbanded in the 1990s, and provides for a 4 year reauthorization which allows the Ex-Im Bank to continue operations through September 30, 2015.

The President's FY2012 Budget continues the Bank's self-sustaining status, which was achieved for the first time in FY2008. I want to emphasize this point: self-sustaining status allows for funding of the Bank's operations, including program budget and administrative expenses, entirely from fees collected from the Bank's borrowers. As a result, the Bank does not rely on taxpayer resources to fund operations, which is critical in a tight budgetary environment. Congress will continue its oversight of Ex-Im Bank's budget, setting annual limits on its use of funds for program subsidy and administrative expense obligations.

Ex-Im Bank and our employees are making a significant contribution to the U.S. economy. Our employees at the Bank have helped increase business by 70 percent since 2008 while implementing new technologies and programs like Express Insurance and Supply Chain Finance which are detailed in my written testimony. At the same time, we have received only a 7.6-percent increase in our administrative expense appropriation since 2008 and have only increased staffing by 13 FTEs or full time equivalent staff. Simply put, we have become leaner and more productive. This is something that every business strives to achieve. While Ex-Im's staffing and budget have remained relatively flat, we have generated billions in funds for the U.S. Treasury. But, in order to meet our goal of doubling exports by 2015, we must be able to increase our administrative budget.

I ran a business for 20 years and I know that we need to continue to invest in capital and human resources in order to grow business. The President has proposed an increase in our budget for Fiscal Year 2012. This increase includes \$124.6 million for our administrative budget which would allow Ex-Im Bank to increase staffing for outreach to small businesses. Additionally, it will provide resources to improve our IT systems to help expedite applications and provide better customer service. While I realize this is our authorizing committee and not our appropriating committee, I would encourage you all strongly to consider the President's request for increased funding levels for the Bank. Let me be clear—this increase in our administrative budget is simply allowing Ex-Im Bank to use more of the money it gen-

erates for administrative expenses, which in turn will help sustain and create more jobs and generate more funds for the taxpayers of our country. The President's Budget still estimates—even with the increase in administrative budget—that the Export-Import Bank will generate excess funds in the amount of \$212.9 million in FY2012.

Thank you very much and we look forward to working with you on the reauthorization process.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR MENENDEZ
FROM FRED P. HOCHBERG**

Q.1. My understanding is that it is in Ex-Im Bank's charter to create U.S. jobs and according to the Ex-Im Bank Web site in 2009 for every \$1 billion in exports the Bank created 7,400 jobs and for every \$1 billion in export financing you created 9,265 jobs. But based on discussions my staff has had with Ex-Im Bank, it seems that the Kusile coal project in Africa will create 1,049 jobs over 5 years (or just over 200 jobs per year) for an \$800 million loan. This is a ratio of \$1 billion in export financing creating 1,311 jobs (or 250 jobs per year). Do you think this ratio of jobs to a loan is good enough? Should we have a target or even a flexible requirement that a certain number of jobs are created per dollar of loan?

A.1. All jobs are important as far as Ex-Im Bank is concerned no matter how few. The Bank is there to support U.S. exports that, in turn, sustain and support U.S. jobs. Moreover, not only were there benefits to Ex-Im Bank being involved in the transaction in terms of exports and jobs but also because the project itself was improved along environmental grounds.

Q.2. I have also heard complaints that loan applicants and Ex-Im Bank loan officers do not under the laws governing U.S. shipping requirements. What are you doing to ensure that Ex-Im Bank employees and Ex-Im applicants know they are required to use U.S. flagged ships with U.S. merchant marines unless certain circumstances arise?

A.2. Ex-Im Bank staff are made aware of the shipping requirements as part of their ongoing training. In addition, the Bank's policies are also posted on our internal and external Web sites for easy reference. (See: <http://www.exim.gov/products/policies/shipping.cfm>). The U.S. shipping requirement is also contained in the internal and external fact sheets of those programs in which the shipping requirement applies. (See: <http://www.exim.gov/products/loanguar.cfm>, and <http://www.exim.gov/products/directloan.cfm>). Finally, our Policy Group is readily available for further information, explanations, or interpretation to staff and external participants.

Q.3. Are you aware that some proposed project sponsors effectively pay their shipping managers a bonus if they lower transportation costs by outsourcing to foreign shipping companies? Can you guarantee that the Bank is not funding projects sponsored by companies that do business this way?

A.3. Ex-Im Bank ensures that transactions receiving Ex-Im Bank loans or guarantees fully comply with U.S. shipping requirements under Public Resolution 17. If a transaction is not in compliance,

Ex-Im Bank will not fund or guarantee financing for the shipments.

Ex-Im Bank's shipping regulations are subject to Public Resolution 17 of the 73rd Congress (PR-17). The following transactions are subject to the provisions of PR-17, and Ex-Im Bank supported goods must be shipped exclusively on U.S. vessels or pursuant to a waiver granted by the Maritime Administration of the Department of Transportation (MARAD):

1. Direct loans regardless of term or amount; and
2. Guarantees in excess of \$20,000,000 (excluding Ex-Im Bank Exposure Fee) or the repayment period of greater than seven (7) years or the term permitted under Ex-Im Bank's Environmental Exports Program, Transportation Security Export Program, or Medical Equipment Initiative.

Requests for waivers of PR-17 can be obtained for a variety of reasons (*e.g.*, if a U.S. vessel is unavailable or unsuitable, *etc.*); however, obtaining a waiver may be difficult as MARAD explicitly tries to keep waiver issuances to a minimum. If a waiver is obtained, goods shipped on vessel of non-U.S. registry are eligible for financing by Ex-Im Bank.

Q.4. I understand from a letter you sent to Transportation Secretary LaHood that you have met with several companies who have claimed hardship when it comes to U.S. shipping requirements. Could you provide the Committee a list of the companies and the projects where you have found hardship in complying with U.S. shipping requirements?

A.4. The estimated impact on Ex-Im Bank is in excess of \$4 billion. On overall U.S. exports, the estimated impact is less but substantial—\$1.5 to \$3 billion. These figures are imprecise in that Ex-Im Bank does not hear about all of the cases that don't come in to us due to MARAD requirements.

The Impact of U.S. Shipping Requirements on the Export-Import Bank of the United States (Ex-Im Bank)

Prepared by the Ex-Im Bank Structured Finance Division, July 2011

Ex-Im Bank is the only export credit agency (ECA) that requires buyers to use domestic (*e.g.*, U.S.-flagged) shipping as a condition of financing eligibility, placing (a) Ex-Im Bank at a comparative disadvantage to other ECAs and, (b) all else being equal, U.S. exporters at a competitive disadvantage relative to foreign competitors.

Exporters and foreign buyers have informed Ex-Im Bank's Structured Finance Division that the requirement to use U.S.-flagged vessels has:

1. Complicated, delayed, and increased the cost of U.S. goods and services supported by Ex-Im Bank;
2. Reduced the amount of Ex-Im Bank support provided to U.S. exporters; and
3. Led to lower U.S. exports.

The following examples on a number of important deals, as reported to the Structured Finance Division, demonstrate these points. Please note that names of companies involved and other identifying facts have been withheld due to confidentiality concerns.

1. Complications, Delays, and Increased Transactions Costs

On several deals, U.S. exporters and foreign borrowers have had to perform extra work to secure U.S. vessels or seek waivers to qualify for Ex-Im Bank financing or hire experts at their own expense to comply with U.S. shipping requirements. Some of these experiences have led foreign buyers to inform Ex-Im Bank of their intention to forgo working with Ex-Im Bank. Examples include:

- A Middle Eastern company, which had difficulty complying with shipping rules before obtaining finance on a infrastructure deal, ultimately requiring the retention of a shipping expert to support future transactions with Ex-Im Bank.
- A project in Latin America, in order to meet shipping requirements and qualify for Ex-Im Bank financing, had to aggregate shipments. The borrower also had to transship through other countries in Latin America, and then ship on a MARAD-specified foreign vessel. The process led to cost increases, project delays, and was blamed for damages to the equipment.
- Several borrowers in Brazil consider compliance with U.S. shipping requirements to be difficult and costly. Even though MARAD ultimately granted one of the companies a waiver, at the time the company stated that they would forgo using Ex-Im Bank again until the shipping requirements are eliminated or substantially changed.
- Ex-Im Bank's financing for a project in the Middle East was delayed by approximately 1 year due to the company's initial unwillingness to pay the cost of a compensatory waiver required for U.S. goods shipped on non-U.S. vessels—ultimately the buyer paid the costs associated with the compensatory waiver.

2. Reduction in Ex-Im Bank Support for Exports

On certain transactions, foreign borrowers have also reduced the amount of Ex-Im Bank financing on certain transactions, reportedly due to U.S. shipping requirements. While these reductions might not directly and immediately lead to less U.S. exports, reduced support levels impair Ex-Im Bank's ability to fulfill its mission to level the playing field for U.S. exporters compared to foreign competitors.

Reduced support on one deal can also lower the chance that a borrower will elect to award a U.S. exporter a future sale. Based on the information received by Ex-Im Bank from exporters and foreign buyers, Structured Finance Division estimates broadly the amount of its financing lost due to U.S. shipping requirements to be about \$4 billion between 2004 and 2010 or about \$600–\$700 million per year.

Examples where borrowers and exporters have informed Ex-Im Bank that their inability or unwillingness to comply with shipping

requirements has caused parties to reduce Ex-Im Bank financing include:

- As a result of having to pay the costs associated with a compensatory waiver on a transaction cited above, the foreign company recently chose not to pursue Ex-Im Bank finance for a transaction for \$900 million.
- A total of \$50 million in gas production equipment exports were excluded from Ex-Im Bank financing approved in 2004 because of inability to comply with U.S. shipping requirements.
- A Latin American company canceled a long-term transaction due to U.S. shipping requirements. The company later sought and received a large Preliminary Commitment from Ex-Im, but allowed the facility to expire, in part, because of concerns about higher shipping costs for U.S. vessels.
- A total of \$25 million of Ex-Im Bank financing for a U.S.-made equipment was canceled because U.S. flag carrier shipping costs were two times that of foreign carriers and parties chose not to pay the additional costs.
- A company reduced its financing request from \$1 billion as a result of U.S. flag carrier shipping costs. Ultimately, the transaction entailed Ex-Im Bank support for less than \$400 million, a reduction of over \$600 million compared to the initial estimate.
- An Asian company chose to ship U.S. goods on a foreign flag vessel rather than on U.S. vessels that were two times more expensive and thus had to cancel a significant portion of its Ex-Im Bank commitment.¹
- An Asian company reduced its financing on a 2011 transaction by about \$25 million to avoid paying transportation rates that were two times as expensive as foreign options. The company did agree to pay shipping costs two times those of foreign carriers to maintain the possibility of Ex-Im Bank finance for other equipment equal to about \$50 million of finance.
- A Latin American company sought Ex-Im Bank financing to support a U.S. contract worth about \$150 million, but canceled the Ex-Im Bank finance because of concerns that about 1/3 of this \$150 million in equipment was not shipped on U.S. flag vessels or pursuant to a MARAD waiver, was unable to obtain a waiver, and thus was not eligible for Ex-Im financing.
- An application for finance of \$61 million for an electricity company was withdrawn because the company had shipped goods on non-U.S. vessels and was unable to obtain a compensatory or other waiver from MARAD.
- Ex-Im Bank was not able to support a transaction for a sale of \$50 million from a U.S. manufacturer to a borrower in Latin America because of a lack of shipments on U.S. vessels and failure to obtain a MARAD waiver.
- A project finance advisor in Latin America informed Ex-Im Bank that, because of U.S. shipping requirements, the project

¹Note that U.S. carriers believe that the terms of foreign competition were unclear, but this does not change the fact that Ex-Im Bank finance of \$18 million was canceled.

sponsor would not pursue Ex-Im Bank financing for the project even though the project could include about \$240 million in Ex-Im Bank eligible U.S. goods and services.

- Ex-Im Bank approved its first-ever merchant power project finance transaction for borrower in Asia. However, the loan for canceled due to U.S. shipping requirements. Ex-Im Bank was informed that U.S. shipping costs were more than four times greater than those of foreign carriers and one-sixth of the total amount of Ex-Im Bank finance. The borrower and exporter chose a foreign carrier, were unable to obtain a waiver, and ultimately canceled the transaction. Executives from the company raised this again in a recent meeting with the Chairman of Ex-Im Bank.

3. Reduction in U.S. Exports

In comparison to the impact on Ex-Im Bank financings, making estimates about the effect of U.S. shipping rules on U.S. exports is more difficult. In nearly all cases, if borrowers make decisions not to “buy U.S.” as a result of U.S. shipping requirement—Ex-Im Bank does not learn about this decision until after the transaction has been finalized. In most cases the U.S. exporter does not know that U.S. shipping requirement negatively affected their sales opportunity, only that it lost a sale.

In a few cases foreign borrowers have informed Ex-Im Bank that U.S. shipping requirements and associated costs have resulted in decisions to shift sourcing choices from the U.S. In other cases, EPC contractors have informed Ex-Im Bank of decisions to shift production to foreign suppliers as a result of U.S. shipping requirements.

Additionally, we have seen the emergence of bidding requirements and other rules that expressly forbid the concept of cargo preference. Based on reports, Ex-Im Bank believes that over the last 5–10 years U.S. shipping requirements have resulted in a reduction of \$1.5 to \$3 billion in U.S. exports. In a competitive, global economy where financial decisions for hundreds of millions of dollars are made on basis points and the ability to meet project deadlines is critical, there is a plausible basis to conclude that the negative impact of U.S. shipping could be potentially even greater. While hard quantitative data on “lost sales” is limited, the evidence points to of a financial loss to U.S. exporters.

The following examples illustrate where parties have informed Ex-Im Bank that U.S. shipping rules have curtailed U.S. exports.

- *Wind Power Project.* In 2010, a U.S. exporter lost a sale to a significant wind power project in Asia to Chinese competitors in part due to U.S. shipping requirements.
- *Wind Power Project.* Earlier this year, on a wind power project in Sub-Saharan Africa, a U.S. wind turbine manufacturer decided to shift production to serve this project from its U.S. facilities to facilities in Germany, because U.S. vessel shipping cost was significantly greater than foreign carrier costs.
- *Uruguay Project.* U.S. manufacturers and Ex-Im were excluded from the opportunity to participate in a follow up bid on a fol-

low-up transaction to a Uruguay project because tender documents specifically required “no shipping restrictions.”

- *Supply Shifting.* “Supply shifting” has emerged on a number of transactions, including a Latin American mining project and a Middle Eastern power project where Ex-Im Bank financing was rejected. Based on information from exporters, Ex-Im Bank estimates this supply shifting to be several hundred million dollars.
- *Latin American Oil and Gas.* A Latin American oil and gas company decided to source an \$80 million contract with a U.S. oil and gas company mainly from its facilities in Europe rather than sourcing at least half from the U.S. as had been originally envisioned. The stated reason was that U.S. shipping costs were too great, so it approached a European ECA for financing for about \$70 million and Ex-Im Bank for only about \$10 million.
- *Integrated Water & Power Project.* A U.S. power generation equipment company appears to have lost a sale for \$400–\$500 million for an Integrated Water & Power Project located in the Middle East. The Middle Eastern power company making the purchasing decision informed Ex-Im Bank that it preferred the U.S. equipment but before making the decision wanted to know if it could obtain a waiver from U.S. shipping requirements. In the absence of an application for Ex-Im Bank finance, Ex-Im Bank believes that this sale was lost.
- *Indian Company.* As a result of its experience paying more for U.S. vessels, an Indian company has informed Ex-Im Bank that it would be shifting sales from the U.S. to other countries.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR BENNET
FROM FRED P. HOCHBERG**

Q.1. In Colorado, we’re fortunate to be home to many innovative companies that research, invent, and manufacture clean energy technologies. What role does the Export-Import Bank play in promoting the export of these technologies? How does the Bank support the growth of our domestic renewable energy sector?

A.1. Ex-Im Bank plays a critical role in supporting clean energy exporters in Colorado, and throughout the United States. Financing is often the most critical element in winning an export sales order. Ex-Im Bank can support clean energy exporters in a number of ways ranging from using Ex-Im Bank’s Short-Term Insurance Program to offer open account financing for international customers for both goods and services up to 360 days—this is much less complicated and lower cost method than having the foreign buyer pay by letter of credit—to our medium- and long-term direct loan and loan guarantee program that can support repayment terms of up to 18 years for renewable energy systems transactions over \$350,000. Ex-Im Bank financing is usually the most cost-effective source of financing for international customers to purchase U.S.-made products and services.

Earlier this year, Ex-Im Bank approved an 18-year loan guarantee under its Renewable Energy Express program for a solar

power project in Canada, which made possible an \$800,000 sale of solar inverters by Advanced Energy Inc. of Fort Collins, CO. The fact that Ex-Im Bank can support loans and loan guarantees with repayment terms of up to 18 years has enabled U.S. exporters to compete in markets where host governments have created incentives for renewable energy, such as Italy, Canada, and India.

Ex-Im Bank's working capital guarantee can also be an invaluable resource for U.S. exporters seeking to finance the manufacture of goods for export sales. This program enables commercial lenders to make working capital loans to U.S. exporters for various export-related activities by substantially reducing the risks associated with these loans. The exporter may use the program to purchase raw materials and finished goods for export, to pay for materials, labor, and overhead to produce goods for export, and to cover stand-by letters of credit, and bid and performance bonds.

In September 2010, Ex-Im Bank approved a \$10 million working capital guarantee to support export sales for Abound Solar, Inc. of Loveland, CO. Abound Solar is also benefiting from several pending Ex-Im Bank loans to buyers in India that will expand to India for Abound.

Since 1992, Ex-Im Bank has had a special Congressional mandate in its Charter to increase its support for environmental exports. In recognition of this mandate, Ex-Im Bank established its Environmental Exports Program in 1994, to expand support for U.S. exports of environmentally beneficial goods and services, and, at the behest of a Congressional request in 2006, Ex-Im Bank created the Office of Renewable Energy and Environmental Exports (Office) in 2008. The Office serves as the primary point of contact for environmental exporters, as well as international customers. The Office is charged with promoting the Bank's Environmental Exports Program that includes renewable energy.

A major focus of the Office, as the means to achieve the goal of increased support for renewable energy and other environmental exports, is increased outreach to the environmental industry. The Office seeks to accomplish this through a robust calling plan to visit renewable energy exports, representation at trade shows, e-mailings, and overseas trade missions. The Office makes a major effort to establish and maintain relationships with U.S. environmental exporters. By increasing the knowledge among environmental exporters of how to include Ex-Im Bank financing as part of their package of technology and services, Ex-Im Bank stands to gain significant numbers of repeat customers who will serve to create a pipeline of Ex-Im Bank deals. We are already seeing the fruits of our labor with a number of deals inhouse, as well as a strong project pipeline. In addition to outreach to customers, the Office works with the exporters to generate applications to Ex-Im Bank. In Colorado, Ex-Im Bank has visited the offices of Abound Solar (one of our staff attending the ribbon-cutting ceremony of the new factory), Ascent Solar, Advanced Energy Inc., CH2MHill, Community Power Corp., Coolerado, ReflecTechSolar, SkyFuel, Inc., and Solix Biofuels.

In addition to the business development staff, the Bank created a "renewable energy finance team" of three loan officers within the Office to develop expertise at underwriting renewable energy trans-

actions. This team currently handles all renewable energy transactions under \$10 million, and often larger transactions as well, with transactions over \$10 million handled by the Structured and Project Finance Division.

Over the past few years, Ex-Im Bank has experienced a significant growth in financing renewable energy exports. We're on track to more than double our authorizations for financing renewable energy in FY2011 to over \$700 million *vs.* authorizations in FY2010 of \$330 million, compared to our FY2009 authorizations of \$100.4 million, and FY2008 authorizations of \$30.4 million.

This surge in activity has been driven by the growth of the industry combined with our increased efforts at promoting Ex-Im Bank to the industry, particularly new companies in the industry such as Clipper and Suniva. Also, the ongoing turmoil in financial markets in which commercial banks are constrained in funding loans with 18-year tenors has driven a greater interest in Ex-Im Bank financing for renewable energy projects in the EU and Canada where the longer-term Ex-Im Bank financing is helping U.S. solar suppliers compete with cheaper Chinese-made solar panels.

Q.2. As you know, the Export-Import Bank has a congressional mandate to use 10 percent of its financing to support renewable energy and energy efficient end use technologies. Yet according to a July 2010 Government Accountability Office (GAO) report, it continually falls well short of this mandate. Given the importance of the renewable energy and energy efficiency sector to the U.S. and Colorado economy, what steps is the Export-Import Bank taking to improve in this area? Does the Bank have a timetable to comply fully with the mandate? As the Bank implements the President's National Export Initiative, what plans does it have to ensure that it complies with its renewable energy and energy efficient end use technologies mandate?

A.2. Ex-Im Bank is uniquely positioned to help achieve President Obama's vision for the U.S. to be a leader in the export of renewable energy technology. Ex-Im Bank has developed close working relationships with most of the major renewable exporters, industry trade associations, and a number of key foreign buyers and international project sponsors. Already in FY2011 the Office of Renewable Energy has brought in \$540 million in pending applications for renewable energy projects.

Ex-Im Bank has put in place a Business Development Strategy to proactively increase its support for renewable energy exports. As the market for renewable energy and clean technology continues to be dynamic, Ex-Im Bank's Business Development Strategy also will be dynamic with adjustments and updates made as needed. The highlights of the Bank's Strategy are:

1. Create a robust calling program to visit companies at their offices, as well as visit companies and meet with their customers at the major industry trade shows. Importantly, maintain and strengthen relationships with the top 20 firms in the industry that generate an estimated 90 percent of U.S. renewable energy exports. Expand the calling program to include venture capital firms with significant clean tech portfolios.

2. Continue to build the Ex-Im Bank “brand” in the industry by issuing press releases of success stories, running ads that highlight our programs in targeted industry publications, speaking and having a presence at major conferences, and selectively engaging in key international markets, and in participating in international trade missions.
3. Creation of the Renewable Energy Finance Team within the Bank, comprised of three Loan Officers, solely dedicated to the expedited processing of renewable energy transactions under \$10 million.
4. Creation of a Renewable Energy Express Program Finance Team to process transactions under \$10 million in 60 days or less.

Q.3. Independent accountability mechanisms that evaluate and report on agency compliance with environmental and social policies, and that provide problem-solving services are increasingly the norm at public finance institutions, and exist at the U.S. Overseas Private Investment Corporation (OPIC), several export credit agencies, the World Bank Group, and elsewhere. Do you support the establishment of a similar independent accountability mechanism at Ex-Im Bank?

A.3. We believe that independent accountability mechanisms are quite appropriate for many international financial institutions, and can be valuable in ensuring that the projects financed by those institutions are in compliance with their environmental and social policies. This is especially true in the case of financial institutions that have developmental mandates, such as the multilateral development banks and OPIC, which have provided significant investments in less developed countries, many of which have weak governance structures.

In the case of Ex-Im Bank, however, our mandate is trade related—to support U.S. jobs through the financing of exports. Ex-Im Bank has historically been a leader among export credit agencies with respect to environmental and social stewardship, and we have an especially strong legacy with respect to transparency in the administration of our environmental and social policies as they relate to our financial support of foreign projects. The divisions within the Bank that administer these policies, most notably our Engineering and Environment Division, have always taken very seriously any concerns expressed by the stakeholders of projects we finance, or problems brought to our attention by environmental groups. Moreover, I have an open door policy when it comes to any Ex-Im Bank stakeholder wishing to express an opinion on our policies or issues associated with projects we finance.

Finally, any action to establish a formal social and environmental accountability mechanism within Ex-Im Bank would require additional staff and administrative resources, which would have the effect of diverting resources away from activities related to the core objectives of the Bank, the support of U.S. exporters, especially small business exporters and exporters of renewable energy and environmentally beneficial goods and services. We only provide financing for foreign projects that are in compliance with our environmental and social guidelines, and we scrupulously mon-

itor those projects to ensure that they remain in compliance. I do not believe that the establishment of a formal accountability grievance mechanism within Ex-Im Bank would represent a productive or constructive action, nor do I believe that it would necessarily contribute to the environmental performance of the foreign projects that we support.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WICKER
FROM FRED P. HOCHBERG**

Q.1. With the ability to offer such attractive rates, often for transactions that would have happened anyway, do you feel that private lenders are being put at a competitive disadvantage?

A.1. Ex-Im Bank does not compete with the private sector. In fact, Sec. 2(b)(1)(B) of the Bank’s charter states: “It is also the policy of the United States that the Bank in the exercise of its functions should supplement and encourage, and not compete with private capital” Thus, Ex-Im believes we do not put private lenders at a competitive disadvantage. Ex-Im is very mindful of its role and makes a concerted effort to not compete with, but instead supplement the private sector. Ex-Im has a basic litmus test which is known as additionality. Ex-Im support is contingent upon a clear need for our participation in a transaction or project with the basic reason being to address certain market imperfections such as heightened perceptions of risk and/or foreign ECA competitive financing. If a private lender is willing and able to assume the foreign credit risks on their own, then they need not come to Ex-Im and won’t because of the cost and profit factors, if nothing else. And if a private lender can offer financing terms (interest rates, repayment terms) on comparable footing as the foreign competitors are offering and meet their own internal objectives, then they will and should do it independently of Ex-Im.

However, if the private lender cannot accept the risks or offer the financing terms to support the U.S. export, especially on the same or similar terms as its foreign competitor, then Ex-Im stands ready to supplement their support and facilitate the sale. Simply put, Ex-Im Bank’s financial involvement is countercyclical in nature and has an inverse relationship with the market: when the private sector has a robust capability and willingness to extend foreign credit on their own, the need and demand for Ex-Im declines and vice versa. Hence, Ex-Im finances deals that, but for Ex-Im, would not otherwise go forward. In other words, Ex-Im Bank fills a very important niche and gap in private capital financing.

The recent global financial and liquidity crisis has illustrated the role of ECAs generally and for Ex-Im in particular. Since 2008, the global private lending community shut down for all intents and purposes. Ex-Im Bank was asked to step in by the lending and exporting community to ensure that critical trade flows continued ranging from short-term trade finance, up through medium- and long-term export finance. During this period, it is safe to say that Ex-Im was not a competitor to private lenders whatsoever, but rather has bridged the gap for the private lending community until they have been able and willing to reengage. In fact, Ex-Im created a “safety net” program to encourage private lenders to stay in

volved but, in the event market conditions deteriorated and they stood to incur financial losses, Ex-Im Bank would “take-out” their loan, thereby at least minimizing losses for private lenders, if not avoiding them altogether.

During less volatile, more interest-rate stable periods, Ex-Im believes that the all-in-cost of Ex-Im Bank support (including the risk premium and other fees) when compared to what a private lender’s cost would be, any cost advantage with interest rates that Ex-Im might have is offset by the cost of Ex-Im participation. Therefore, unless Ex-Im Bank is truly needed in a transaction, borrowers would prefer to finance their deals on their own with private sector support.

It is also important to note that when Ex-Im Bank does provide a direct loan, the interest rates we charge are in full compliance with the OECD Arrangement and the WTO commitments and these rates do reflect marketing pricing.

Q.2. I understand that the Export-Import Bank is more active than ever before in its efforts to promote U.S. exports. Would you tell me what portion of the Ex-Im Bank’s loans and guarantees currently outstanding directly benefit businesses and workers in the State of Mississippi?

A.2. Ex-Im Bank has \$54 million in exposure outstanding that directly benefits businesses and workers in the State of Mississippi.

Q.3. The board of directors of the Export-Import Bank recently granted preliminary approval for an \$805.6 million direct loan to South Africa’s state-owned electric power utility, Eskom, Ltd. How does this align with the Charter’s mandate to promote renewable energy?

A.3. The recent Ex-Im Bank \$805.6 authorization to finance the export of engineering services and other goods and services for Eskom’s, Kusile, coal-fired power plant is not inconsistent with Ex-Im Bank’s directive to supporting renewable energy. In FY2010, Ex-Im Bank adopted a carbon policy under which it implemented measures to expand its support for renewable energy projects, and subsequently the Board of Directors approved a revision to the Bank’s Environmental Guidelines that placed added requirements on high carbon intensity projects (such as the Kusile power plant) that address the project’s level of greenhouse gas emissions. (These revised Guidelines for high carbon intensity projects are set forth in Annex “G” of the Bank’s Environmental Procedures and Guidelines.)

Concurrently, Ex-Im Bank maintains a robust and growing program for the support of renewable energy. Since 2008, it has increased its authorizations for renewable energy from \$30 million in 2008, to over \$100 million in 2009, to \$332 million in 2010, and we’re on track and expect our support of renewable energy transactions in FY2011 to total over \$800 million. To encourage exports of renewable energy, Ex-Im Bank provides incentives for renewable energy transactions consisting of up to 18-year repayment terms and capitalization of interest during project construction (loan draw-down) that is not available to fossil fuel power projects.

South Africa’s Eskom project met the requirements of our revised guidelines for high carbon intensity projects. It is consistent with

South Africa's long term strategy for lowering its carbon production, which by 2025 is projected to decline. The Kusile plant uses boilers incorporating super-critical technology for high efficiency, and it is "carbon capture and sequestration ready" reflecting an investment by Eskom to mitigate the project's greenhouse gas production when the technology becomes technically viable. The plant is also the first in South Africa to incorporate into its design equipment to reduce the level of sulfur pollution through the use of SO₂ scrubbers.

Ex-Im Bank's mission is to support U.S. exports, and the jobs that create those exports for all foreign projects that meet its environmentally guidelines, and which are considered to be environmentally responsible. High carbon intensity projects such as the Kusile project are urgently needed by foreign buyers to meet their country's electric power demands, and they represent a bridge between high carbon intensity plants and future projects that will draw from renewable and low carbon technologies. Moreover, the participation in these projects by U.S. suppliers lead to U.S. employment. Ex-Im Bank offers initiatives for the financing of renewable energy projects consisting of repayment terms of 18 years, and capitalization of interest during the construction of the renewable energy projects, incentives that are not given to conventional fossil fuel plants.

Q.4. Do you believe that the Administration would support the construction of an identical coal-burning power plant in the United States?

A.4. This question relating to the domestic policies for coal-burning power plants would be best posed to the U.S. DOE and the EPA. While we understand that the Administration is discouraging the construction of plants that produce high levels of greenhouse gases in favor of renewable, nuclear, and low carbon alternatives, we believe that Ex-Im Bank's carbon policy responsibly addresses the legitimate realities posed by the increasing demands for electric power in South Africa and other developing countries as they embark on paths to transition from carbon producing plants to alternative energy sources.