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REAUTHORIZATION OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL TRADE AND FINANCE

OF THE

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

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON

ENSURING THAT EX-IM BANK HAS THE RESOURCES TO ENABLE IT TO FULFILL ITS STATUTORY MANDATE FOR U.S. EXPORTERS BOTH SMALL AND LARGE TO PROVIDE FINANCING TERMS AND CONDITIONS COMPETITIVE WITH THOSE OFFERED BY FOREIGN EXPORT CREDIT AGENCIES

MAY 17, 2001

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C O N T E N T S

THURSDAY, MAY 17, 2001

WITNESSES

Additional Material Supplied for the Record

REAUTHORIZATION OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

THURSDAY, MAY 17, 2001

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE,
Washington, DC.

The Subcommittee met at 2:30 p.m., in room SD–538 of the Dirksen Senate Office Building, Senator Chuck Hagel (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. Let me call the Subcommittee to order.

We have a number of distinguished, enlightened, didactic witnesses today and we are most grateful.

The Subcommittee on International Trade and Finance meets today for an important hearing on the reauthorization of the Export-Import Bank, commonly referred to as the Ex-Im Bank. The Ex-Im Bank was last authorized in 1997, for a 4-year term that expires September 30 of this year.

The Ex-Im Bank is an important component of U.S. economic and international policy. It helps U.S. companies get their products and services to customers overseas. It helps new exporters get started in the global marketplace. The Ex-Im Bank also sustains relations between the United States and struggling countries that rely on U.S. products and services. Such relations encourage the sharing of democratic ideas and the rule of law. Exports facilitated by the Ex-Im Bank support jobs in America. Some of our witnesses today will tell what these exports mean to their employees.

The Ex-Im Bank's role as a stabilizing influence during periods of economic instability is also important to recognize. Ex-Im emerged relatively unscathed from the Asian-Russian financial crisis of 1997–1998. For the 2-year period ending September 1999, Ex-Im paid guarantee and insurance claims totalling $1.5 billion. Ex-Im helped keep trade going between Asia and the United States during the crisis when no commercial banks would take the risk.

The Export-Import Bank is an independent U.S. Government agency that is charged with financing and promoting exports of U.S. goods and services. It was established over 65 years ago to match officially supported foreign competition and fill financing gaps in order to maximize support for U.S. exports and contribute to the promotion and to the maintenance of U.S. jobs. By targeting financing gaps and officially supporting competition, Ex-Im Bank supports sales that might otherwise not have gone forward. These additional export sales expand or maintain employment in sectors where jobs are both among the highest paid in the economy and have extensive "multiplier" effects on the U.S. economy.

To accomplish its goals, Ex-Im uses its authority and resources to assume commercial and political risks that exporters or private financial institutions are unwilling, or unable, to undertake alone. It also overcomes maturity and other limitations in private-sector export financing and it assists U.S. exporters to meet foreign, officially sponsored, export credit competition. It provides guidance and advice to U.S. exporters and commercial banks and foreign borrowers.

Ex-Im Bank financing helped facilitate more than 2,500 U.S. export sales in fiscal year 2000. The Bank authorized $12.6 billion in loans, guarantees, and export credit insurance supporting $15.5 billion of U.S. exports to markets worldwide. Ex-Im Bank financing supports small businesses, the production of environmentally friendly goods and services, energy production, and high-tech innovations. In fiscal year 2000, nearly $75 million of U.S. agricultural commodities, livestock, and foodstuffs were assisted by Ex-Im Bank financing.

For example, some companies in Nebraska, a small State, middle of the country, important——

[Laughter.]

Senator BAYH. Just to pick one at random.

[Laughter.]

Senator HAGEL. You will have your turn here.

[Laughter.]

Indiana always vies with Nebraska, or Nebraska with Indiana, for the popcorn capital of the world championship. And you have the last word on that, I think.

Senator BAYH. I wish we could vie for the NCAA football championship.

[Laughter.]

Senator HAGEL. Well, thank you. I might add, volleyball as well.

Let's see. Where were we? Back to business.

Lozier Store Fixtures of Omaha is among the companies receiving financing that supports the sale of grocery store equipment and furnishings, and transport equipment to Cameroon.

The Administration has sent a request to Congress to reauthorize the Bank's charter for 4 years with no changes from its current operating procedures. Through two hearings, this Subcommittee will review Ex-Im Bank's issues and determine how to respond to the Administration's request. This first hearing includes private-sector witnesses. The second hearing will follow at a later date with the Administration's witnesses. This first hearing will focus on the experiences of large and small companies doing business with Ex-Im and on how Ex-Im impacts the companies' ability to compete with bidders from other countries.

There is no doubt that Ex-Im has helped companies export where commercial banks would not. However, there are legitimate questions of what can be done to improve the Bank's effectiveness to meet new challenges. These challenges include competition from foreign companies that receive export credit agency financing outside of the OECD Arrangement rules on tied aid, term limits, and interest rate subsidies.

Another topic we need to examine includes the procedures that an exporter faces to prove that it is meeting the local content requirements. Of course, a significant question in all of our minds is what impact a 25 percent budget cut will have, if any, on Ex-Im's ability to meet its charter goals.

To discuss these and other issues, we have an impressive group of witnesses here today. Before we hear from our witnesses, I would ask my friend and colleague, the Ranking Democrat on this Subcommittee, Senator Bayh, of the great State of Indiana, for any comments he wishes to share.

Senator Bayh.

OPENING STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. Thank you, Mr. Chairman.

I want to thank my friend, Chuck Hagel, for his leadership in calling us together today on this reauthorization issue. Senator Hagel and I have worked together on a variety of other issues. We hail from the same part of the country, the great Midwest, and have been able to forge some bipartisan cooperation on issues like this when that spirit has too often been lacking around this institution. So it is good to be with you again today, exploring this important issue. And we will settle questions about popcorn and athletics and things like that in another venue.

I want to thank all of our witnesses for their time in joining us here today. I know some of you have traveled a great distance.

In particular, I want to thank Mr. McKenna, who we will be hearing from. I have known Tom for many years. He is the head of Indiana's Department of Commerce, and doing a wonderful job in helping to create investment and promote job creation in our State. I hope that Mr. McKenna will share with us the really laudatory track record that he, the administration, and our State have established in terms of promoting exports, and how important that is in creating good quality, high-paying Hoosier jobs.

Tom, I want to thank you for your time. Please give my regards to Governor O'Bannon.

I also want to thank Terry Straub. We make many things in our State, in the agricultural sector, the automotive sector, pharmaceuticals, consumer electronics, insurance, banking, and a variety of others. But we make more steel than in any State in the United States of America. We are proud of that fact.

Mr. Straub will share with us some of the competitive factors that exist internationally and, in particular, some of the challenges faced by steelmakers in a very competitive environment.

Terry, I want to thank you as well. Your institution is represented in our State. You are national in scope. But we are proud of your location and involvement in the State of Indiana.

Senator Hagel, very briefly, this is a timely hearing because, as you mentioned, many are questioning whether we should reauthorize the legislation that provides for the Export-Import Bank.

Some people favor a pure model of economics which would view the Export-Import Bank as essentially a subsidy of some kind that would be unnecessary in the give and take of free markets and a free economy.

My own view is that while that is with some merit in terms of economic theory, we don't live in a theoretical world. We live in the real world. And we have to focus very carefully upon what it takes to enable our country to compete and to level the playing field, particularly at a time when many of our foreign competitors have efforts like this that assist their industries with their exports. I think it is important that the United States not unilaterally disarm.

Second, at a time when our trade imbalance is so large, that over time, this is going to threaten the vibrancy of our economy, we must do everything we can to close that gap, in particular, by promoting exports. Of course, we need to do this in the right kind of way. And in some of the questions I will ask in just a few moments, I will explore this in greater depth.

But there have been instances in which the Export-Import Bank has lent its support to exports that have helped foreign companies with a track record, indeed, ongoing investigations into whether they were engaged in the illegal dumping into domestic markets.

The Export-Import Bank has a standard that is supposed to be enforced for assessing whether there is adverse impact to the domestic economy from the activities that they are supporting.

I understand, Senator Hagel, that we had assurances from the recently departed Chairman, Mr. Harmon, that he was going to look into how the Ex-Im Bank implements the adverse impact test and was also going to report to the relevant Committees, this one in particular.

And I intend to hold those who will soon be taking over the reins of the Bank responsible for fulfilling the pledges of Mr. Harmon because I think it is important that we not inadvertently assist those who are engaged in illegal trade practices. I think that is very, very important. So this is something that I intend to follow very closely with further questioning. But, again, I want to thank our witnesses for being here today.

My personal belief is that the Ex-Im Bank is important. We need to continue its function and make sure that it enforces its own regulations and in so doing, benefit the American economy as it was intended to do.

Thank you, Mr. Chairman.

Senator HAGEL. Senator Bayh, thank you.

Senator Miller.

OPENING COMMENTS OF SENATOR ZELL MILLER

Senator MILLER. I don't think I have anything to add at this time, except to say that this Southerner from the struggling State of Georgia is glad to be here with my colleagues from the Midwest. I would like to welcome all of our witnesses today and apologize if I get up and leave. I may have to leave in a few minutes because I have some CEO's from Georgia that I have to talk with about a little economic development, if you don't mind.

But it is good to have all of you here and I will try to get back.

Senator HAGEL. Senator Miller, thank you very much. It is always uplifting to have the Georgia finesse that Senator Miller brings to the Committee.

Let me quickly introduce each of our witnesses and then ask you to please proceed and offer your testimony.

We will first hear from Mr. Peter Bowe, President, Ellicott Machinery Corporation International. Ellicott is a small company that manufactures dredges for every use, including environmental waste clean-up, beach restoration, mining and land reclamation. In his 17 years at Ellicott, he has held the position of Treasurer, Vice President, General Manager, and Member of the Board of Directors.

Following Mr. Bowe, Mr. E. Robert Meaney, Senior Vice President, International, Valmont Industries, Incorporated. Valmont is an Omaha-based manufacturing company with global activities and infrastructure in water management. Prior to joining Valmont, in 1994, Mr. Meaney spent 20 years at Continental Can Company in various positions, including General Manager, Korea; Vice President, Asia Pacific; and President of Continental France.

We will then hear from Mr. Dean R. Dort II, Vice President, International, of Deere & Company. His responsibilities include international marketing and foreign market development for all Deere machines and services throughout the world. Mr. Dort has been with Deere for over 20 years. Prior to being with Deere, Mr. Dort served as a Federal criminal court judge.

Next, we will hear from Mr. Darin P. Narayana, President, Bank One International Corporation. Mr. Narayana oversees international banking services to small, medium, and large corporations and financial institutions in the United States, as well as overseas. Prior to this position, Mr. Narayana was Executive Vice President for Norwest Bank World Holding Company.

Then we will hear from Mr. Terrence D. Straub, Vice President of Governmental Affairs, USX Corporation. Mr. Straub joined USX in 1981. Prior to that he served in Congressional affairs in the White House. He is responsible for the international trade policy issues affecting the corporation. He currently serves on the Board of Directors of the Center for National Policy and is on the Advisory Committee of the Ex-Im Bank.

Mr. Thomas McKenna, who you have already been introduced to by Senator Bayh. Mr. McKenna is Executive Director of the Indiana Department of Commerce. Mr. McKenna received a law degree in 1974 from Notre Dame and soon became the Deputy Prosecuting Attorney in LaPort County, Indiana. He has worked at the National Steel Corporation and Browning Investments. Mr. McKenna also served the Lieutenant Governor of Indiana as an Executive Assistant in charge of Operations.

Mr. Fred Bergsten, Director, Institute for International Economics, is with us this afternoon. Mr. Bergsten has been the Director of the Institute since its creation in 1981. He has also served in the Competitiveness Policy Council, the U.S. Treasury, the National Security Council, Brookings Institutions, the Carnegie Endowment for International Peace, and the Council on Foreign Relations.

Gentlemen, we welcome you. We appreciate you taking the time to be here and share your thoughts and views with us.

I would ask each of you, if you could, to keep your opening remarks limited to somewhere between 5 and 7 minutes because we would really like to get into some of the specifics of your testimony and thoughts.

Mr. Bowe, we understand that you have to leave here shortly. So, we will ask you to begin. Please proceed.

OPENING STATEMENT OF PETER A. BOWE PRESIDENT, ELLICOTT MACHINERY CORPORATION INTERNATIONAL AND LIQUID WASTE TECHNOLOGY ON BEHALF OF THE U.S. CHAMBER OF COMMERCE

Mr. BOWE. Thank you for accommodating that.

Mr. Chairman, thank you for the invitation to appear before the panel today. My name is Peter Bowe, and I am offering this testimony for Ex-Im Bank renewal on behalf of the U.S. Chamber of Commerce, and on behalf of two small companies I run as President—Ellicott International of Baltimore and Liquid Waste Technology of Wisconsin.

The subject today really should not be renewal of Ex-Im Bank, but rather its expansion—and how its export programs can be made more competitive. We should be considering not how Congress can attempt to legislate export financing guidelines for the world, but how to deal with the realities of the aggressive practices of export credit agencies from other countries which understand how important exporting is to their economy. Allow me to say what Ex-Im Bank does well.

First, the concept of delegated authority, whereby Ex-Im Bank lets private sector banks issue loan commitments on its behalf, is a great idea and should be expanded. This is especially appropriate for small businesses, which may find the task of dealing with Washington-based bureaucrats daunting.

Second, Ex-Im Bank's program to support standby letters of credit for bid bonds is innovative and should be continued. My company Ellicott has found this program effective in overseas transactions.

Third, Ex-Im Bank has a small business working capital program, which means that the Bank recognizes that the needs of small businesses can be different, and has dedicated staff trained to understand these needs.

One further positive comment. Ex-Im's staffing of an office in China shows that it has the ability to act strategically, recognizing where the potential for export growth is greatest and the impact of financing can make the most difference.

But there are a few areas where Ex-Im Bank can improve its value to small business exporters.

First, it needs to reduce its exposure fees, which on a per-transaction basis, sometimes compare unfavorably to foreign competition. For example, we have a Vietnamese customer which says that it can finance its purchases from us on its own cheaper than Ex-Im Bank. That should not be the case.

Second, Ex-Im Bank is often too slow to respond in those cases where Ex-Im staff response is required. Ellicott lost a million dollar sale in India because of an untimely ability to deliver a firm proposal to a contractor customer who needed to mobilize for a job in hand. I have heard the same comments from members of the Small Business Exporters Association, of which I also am a Director. I believe more Ex-Im staff may be required to solve this problem.

Third, Ex-Im Bank's requirements for U.S. content have traditionally been far more restrictive than what other export credit agencies allow. While I understand that the objective of Ex-Im is to create export-related jobs, one must often be willing to give up a piece of the pie to get any pie at all. By contrast, Canada's Ex-Im Bank equivalent would say that a CAT engine bought from a Canadian CAT dealer is 100 percent Canadian content, even if built in Peoria. And that freight arranged through a Canadian freight-forwarder is 100 percent Canadian content even if the item is shipped on a non-Canadian flag vessel. As Commerce gets more global and sourcing more international, it becomes increasingly more difficult to achieve Ex-Im's local content requirements.

No doubt a major problem for Ex-Im is Congressional mandates. Besides content rules, these mandates include unilateral trade sanctions and, perhaps most important of all, too strict a policy objective of avoiding losses through credit decisions about foreign buyers and exposure fees designed to generate income.

I note the Chairman's comment about no losses in the Asian crisis. Perhaps Ex-Im should have had more losses if it had really been taking some risks to get some transactions going.

Small business has special constraints here compared to big business. Typically, small businesses are limited to production in one or two American plants. They cannot move that production to meet customer financing requirements. By contrast, multinationals with many factories often can move sourcing to a factory in a host country where superior export financing may be available.

Small businesses, as well as large businesses, complain about the use of tied aid by foreign countries. The U.S. continues to fail to come to grips with this problem. Our policy has been occasionally to engage in matching tied aid with the intent of dissuading its use by others such as France, Germany, or Japan, rather than accepting its use by those who consider it to be a legitimate export tool. A country as small as Holland can boast about $500 million of exports to China through a 10-year mutual collaboration based on the so-called ORET financing program. The Chinese acknowledge the need to buy from Dutch suppliers in using this program.

I should add that the Dutch ORET requires less Dutch content for the special financing that they offer than Ex-Im Bank requires in standard Ex-Im Bank loan offers.

Our company recently lost a $15 million project for Bangladesh where Ex-Im was unwilling to even consider making a proposal due to the per-capita income status of the country, even though we had evidence in advance of the Dutch loan offer. Within the last year we can see that our two Dutch competitors have received orders worth about $30 million based on this ORET-type financing for markets such as Bangladesh, China, and Vietnam. Such financing typically uses a 35 percent grant element.

Our current understanding is that the U.S. Treasury has restricted any further use of the Ex-Im Bank "war chest" to match tied aid loans. Even in an era of matching, Ex-Im is still oriented toward what I call the "dead body" approach. That means that the evidence required to justify a matching loan is burdensome, and sometimes, the only truly convincing evidence is the lost contract—the "dead body."

A further problem with the tied aid issue has been the technical interpretation of what is a "matching" proposal. In one case where we did receive a tied aid match and got a contract, Ex-Im actually forced us to "dumb down" our superior product by deleting environmental features so that our proposal was no better than our competition's. In other words, we had to have an exact technical specification match. This also delayed project implementation by a year.

Staff has asked me to elaborate a bit further on the tied aid issue and some flaws that I see from its implementation perspective.

Our approach to tied aid is totally defensive—we are trying to stop others from doing it. The recipients of tied aid from other countries like to get it, not surprisingly. So when we come in there, we are not the white knight. In fact, we are usually unwelcome, as parties who are interfering with the normal commercial dealings between two consenting parties.

From the side of the American exporter, it is almost like having to start a 100-yard dash, but you are not allowed to start the race until you can prove that the other guy has already started, and you don't have much time to catch up. So everything has to be in place before you can come in at the last minute. And usually at that point, the competing parties really don't want to see you.

Despite these issues, it is frankly inconceivable to think of an export world without an Ex-Im Bank. It is also hard to imagine how Ex-Im can function in any practical way with a budget cut of the magnitude of the one proposed by the Administration. The real question should be—how much more Ex-Im Bank can and should do, especially in a continuing strong dollar era, and how much more resources it needs.

I close with a sober note.

Last week, the CEO of a major independent power producer based in Baltimore told me that all of its major equipment vendors are now foreign-based, in part, because of the superior financing programs from their host governments.

A world without Ex-Im is likely to be one where strategic industries such as power plant equipment makers adapt to the changing market environment by sourcing all of their production where financing is available on terms attractive to them. That is how the world works. It is not only unrealistic but also dangerous to think it can be changed unilaterally through American legislation.

Thank you.

Senator HAGEL. Mr. Bowe, thank you.

Mr. Meaney.

OPENING STATEMENT OF E. ROBERT MEANEY SENIOR VICE PRESIDENT, INTERNATIONAL VALMONT INDUSTRIES, INC.

Mr. MEANEY. Mr. Chairman and Members of the Subcommittee, my name is Robert Meaney, I am Senior Vice President of Valmont Industries. We manufacture center pivots for irrigation and poles for the electric utility industry, the highway and street lighting industry, and for supporting telecommunication structures.

I will give you a few more details about my company. First, it is a $900 million company listed on the Nasdaq, headquartered in Omaha, Nebraska. We have 5,500 employees, two-thirds of whom live in the United States. We have 31 manufacturing locations around the world, located in eight of our States in the United States and 11 foreign countries. We are the largest producer of center pivots in the world and also the largest producer of poles in the world.

Our overseas markets include France and Japan, developed countries, and also developing countries like Brazil, China, Mexico, and many of the countries of Sub-Saharan Africa.

One very good example of the importance of our products is, I think, the center pivot. Our company was the first manufacturer of center pivots approximately 50 years ago. It is a large machine that goes in circles. It makes the circular patterns that you see in the Midwest. It is a technology which saves about half of the water used in irrigation.

As you might know, 66 percent of the fresh water in the world is used by irrigation. So if you are going to conserve water in this time of water crisis, the best place to start is on large farms. And center pivots save half the water applied on the large farms.

We have had an international business for many years, and, in the last 7 years, we have really established a global network of small facilities that manufacture the large bulky parts of the center pivot. These facilities have been very successful, and they have enabled us to add quite a bit of export sales to our facilities in Valley, Nebraska and in McCook, Nebraska, and San Antonio, Texas, and add jobs in those facilities as well.

About 1997, we started to look at the potential for center pivots in China because we had read, of course, like most people, about the water crisis, especially in the north of China, ranging all the way from the west to the east. We had read that the Yellow River does not reach the sea for 5 months a year. And we started a marketing program in China.

We focused on the northeast of China, where there are very large farms and a fairly arid climate. But also, in the center of China, Gansu Province, Inner Mongolia, Ningsha Province. And then also, way out in the west of China, in Xinjiang Province, which is halfway to Moscow, a huge province, seven times the size of Nebraska.

We had some moderate success. We have a good infrastructure in China as a company because we have a very successful pole-manufacturing operation in Shanghai, actually. It has been financially successful and we have a good pool of talent to help with the other product line. That has been a very good plant for our U.S. business, too. It has enabled us to expand our market share in the Asia Pacific region by making us more competitive. And we have become the leading supplier of telecom structures for cellular antennas in China from that plant.

In any case, we worked on the center pivot development in China. But a curious thing happened in 1999. We learned of a large order obtained by an Austrian competitor, a very small pivot manufacturer, who really are not even in the pivot market some of the time. So it was very surprising to us, considering that 60 percent of all the center pivots in the world, of which there are 300,000, are supplied by companies from Nebraska. In fact, 40 percent are supplied from our brand, Valley.

We investigated this and found that the Austrian producer had obtained this $5 million order, which is a big order for the center pivot business, especially in a developing market and a new market, by offering tied aid financing. The terms were 25 year loans at 2.95 percent interest with 5 year grace periods. We went back and discussed this with the Commerce Department people in Bejing and the Ex-Im people in Bejing and in Washington and judged that we were qualified to apply for the Tied Aid Willingness to Match program.

We put together an application. We worked very hard with the Ex-Im Bank staff, who were very helpful and knowledgeable. We put together the application and filed it, and it was considered at the February Ex-Im Bank board meeting. Then we were advised at the end of March that the application had been denied.

Of course, we were very disappointed. We had worked very, very hard. We have no comment on whether their decision was right or wrong because we are not a frequent user of Ex-Im Bank facilities. But we had invested a lot of our valuable time in this that we could have been investing in other things, obviously.

Needless to say, after the Austrian company obtained their second order, which our application was intended to match, they obtained a $3 million order.

Since then, we have been working hard to continue to market our product. The Austrians have basically established their brand as the reference, however, even though they are a very small company. And in China, whoever establishes that first entry has a great advantage.

Also since that time, we have actually put together a small production joint venture for western China. We have established a model farm. We have continued our seminars and visiting the large farms.

The Austrian company has done nothing to support their product, which for us is evidence that, in fact, it was the tied aid financing that got them the deal.

These are the facts of the situation on that incident. I will say that we offer them as a constructive example of what can go wrong.

As a company, Valmont has long supported the mission of the Export-Import Bank and we believe that support for the Bank should be continued. We do believe that the Tied Aid Willingness to Match program should be streamlined and should be applied more consistently.

On the other hand, having gone through it, we realize that the Ex-Im Bank and the United States should have a weapon like this to cancel out the unreasonable subsidies that are provided by many other countries for their exports.

This is my testimony, so thank you very much.

Senator HAGEL. Mr. Meaney, thank you.

I suspect, Senator Bayh, that you have some of those Valmont center pivots in Indiana.

Senator BAYH. We do.

Senator HAGEL. It makes your corn grow strong and tall. Very high yields.

Mr. Meaney, thank you for your testimony as well.

Mr. Dort.

OPENING STATEMENT OF DEAN R. DORT II VICE PRESIDENT INTERNATIONAL DEERE & COMPANY ALSO ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL AND THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. DORT. Thank you, Mr. Chairman and Senator Bayh. I am Dean Dort, Vice President International for Deere & Company. You may know us better as "John Deere"—the premier producer of agricultural equipment, or the company of choice that harvests that popcorn that is under apparent dispute within the Subcommittee.

Mr. Chairman, 164 years ago, a Vermont blacksmith moved west, invented a plow that not only turned the world's best topsoil, but it also helped turn our country into an economic powerhouse. That invention, incidentally, began Deere's journey to today, where we rank among the oldest industrial companies in the United States.

Besides the world's most technologically advanced farm equipment, we manufacture sophisticated construction, timber harvesting, lawn care, work-site products, and also engines and parts.

We have a commercial credit company that ranks in the list of the top 25 lenders in the United States. We deliver and manage health care for 3,000 companies, including our own.

Deere's Special Technologies Group provides electronics-related products and services from information management systems to wireless communications.

In short, Mr. Chairman, we create smart and innovative solutions in the form of advanced machines, services, concepts for customers on the farm site, the work site, and the home site, and we do it globally.

Today, I have been asked to speak for the members of the National Foreign Trade Council and the Coalition for Employment through Exports. The membership of these two organizations includes not only America's major exporters, but also many smaller companies that aspire to that size and to that scope.

Mr. Chairman, I travel a lot in my work. I carry not one, but two U.S. passports that bulge with visas. And most of those are for the largely cashless countries of the world, particularly the CIS.

Bob, I have also been to Xinjiang Province in China.

That travel, gentlemen, has taught me a lot about the global marketplace and what it takes to compete successfully in it.

One thing I have learned is Deere, as the only major U.S.-owned and controlled company manufacturing and marketing a full range of ag equipment, Deere is in a unique position to capture a market for U.S.-produced machines.

Yes, I said capture a market, not capture market share.

The countries of the CIS are in desperate need of machines to plant, to nurture, and to harvest badly needed crops. What is left from the CIS 1990 machine park is far below the numbers needed to meet their harvest potential. And there is no longer a viable domestic industry in place to manufacture those machines.

This is not a secret. Our competitors are headquartered in Italy and Japan, in Germany, and elsewhere. They have strategic goals similar to our own. They also have the backing of their country's well-funded, aggressive export credit agency. We can compete and we can win against the companies. But we cannot compete successfully against the countries.

Another lesson learned is that today's customers are looking for more than just machines. They are looking for solutions to the challenges they face. The key challenge, of course, is paying for the equipment. In fact, it can be said that the company that brings the financing, as Peter quite clearly pointed out to us earlier, often gets the deal.

The United States is behind in supporting U.S. exporters and their workers, not only in these cashless markets, but others as well. For example, the Export Credit Agencies like the U.S. Ex-Im Bank around the world provided approximately $500 billion of credit for exports in 1998. That is the latest official figures.

Japan provided nearly $140 billion that year. France provided about $50 billion. The United States ranked seventh on that list, at $13.8 billion, behind the Netherlands and just ahead of Spain.

Allow me to provide a specific example of what we face each day in the market.

Deere has been working in China for decades. We recently made a sale in Western China that positions us to do much more for that region. The sale was facilitated by the Ex-Im Bank of the United States. The financing, of course, was arranged by us through a major money center bank at world market rates—an OECD requirement—and it was over 5 years.

One of our competitors in this important break-through deal for us was a Finnish company. Through a quasi-official Export Credit Agency there, the financing they offered was zero percent interest over 10 years with 3 years' grace. Naturally, we nearly lost that deal. But our superior product and what we could do in support of the machines after the sale led to our success.

Bob talked about that a moment ago.

However, our supply of those U.S.-produced machines was always in question because of financing.

Gentlemen and ladies, I have also learned that the importance of trade is not something that is only appreciated by management and shareholders. It is fully understood by another key stakeholder in the success of our enterprise—those who hold the jobs these sales support. Officials from the United Auto Workers of America—the UAW—have joined me and other Deere managers in visiting your colleagues, the Administration, and others, in urging that the Ex-Im Bank support sales to countries like Russia and the republics of Central Asia.

My written statement, and doubtless, the statements of others on this panel and elsewhere, refute the sound bite of corporate welfare in great detail, complete with numbers showing the profitability of the Bank, and the returns it generates to the Treasury from the fees and interest that exporters pay.

Let me just say here that the $700 million of product that Deere has delivered to the CIS and other cashless markets in the last 5 years would not have been produced by the UAW or anyone else in the United States without the participation of the Ex-Im Bank.

The beneficiaries of the work of the Ex-Im Bank's able staff and the leadership, however, are worthy of your consideration. Those beneficiaries include the American taxpayer, American workers, and, yes, of course, American exporters. They also include people all over the globe for whom modern technology offers a more hopeful future.

In conclusion, we submit that the Bank should be rechartered for a minimum of 5 years at full levels of funding. Now is not the time to do less. In the words of Senator Hagel, in a recent floor speech on the importance of trade—"Let's not squander this opportunity."

Thank you for this opportunity and I am happy to answer any questions.

Senator HAGEL. Thank you.

Senator Bayh has just acknowledged the strong finish with that quote.

[Laughter.]

Thank you for your astute observation, Mr. Dort.

Senator BAYH. Ending on a high note to Mr. Dort.

[Laughter.]

Senator HAGEL. Mr. Narayana.

OPENING STATEMENT OF D.P. (DARIN) NARAYANA PRESIDENT BANK ONE INTERNATIONAL CORPORATION ALSO ON BEHALF OF THE BANKERS' ASSOCIATION FOR FINANCE AND TRADE

Mr. NARAYANA. Thank you, Mr. Chairman and Senators. I appreciate the opportunity to be here.

I am representing Bank One Corporation, which is the fifth largest bank in the country in terms of assets. We are in 12 States, from the Midwest up to the West Coast and Arizona. We have about 20,000 exporters in our region, of whom we work with about 7,000 of them in our bank. We are working on the other 13,000 exporters.

I am also here representing the Bankers' Association for Finance and Trade, an organization dedicated to international business, and has been so for a long time.

Being the only banker on the panel, if you will, there are some observations that I would like to make. You have my written testimony, but I would like to just speak from some informal notes I made here.

In my role, I see about 300 to 400 exporters every single year and I travel to the potential buyers abroad. The trends in the industry are the following.

Exports are among the fastest-growing segments of the American economy. People should realize that. The dream of all of us would be that the United States reach in terms of its percentage of exports as part of GDP to the levels of other OECD countries.

Emerging markets are a huge market for our products and they need capital. Emerging markets need capital. The buyers in emerging markets—I was with some in Brazil last week, for example, they focus on total cost of importing, including financing and cost of the foreign currency. Our strong dollar has not been of much help to exporters.

The other thing we observe is that multinational corporations are increasingly sourcing their product from various countries where there are subsidiaries, depending on where the financing is most easily available because financing is critical to make a sale happen.

I agree with my colleagues here that have testified to that effect.

When we in banking look at financing, we look at more than Ex-Im. We don't start with Ex-Im per se because Ex-Im is not the fastest, easiest, and always the best. So we look at other options as well. But Ex-Im Bank for us is an incredibly useful option to examine. As somebody noted, Ex-Im Bank's financing is $14 billion. Our exports are a trillion dollars. So it is not like the rest of it is being financed by some other agencies. A lot of private sector financing happens.

Essentially, Ex-Im Bank is an interesting, important option for us to have.

The tough competition that our exporters face, I think it is the toughest I have seen in the 30 years I have been in this business with Norwest Bank and now with Bank One. I used to prowl the streets of Nebraska and the Dakotas and Wisconsin and Illinois and Indiana in search of business.

The thing is that among the exporters, it is critically important we compete with other ECA's, which are far more aggressive than we are. You heard that ad nauseam here today.

The point is that with things like market windows and other things that they are coming up with, it is interesting how they are coming up with financing. We keep wanting evidence—it is very difficult to get evidence until after the fact, as Peter said here a few minutes ago.

So the thing that I find about Ex-Im Bank's role in helping exports is the following:

First is that it is a great help to small- to medium-sized exporters. It is a lifeline. What people don't realize is that when small exporters have an export transaction, one of the organizations that they think about very quickly is Ex-Im Bank. It has a great brand name. We must recognize that. I will give you a couple of examples on this.

The second matter is that Ex-Im Bank also empowers United States exporters.

The third point is Ex-Im Bank for us in commercial banking is a lender of last resort. I give the example here of a company in Milford, Indiana, called CTB Corporation. They export to Kazakhstan and there is no way that any commercial bank would finance Kazakhstan, financing for multiyear. Without Ex-Im Bank, that transaction would not have gone through.

Similarly, CTB also had a couple of transactions to Venezuela that Bank One financed using Ex-Im Bank. Venezuela, as you know, has been a risky country for many banks for a multiyear basis because of all the uncertainty in Venezuela. And Ex-Im Bank steps in and supports it.

The Ex-Im Bank was the only game in town when Korea was in trouble. When they had that huge debt and their currency was imploding, Ex-Im Bank stepped up and supported it. We financed companies in Ohio and in Indiana and in Illinois using Ex-Im Bank at the time as a bridge until Korea got better. Then we went on our own.

The Ex-Im Bank is a lender of last resort. It is also a catalyst for financing in the sense—I will give you an example.

We financed a $40 million export transaction to China about 3 months ago, Bank One did. It was for a company in Milwaukee, GE Medical. Ex-Im Bank's portion was $10 million. We provided $30 million, for a total of $40. Without Ex-Im's $10 million, that transaction would not have happened. They were a critical part of that facility. They acted as a catalyst in that transaction.

Now, you may say, why don't you always do that? Why don't you get Ex-Im for 25 percent or 30 percent?

There are some countries where we cannot take any risk at all because we don't have the critical mass, like an insurance program where you have the loss averages and so forth, whereas, the Ex-Im Bank has that. Another thing is that Ex-Im Bank is an incremental resource.

There is a company in Louisiana called Almond Brothers. This company has been in business for 50 years. In 1990, their exports were like 5 percent of their total sales. In 1999, they were over 90 percent. Ex-Im Bank provided Bank One with the support on a working capital program and performance letters of credit. The chairman of Almond Brothers said, without our Ex-Im programs, we would not have been able to expand and create the jobs.

In the city where this company is located, called Coushatta, Louisiana, this company is the largest employer. You talk in the parish in Louisiana about Ex-Im Bank, they will brag about it. It is a wonderful story. I think it is very important to understand that.

Even in countries like Mexico, we did a financing for a company in Grand Island, Nebraska, called Chief Industries. Chief Industries is a leader in some of the things it does, including providing agricultural support systems and so forth.

There was a transaction in Mexico for multiyear that we used Ex-Im Bank to finance. In that case, Ex-Im Bank was critical to get the kind of pricing we needed to be competitive in the market.

We do not consider Ex-Im Bank as a subsidizing organization. Its fees are not exactly very low. If anything, I think Ex-Im Bank is quite expensive.

The other thing is that everybody says it is a large exporter-friendly organization. It is. But at the same time, show me a large exporter and I will show you a lot of subcontractors below that.

In the GE Medical case in Wisconsin, there were a number of companies along the way in the State of Wisconsin that supported the export sale.

In risk-taking, Ex-Im Bank, I think we find it to be quite conservative at times. It almost acts like a commercial bank, which is good from the standpoint of U.S. taxpayers because it is a pretty responsible organization. And it is an organization that works with the private sector extremely well in the United States.

It is critically important that we support Ex-Im Bank's charter for a 5-year period, hopefully. I strongly endorse it on behalf of the Bankers Association for Finance and Trade and Bank One.

Thank you very much.

Senator HAGEL. Mr. Narayana, thank you.

Mr. Straub.

OPENING STATEMENT OF TERRENCE D. STRAUB VICE PRESIDENT, GOVERNMENTAL AFFAIRS USX CORPORATION

Mr. STRAUB. Thank you, Mr. Chairman. I am pleased to be here with you and with Senator Bayh, a good friend of the producers of American steel and the working men and women in the American steel industry.

I am Terrence D. Straub. I am Vice President of USX Corporation. My remarks this afternoon, Mr. Chairman, are submitted on behalf of USX Corporation, which is the parent company of U.S. Steel, and a company which has followed the activities of the Ex-Im Bank very closely over many years.

Recently, I have also been privileged to be appointed a member of the Ex-Im Bank's Advisory Committee. In that capacity, I look forward to working with the Ex-Im Bank's Board of Governors to develop policies that will continue to foster global economic growth and to create increased export opportunities for U.S. businesses. USX strongly supports policies which seek to open foreign markets to American-produced goods and services.

There are some concerns on our part, however, that I would like to present in my testimony today. My concerns rest on a simple core point. We believe it does not make sense for the United States, or any other nation for that matter, to facilitate or subsidize the expansion of capacity to produce any major commodity which is already in massive world oversupply. To do so will inflict great harm on all world producers of that commodity leading to loss of revenue, falling prices and cashflow and, in the extreme, the collapse of the producers themselves.

Witness the American steel industry today, of which I speak.

This is precisely the situation in which we find ourselves today in the steel industry. I won't repeat the points made in the written testimony submitted for this hearing by the American Iron and Steel Institute. We support the proposition that the Ex-Im Bank's provision of funding to produce still more steel in a world market which has the capacity to produce nearly 300 million tons more than it needs, which, just by way of reference, Mr. Chairman, that is three times the annual output of the U.S. industry alone. We think that doesn't make economic or political sense.

Indeed, U.S. Government economic policy, which is based on the fundamental principle that free markets should dictate the flow of capital, should not subsidize increased production of a product when there is already an oversupply of that product. The hundreds of millions of tons of foreign steel overcapacity, and the misguided policies by foreign governments that led to this overcapacity, was well documented by the Department of Commerce in its report issued last year: *Global Steel Trade—Structural Problems and Future Solutions.** And with your permission, Mr. Chairman, I would like to submit a copy of that for the record. It is one of the finest pieces of work our Government has done on a nonpartisan, unbiased, and a nonideological basis I think in many, many years of studying the problems of world steel trade done by some profes-

*Held in Committee files.

sional career folks who spent almost 2 years collecting evidence worldwide and pulling it together for the report.

Let me cite a real-life example of the problem I am talking about. Last year, the Ex-Im Bank decided to provide export financing to support a steel project in China by the Benxi Iron and Steel Company which would add a million and a half tons to the company's capacity. This investment clearly further aggravated the foreign excess capacity problem. It did not make economic sense, of course, but exacerbating this problem is that our own Department of Commerce found just last month that this same producer, Benxi, has been dumping their exported steel into the United States market at margins greater than 65 percent. Promoting U.S. exports just simply cannot be at the cost of American jobs. In other words, the Ex-Im Bank should review its existing policies to make certain that it not only promotes U.S. exports, but that it also makes certain that other U.S. industries are not adversely affected by imports arising from the Ex-Im Bank investment. This clearly did not occur in the consideration of the loan to Benxi Iron and Steel Company.

USX understands the value of exports. I think we sell a good amount of steel to the gentlemen's company sitting on either side of me here, a good deal of which go into export markets. We are strongly supportive of that, just to be clear. We export steel ourselves, and we sell through our subsidiary, USX Engineers and Consultants, a business that we value highly and which we want to grow. In fact, in the 1990's, UEC, which provides worldwide steel consulting services, participated in an Ex-Im Bank program to assist a Romanian steel producer, to become more environmentally efficient by providing technical and engineering services and equipment. This initiative, which has long since ended, was not designed to increase production capacity, but primarily to help the producer become more environmentally sound.

This China example, which actually increased production, as I said, a million and a half tons of capacity, throws economic and business logic on its head. USX Chairman Thomas Usher, following appeals to the Ex-Im Board of Directors by then-Commerce Secretary Mineta, by then-Treasury Secretary Summers, and by Members of Congress to halt the financing of the China project, described the financing as, "an affront to the hardworking men and women of my company and other U.S. steelmakers struggling to remain in business despite a massive glut of world steel production." This is from a CEO who enthusiastically supports U.S. trade promotion objectives and policies, but believes they cannot violate common sense. I have submitted for the record copies of the letters** on this matter from Secretary Mineta, Secretary Summers, and Congressmen Regula, Murtha, Quinn, Visclosky, and Mr. Usher.

What then should the U.S. policy be? I suggest three guiding principles. First, by all means, continue to have the Ex-Im Bank support the export of U.S.-produced goods and services. Again, I want to be very clear on that. That is our position.

Second, enforce a policy—and here I speak to the steel industry primarily—in which investments are not made that would increase production of a commodity product for which there is already a rec-

**Held in Committee files.

ognized and tremendous worldwide overcapacity. Invest only in steel, primarily in the modernization of existing facility, such as in enhanced environmental safety and other initiatives related to that, only when it does not result in increased production and avoid any investments in any foreign producers that are under investigation for or have been found to be dumping in the U.S. market. And I also think that it would be useful to make it a priority to look at areas where countries are making genuine efforts to reduce production capacity in steel if they see if there is assistance in those areas as well.

Third, and last, to encourage foreign governments to engage with our own Government in negotiations that will address these overcapacity issues and to see if there may be a role for the lending institutions in that regard.

That concludes my remarks, Mr. Chairman. I would be happy to take your questions.

Senator HAGEL. Mr. Straub, thank you.

Mr. McKenna.

OPENING STATEMENT OF TOM McKENNA
EXECUTIVE DIRECTOR
INDIANA DEPARTMENT OF COMMERCE

Mr. MCKENNA. Chairman Hagel, Ranking Member Bayh, as the grandson of an Irish immigrant, I cannot express what an honor it is for me to be here today.

In 1986, I had the opportunity to run for the Congress of these United States to represent the 6th District of the great State of Indiana. That same year, a young man from Shirkeyville, Indiana, ran for Secretary of State.

Senator Bayh, to be sitting here as you occupy the same seat as your father is about as good as it gets for a southern Indiana boy. And, as Senator Bayh is in all things humble, I want to point out to Chairman Hagel that just a few months ago, the University of Notre Dame women and the women of Purdue University competed in an all-Indiana final in the NCAA championship.

Senator BAYH. Thank you very much for getting that on the record, Mr. McKenna.

[Laughter.]

Senator HAGEL. Mr. McKenna, you know that Notre Dame visits Lincoln in September.

Mr. MCKENNA. I am full of fear and trepidation.

[Laughter.]

But my lieutenant governor is not.

[Laughter.]

And Coach Davey will not—I repeat, will not—play for a tie in the last minute of the game.

I am here today to support the reauthorization of the Ex-Im Bank's charter, so that it may continue assisting Indiana exporters.

The Indiana Department of Commerce is the lead economic development agency in the State of Indiana. Specifically, Commerce works to assist communities and businesses in efforts to develop, expand, and strengthen the quality of life in Indiana.

Commerce's aim is to ensure secure jobs, higher incomes, and competitive communities in Indiana. We do this by providing grants and services for development throughout the State. Our customers include growing Indiana businesses, companies looking to locate a facility in the Midwest, communities accessing grants, organizations and businesses leveraging tax credits, and individuals who use our services.

As we move into an increasingly global economy, our International Trade Division continues to play a very important role in economic development. Indiana has been a national leader in export growth and in the attraction of inward investment. Our International Trade Division stimulates this growth in a variety of ways, targeting our services to small- and medium-sized businesses—the ones that need that help the most. Namely, it provides personalized services and networking through our 13 overseas offices, and our Trade Show Assistance Program provides grants to companies that are participating in an overseas trade show. Plus our field and staff representatives consult with Indiana businesses, encouraging more Hoosier exports.

The benefit of an international presence has been tremendous for Indiana's economy. There are a number of reasons for Indiana's superb export growth—Evan Bayh being one of them.

First, Indiana companies and local development offices do a terrific job of seeking new markets throughout the world. Our efforts at the State level play a role, too. There is yet another resource that helps Indiana companies perform well in the international marketplace—the Export-Import Bank of the United States.

The Ex-Im Bank is vital to exports in the United States. Without it, some exporters would not be able to finance their projects. While the Export-Import Bank works with companies of all sizes, it is of greater importance to small- and medium-sized companies.

For instance, if a small company in Indiana wanted to send a large shipment of exports to an emerging market overseas, the company might have to increase production or purchase new equipment to enter this market, and financing that growth would be difficult. However, Ex-Im Bank can offer a pre-export working capital guarantee, helping the exporter obtain a loan to allow the company to produce goods or provide a service for export. This finances the company's inventory and accounts receivable, helping make it financially feasible to fill the order. That is good for their business, good for the emerging market, and the U.S. economy.

The Ex-Im Bank has a very high success rate, primarily because if someone defaults, they are, in fact, defaulting against the U.S. Government.

Finally, the Ex-Im Bank also helps exporters by ensuring against political risks overseas. This is especially important in the smaller markets, which are some of the fastest growing destinations for U.S. exports.

Indiana is a great success story in the international marketplace, and Ex-Im Bank has played a role in that story time and again. Some examples.

International Cryogenics is a small manufacturer of cryogenic materials located just outside of downtown Indianapolis. It has been in business since 1980. The company worked with the Indiana Department of Commerce to obtain credit insurance with the Ex-Im Bank. International Cryogenics exports its materials to markets worldwide, but concentrates on Korea. Prior to obtaining credit from the Ex-Im Bank, the company was only able to offer cash in advance terms, thereby limiting sales. Now, with the credit insurance, the company can offer more competitive open account terms, which has enabled it to increase sales and to maintain its workforce.

G.R. Wood Inc. in Mooresville manufactures hardwood lumber from logs. In the early 1980's, G.R. Wood wanted to sizably increase its exports of lumber to Europe. It applied for Ex-Im Bank's multibuyer insurance policy in order to mitigate some of the risks associated with exporting. Initially, exports were a small part of their business, but today, exports represent about 50 percent of total sales.

Radian Research is a manufacturer of power and energy measurement instruments in Lafayette. In 1996, Radian approached Ex-Im Bank for a multibuyer insurance policy in order to increase the volume of exports. The company needed Ex-Im Bank's assistance to obtain the necessary financing. Without Ex-Im Bank's insurance program, Radian's lender would not have approved a line of credit. Ex-Im Bank approved the insurance policy in 1996 and the company continues to increase its export volume.

It should be noted that companies that export perform better than nonexporters, and they are better prepared for the global economy. These companies provide better jobs, with workers earning up to 7 percent higher pay. Additionally, they are more stable jobs because these companies are less likely to be susceptible to the vagaries of our domestic economy.

The Ex-Im Bank of the United States is an important part of our economic future. Moving more goods into the international marketplace is vital to our growth—something Indiana has done very well with the assistance of the Ex-Im Bank.

By helping companies that may not be able to increase trade otherwise, the Ex-Im Bank plays an essential role. That means encouraging as many companies as possible—in all States—to pursue increased exports. The Ex-Im Bank can help achieve that goal.

My lieutenant governor tells me every day that he wants us to be competitive. He wants us to be in the marketplace and to compete. He asks us to be aggressive, proactive, tactical, and practical. And this Bank allows us to do that with small- and medium-sized businesses.

We feel it is vital to reauthorize the Ex-Im Bank to full operation, and we urge you to do so. From Indiana's perspective, we know first-hand what kind of positive influence it can have on a State's economy, but we know we are not an isolated case, and the success that we have enjoyed in Indiana is shared throughout this great Nation.

Again, we believe it is in the Nation's best interest to reauthorize the Ex-Im Bank for the United States. On behalf of the Indiana Department of Commerce, I thank you for this opportunity to testify here today.

Senator HAGEL. Mr. McKenna, thank you.

Mr. Bergsten.

OPENING STATEMENT OF C. FRED BERGSTEN DIRECTOR INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. BERGSTEN. Mr. Chairman, as your final witness, I will try to honor your admonition to be succinct.

Let me start with the bottom line.

I believe it would be a huge mistake to sharply decrease the program of the Export-Import Bank as proposed by the Administration. Indeed, I would argue that you should increase the amount of funding and program authority for the Ex-Im Bank by about 50 percent.

In my statement and underlying studies we have done on the issue at my institute, I lay out the reasoning behind that suggestion for a substantial increase. I would be happy to go into that if you like.

In addition, I believe the Committee and the Congress—as you reauthorize the Bank later this year—should increase its operating authorities and broaden them substantially. You should enable it to carry out the kind of market window activities that have been referenced earlier in the hearing. You should expand the use of its war chest to cope with so-called untied foreign aid practices, which also undermine U.S. competition in world markets.

I package those proposals to increase the size of the bank and expand its authorities because only if you do that will you enable U.S. exporters to compete on a truly level playing field with their foreign competitors and enable our Ex-Im Bank to adequately match the practices of the export credit agencies of other countries.

Why do I advocate such seemingly radical proposals? Because exports are a key driver of the U.S. economy. Even you may not realize that the share of exports in the U.S. economy has tripled in just the last 25 years. Indeed, exports are now a much bigger share of the U.S. economy than they are in the economy of Japan. They are a considerably larger share of our economy than the economy of the European Union, when you look at it as a group.

So, we have both experienced a huge increase in our dependence on foreign markets and we are more dependent than the other major industrial countries with which we compete. Therefore, it would be sheer folly for us not to have a fully competitive export credit program.

But it is more than just the aggregate numbers. As was mentioned a moment ago by Mr. McKenna, U.S. export jobs are among the best jobs in the country. A number of studies we have done at my institute document that worker productivity in exporting industries is 20 percent higher than the national average. Export jobs pay 5 to 10 percent more than production worker jobs in other industries. Exporting firms are 10 percent less likely to go out of business so the jobs are more stable.

We create jobs. We create better jobs. Exports are a vibrant part of the economy as a whole. I would argue that those factors are particularly important at this juncture in our history and for the next few years.

We know the economy has slowed down. Domestic demand has slowed down. That means export markets are even more important in the foreseeable future.

In addition, one of the few big imbalances in our economy is the trade deficit, which is approaching $500 billion. So far, we have been able to finance that successfully. But it means we have to borrow $2 billion every working day from the rest of the world. If that number dropped just a little bit, the dollar would plunge, inflation would rise, interest rates would soar, the stock market would crash again, and our economy would be in big trouble.

We have to bring down—not eliminate but bring down—substantially the level of our external deficit. And there are only two ways to do it—cut imports or raise exports. For obvious reasons, the healthy way to do it is to expand exports. And to do that we need a vibrant, successful, and fully competitive Export-Import Bank.

Finally, in terms of current reasons and policies, the Administration, to its great credit, is trying to get the U.S. back in the game of international trade negotiations.

As you know, we have basically been out of that game for 6 or 7 years because the previous Administration and the Congress were unable to work out a basis for new negotiating authority to permit the United States to negotiate international trade deals. As a result, other countries are increasingly striking trade deals around us. Those are hurting us. They will accumulate. They will make our trade position even worse.

We have to get back into that game. To do so, of course, we need strong political support from the exporting sector and we need an export performance that gives us clout in world markets when our negotiators go abroad. You do not do that by cutting your Export-Import Bank. You do not do it by unilaterally backing away just when you want to proceed on all these fronts.

So, I think there are multiple reasons to move ahead positively—indeed, aggressively—in your reauthorization legislation to increase the size and scope of the Export-Import Bank. I would propose that in doing so, you have in mind a fundamental two-track strategy in this area of export credits.

On the one hand, provide full financing and program authority so that our firms can compete on a level playing field. But on the other hand, always look for opportunities to reduce the credit subsidies that are applied in world markets by our competition.

We should always be trying to negotiate down the subsidies and practices that are outside the international norms that our foreign competitors pursue.

The sorry fact, however, is that you cannot negotiate a reduction in the others' subsidies if you are sitting on your hands because they don't take you seriously.

So, we have to, on the one hand, fight fire with fire. But, on the other hand, use that increased clout of our own programs to try to reduce the levels all around. And that, incidentally, is not theory. It has been done twice before. When I was in charge of this policy area in the late 1970's, in the U.S. Treasury, we negotiated the first international agreement, the OECD consensus or guideline agreement, that did sharply reduce, indeed, to a large extent eliminate, old-style competition in this area with long maturities and subsidized interest rates. The only way we were able to do that, however, was by quadrupling the size of the Ex-Im Bank program over the 4-year period when I was at the Treasury.

The other countries then took us seriously. We were able to negotiate a reduction in subsidy practices.

This happened again in the mid- to late-1980's, when tied aid credits became a major source of competition in this area. The Administration of the day—the Reagan and, subsequently, Bush Administrations—created with Congressional support and, indeed, leadership, the so-called war chest, which enabled the United States to match those foreign practices and ultimately bring the foreign perpetrators to the table, and successfully reduce that element of export credit competition in the early 1990's.

So the fundamental strategy I would recommend to you is one of two tracks—make sure that we can compete and also enable us to negotiate reduction in objectionable practices abroad.

As has been mentioned in hearings on the House side and also a little bit here today, there are those who say, it is bad economics to do these export credit supports because it deviates from the market and that is a bad thing.

Leaving aside the philosophy, the economics is just wrong because what we are trying to do is not create new subsidies. We are trying to match other people's subsidies. There is a fundamental theorem of economics called The Theory of the Second Best. It is not pure market economics, but the theory is very clear.

When others pursue market distortions, it in fact makes sense to generate offsetting distortions because the net outcome actually is a closer approximation of free market principles.

Senator BAYH. We call that not making the perfect the enemy of the good.

Mr. BERGSTEN. You have it. So even in terms of economic theory, as I said to a colleague from the Cato Institute on the House hearing side, there is strong rationale for doing what we are talking about here.

Finally, I would just leave one point of history. There have been a couple of times in the last generation when the Administration of the day and/or the Congress actually did cut the programs of the Export-Import Bank. It happened in the mid-1970's. It happened again in the early 1980's—due to a combination of ideology, budget desires, and the like. In both cases, after having done considerable damage to U.S. economic interests and international goals, those policies were quickly reversed.

In other words, they were not sustainable. When cuts as proposed by the Administration now were actually implemented, they turned out to be a bad thing. They generated strong and bipartisan political opposition. And they were quickly reversed and the program was put back on track, partly for the reason I indicated—to enable us to have a serious voice in negotiating reductions in foreign practices.

I will close with an appeal to history. Let's learn from it for once. Let's not go through another see-saw because I would confidently predict that if you reduce the program this year, you will be back next year or the year after and substantially increase it because gentlemen like those on the rest of this panel, many participants and key actors in the U.S. economy, will simply let you know what a drastic mistake it would be.

Instead, let's do it right in the first place. Increase the program, broaden the authorities, get back in the game of negotiating reductions in foreign practices, and give American exporters a truly level playing field.

Thank you.

Senator HAGEL. Mr. Bergsten, thank you for that statement.

Since we are dealing with only two of us here, what we will do, Senator Bayh, if it is acceptable to you, is just start a 7-minute round, and others may show up, but we will start it that way, if that is acceptable.

I would like to begin with Mr. Bergsten's pronouncements and suggestions. Any on the panel who would like to respond to anything you heard him say? Good? Bad? Does he make any sense?

Mr. NARAYANA. Mr. Chairman.

Senator HAGEL. Yes, sir.

Mr. NARAYANA. It makes a lot of sense. I went through the two times he was talking about when the budget was cut and it was tough going because it was hard enough to persuade American companies to export, saying, you have a competitive product for world markets. There are pretty reticent exporters in this country. And then there was a momentum that was hurt because we did not get quite the support for Ex-Im Bank we needed.

So, I think it is very important to have a certain program for a sustainable period of time where momentum is on the upward so that we can just get more and more American companies to export increasing amounts. We have the quality in the world markets. People respect our product. It is a shame we don't get the product out there.

I think that we should be very careful to not tinker with the overall support to Ex-Im Bank. If I was a CEO of a company and a segment of my business is growing as fast as it is, I would invest more money in that business than to cut it back.

And I think it is interesting, we seem to feel that that train will go forward even without support. That is not true because the exports are going to those markets that can ill-afford to pay. It is important to have a risk-taker, if you will, to support that kind of growth because, essentially, that is where the future markets are.

Senator HAGEL. Mr. Narayana, thank you.

Mr. Meaney.

Mr. MEANEY. Mr. Chairman, I am not an experienced international negotiator, but it just seems common sense to me that you cannot convince people to reduce their subsidies of their industries by just trying to persuade them. You have to have some weapon that makes it clear to them that those subsidies will be rendered useless. And that is, I think, a good justification for continuing the Tied Aid Willingness to Match program.

Senator HAGEL. Anyone else want to respond?

Mr. Dort.

Mr. DORT. Mr. Chairman, I speak reluctantly in trying to add something to what Mr. Bergsten said for a lot of obvious reasons. But the one thing that I might bring to Fred's example is the signal that a cut makes in the marketplace.

We face international competition around the globe. And frankly, the Ex-Im Bank is a target of criticism by others talking in terms of its reliability. "Look," says the competition, "at the signal from the United States Government. President Bush is trying to eliminate the Bank. Will they be there next year?"

What Fred said and others have said is quite true, but that perhaps is another element that we should consider, the signal that it makes.

Senator HAGEL. I agree, Mr. Dort. Symbolism signals are very powerful, especially in the international arena.

Mr. Bergsten, would you elaborate a bit on your thoughts about increasing not just the financial commitment structural activity focus, but also the market windows, the tied aid programs. Where do we cross the line with OECD on this?

Mr. BERGSTEN. Well, that is a matter of great debate between the United States and some of the foreign export credit agencies. But in practice, what is happening is that some of the other major countries are conducting practices that give them a substantial competitive gain, which they claim are not subject to the OECD guidelines, and therefore, do not require any constraints.

Indeed, one important part of the OECD Agreement is prior notification of a particular subsidy practice or one that is covered by the arrangement. That then gives the other countries and their own export-import banks an opportunity to match the practice.

In the case of some of these new programs that I mentioned, the other countries claim they are not covered. Therefore, they don't even notify. We are not even aware that we are facing an unlevel playing field in particular cases. So, it is a doubly difficult situation. You face a new subsidy and you don't even know that it is hitting you until after the deal has already been made.

The market window issue, Mr. Narayana mentioned it briefly. Some of the other gentlemen may have competed with it directly and can give examples. Market windows are these newly developing, hybrid programs that are carried out particularly by the German and Canadian export credit agencies, though it is clear they are being considered by others as well. The practice will spread whether we do it or not.

What is being done is that in those countries, the relevant government agency is conducting business pretty much like a private bank, meaning it goes faster. But it gets government funds and pays no taxes. It has an implicit government guarantee behind what it does. It shifts some of the administrative costs to the government payroll.

In short, it has lots of benefits which enable it to cut its costs and thereby reduce the interest rates it charges and have a substantial competitive advantage in both quantitative and qualitative terms.

And the argument from the agencies involved is that they are not subject to the international guidelines.

We ran a big conference on this last May and, much to their credit, the leaders of those foreign agencies gave us papers and explained what they did, and defended their practices, and basically said, "come on in, the water is fine."

They were not discouraging the United States from doing it. They said, "we think it is a good idea."

Both the presidents of the German and Canadian agencies testified at great length and their papers are in the book that we published on it. It gives you the blueprint, tells you how to do it and, quite candidly argues that it is a good thing for their competitive position and their exporters. They go on to argue that there is nothing wrong with it under the international rules and they say, "if you don't like it, emulate it."

That is what I am suggesting—we ought to emulate it.

The so-called untied aid is a fascinating area where, in principle, a foreign aid-giving agency provides a credit or grant-like credit to a developing country with no strings attached. But in practice, when you trace the procurement under those loans, particularly in the case of the Japanese program, you find, mystery of mysteries, almost 100 percent of it winds up in Japanese exports. And you don't even have to charge perfidy on the part of the Japanese. You can note that their borrowers, knowing where their bread is buttered and knowing where they might want to go for the next untied credit, give the business to the country.

Again, there is a paper in our book that documents in great depth how Japan has given a number of loans of this type to China, particularly in the power-generating sector, and all the exports wind up with Japanese firms.

So that is another practice that we, in fact, would be in a pretty good position to compete with if we used the war chest in its currently updated manifestation to cope with those practices, and again, then try to bring them under the international guidelines.

I think those are the two big ones now where we need additional authorities, a guide and a lead from the Congress—and hopefully the Administration in response—that would enable us then to truly try to level the playing field.

Senator HAGEL. Thank you.

Senator Bayh.

Senator BAYH. Thank you, Mr. Chairman.

Mr. Straub, I would like to begin with you. I understood your testimony to be that you think the Export-Import Bank should not encourage or extend credit support when there is excess capacity in the world. As you know, there is a two-part test, that being one of the parts. The other is substantial injury.

I understand your objection being that, in many ways, the current standards are not being enforced by the Export-Import Bank.

Mr. STRAUB. Something clearly went wrong in the case of the Benxi Steel loan. You look at the regs or the rules and on the face of them, they would seem adequate. I know the Ex-Im has been diligent in the years past, checking with some affected parties in the industry about loans and the industry has responded about those and they have not gone forward.

It is not clear what happened. We had a good meeting with Chairman Harmon. We pressed him on the issue.

There is a standard, apparently, that suggests that one of the tests, maybe the only test, I am not sure, that was not clear to me, but one test was to determine whether there was an outstanding order, an antidumping order against a particular company. There was then a further sort of parsing of that investigation to suggest that it had to be a final order, not a preliminary order, which made us scratch our heads.

These steel cases cost tremendous amounts of money. They cost millions of dollars to prepare. They are not brought lightly. They are brought in full anticipation that they will be won and, in fact, most of them are won—probably 85 to 95 percent, on average, because the facts usually are so compelling.

We as an industry never want to be in a position of bringing a case under the antidumping laws and routinely losing. I think that challenges your credibility on an issue that is very important. So they are very carefully and methodically constructed. They are very expensive to construct.

Just the filing of a case alone, really, I think is some kind of a condemnation of a practice. But quickly, the Departments of Commerce and the International Trade Commission get to preliminary judgments that give you fairly good guidance and independent observers that might suggest there is some wrong-doing there before they can get to a final. That is using one standard. But as a final rational way to look at this—but not looking at a preliminary—that was questionable.

But, look. At the end of the day, Senator, that in itself is a very narrow interpretation of what I am trying to get to here, which is to say that we should not have a situation where there has to be a final order, or even a preliminary order against a company that is clearly dumping in our market before the Ex-Im Bank decides that they should go forward with the loan or not.

That is a minimal threshold, in my opinion. And maybe that regulation needs clarification, and I would hope that the Committee would look at that in its report and in its final product.

But there is a much larger question here about the widely recognized—you had to have been on Mars for the last 3 or 4 years not to know of the problems—not just in the American steel industry, but worldwide, about the over-capacity issue.

So when you have our own Government official weighing in, like Secretary Mineta did, like Secretary Summers did, when you have a stated Government position, irrespective of whether there is an order against a particular company, if the problem exists worldwide, if there is a country that has been found to be in excess capacity, as most foreign producers really are—the United States is one of the rare exceptions. We are primarily a domestic-consuming industry. It seems to me that should highlight the issue itself.

Now how do you write a regulation for that? I am not sure. It is a little more vague. But common sense really has to creep in here somewhere. I guess we would ask for a real review of the regulations in this area and to try to determine this would not happen again.

There was a lot of consternation among the officials of the Bank. I think they were perplexed over this. There was a tremendous reaction, negative and very emotional reaction, from the Congress and from others. It is not a healthy condition for the Bank or for the industry and we should try to avoid it in the future.

So a good review of those rules and regulations would certainly be in order.

Senator BAYH. Well, perhaps it was a one-time oversight or perhaps not. But in any event, it does not hurt to look at the standard used and the internal procedures of the Bank.

If I hear you correctly, you are suggesting that where there is a well-established glut of capacity in the world market, that that should at least raise a cautionary flag. And in a particular case with regard to a company where there is a preliminary investigation or preliminary order of some kind, that should be sufficient to raise a yellow flag. It should not have to go all the way to a final judgment and order of some kind.

Mr. STRAUB. Absolutely not. We don't want to be in a position where U.S. taxpayer money is being used to fund the expansion of capacity of an actor in a foreign country that is going to turn around and violate our laws with that product that we now helped finance and build and produce.

Senator BAYH. Mr. McKenna, maybe in layman's terms, you could share with us—you were so eloquent in describing the importance of exports to Indiana's economy and the States, and your and the lieutenant governor's successful efforts to expand exports.

As you have heard here, the Administration has recommended a 25 percent reduction in funding for the Export-Import Bank.

I have only been in the Senate 2 years. But in my brief tenure, it is rare that you discover a lose-lose-lose situation where we would risk business, we would risk jobs, and in this case, as one of the witnesses testified, we would actually risk money.

It makes it terribly ironic. They proposed reducing the funding in a way to free up funds to make the tax cut and some other activities possible. But in fact, the Export-Import Bank generates a net surplus to the Treasury of about $1.7 billion. We would be actually making the budget situation worse, not better.

If we did reduce the activities of the Ex-Im Bank by a quarter, what impact would that have on Indiana's economy and on your efforts to expand exports?

Mr. MCKENNA. Well, what has been mentioned earlier is, sometimes it is difficult to get local businesses to export. They don't think of it in terms of going outside the Midwest.

By reducing this tool, we are not allowed to do the missionary work throughout the State that we are compelled to do, that we want to do, in order to convince the people within our State that the world wants their products. We now have the quality products. We have the distribution system. And to help somebody who has 25 employees or 100 employees to think about the world market, this is the kind of nudge that will encourage that kind of activity.

It sounds like the same person that was lending the money to the Chinese to build excess steel capacity, is now trying to figure out what to do about the Ex-Im Bank.

Both ideas were bad. Common sense tells you that both ideas are bad. And Indiana has experienced yet its 13th record year in exports—$16.5 billion. We have consistently led the Nation.

And things like the Export-Import Bank, increasing the number of our foreign trade offices—when you left office, Governor, there were eight. We now have 13. Only Pennsylvania has more foreign trade offices.

This is important to us. It is an essential building block. It helps us spread our resources. And it helps Hoosier employees, Hoosier owners, and Hoosier taxpayers. It is a very, very solid program that helps those help themselves.

Senator BAYH. Thank you.

Mr. Chairman, I see my time is expired and I regret that. I have an amendment over on the floor on the education bill that I am going to need to get to.

Mr. Bergsten, before I leave, I would just like to say, I find your comments to be very enlightening and persuasive, particularly in light of past efforts to reduce the support of the Bank.

And also your argument that, if we are going to have any credibility in our attempts to reduce foreign governments' subsidies, that we need to have a credible deterrent of our own first.

So, really, the theory and the practice come together, it seems to me, if you look at it that way. I appreciate all of your testimony here today, gentlemen.

Thank you.

Senator HAGEL. Senator Bayh, I have just been informed that they have called a vote. They are holding the vote for two of the most important Senators in the United States Senate.

[Laughter.]

I don't know who they could be talking about. But, nonetheless, we have a couple of options here. If you want to come back and ask more questions after the vote, we will. Or if you have more questions, we could submit those in writing. Or we could finish the hearing right now.

Senator BAYH. Senator, I am going to need to submit mine in writing. I am going to have an amendment, I need to stay on the floor following this vote.

Senator HAGEL. All right. I have a similar time commitment. So, with that, let me on behalf of the Committee thank you all again very, very much. You have been very helpful.

What we will be doing, as I said in my opening statement, is holding another hearing soon, as Senator Bayh and I have talked about. That time we will have the Administration officials here.

Your comments will be incorporated in our line of questioning. I think you all have made immense sense. You are practitioners of the business, and that is why your testimony has been so valuable.

Again, thank you.

Anything else, Senator Bayh?

Senator BAYH. That is all. Thank you, gentlemen.

Senator HAGEL. Thank you.

Mr. MCKENNA. See you in Lincoln, Senator.

Senator HAGEL. Thank you.

We stand adjourned.

[Whereupon, at 4:05 p.m., the hearing was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you, Mr. Chairman. I am pleased to be here today to speak briefly about the reauthorization of the Export-Import Bank. I appreciate the work that you and Senator Bayh are doing and will work with you to advance the important issues under this Subcommittee's jurisdiction.

Mr. Chairman, the Export-Import Bank has always played an important role in our Nation's export financing. In our current global economy, with a growing number of suppliers and increasingly aggressive export credit entities, the Export-Import Bank will plan an even larger role. The $10 million in exports that my State of South Dakota produces adds strength and a host of jobs to our economy. The guarantees and insurance provided by the Bank help to make it possible for companies in my State to expand their businesses overseas, and play an important role in leveling the playing field for American companies to compete in the global marketplace.

South Dakota is a perfect rebuttal to the myth that the Bank helps only large corporations. In addition to the companies that export directly, the 49 South Dakota companies that supply exporters contribute significantly to job creation for our citizens. When you consider the total picture of how exports fuel our economy, the Bank's investment is even more important.

Again, Mr. Chairman, I look forward to working with the Subcommittee on the reauthorization of the Export-Import Bank.

PREPARED STATEMENT OF PETER A. BOWE

PRESIDENT, ELLICOTT MACHINERY CORPORATION INTERNATIONAL
AND LIQUID WASTE TECHNOLOGY
ON BEHALF OF THE
U.S. CHAMBER OF COMMERCE

MAY 17, 2001

Mr. Chairman, thank you for the invitation to appear before the panel today. My name is Peter Bowe, and I am offering this testimony for the Export-Import Bank renewal on behalf of the U.S. Chamber of Commerce, and on behalf of two small companies I run as President: Ellicott International, a dredge exporter, and Liquid Waste Technology, a waste water treatment plant equipment manufacturer.

The subject today really should not be renewal of Ex-Im Bank, but rather its expansion—and how its export programs can be made more competitive. We should be considering not how Congress can legislate export financing guidelines for the world, but how to deal with the realities of the aggressive practices of export credit agencies (ECA's) from other countries which understand how important exporting is to their economy. Ex-Im Bank needs a mandate to be more flexible, more aggressive, less restrictive about U.S. content, and less expensive with respect to fees.

First, let me review what Ex-Im Bank is doing well in pursuing its role of export promotion:

- The concept of delegated authority, whereby Ex-Im Bank lets private sector banks issue commitments on its behalf is a great idea and should be expanded further. This is especially appropriate for small business which may find the task of dealing with Washington-based bureaucrats daunting.
- Ex-Im Bank's program to support standby letters of credit for bid bonds and performance bonds is innovative and should be continued. This program covers an important need for exporters—and bridges a difference between foreign banks which issue bank guarantees, as opposed to letters of credit, for this purpose and do not charge the exporter's credit line. My company Ellicott has found this program effective.
- Ex-Im Bank has a small business working capital program which means that the Bank recognizes that the needs of small business can be different, and has dedicated staff trained to appreciate these needs.
- A further positive comment: Ex-Im Bank's staffing an office in China shows that it has the ability to act strategically, recognizing where potential for export growth is greatest and the impact of financing the most significant.

There are a few areas where Ex-Im Bank can improve its value to small business exporters:

- First, it needs to reduce its exposure fees which on a per transaction basis often appear unfavorable compared to foreign competition. By way of an example, our Vietnamese customers have said it is cheaper for them to arrange financing on their own than use Ex-Im Bank. Even though Ex-Im Bank should not be a bank of first resort, it should not be comparably so expensive.

- Second, Ex-Im is often too slow to respond in those cases where staff response is required. We lost a $1 million transaction in India because of an inability to deliver a firm proposal in a time period satisfactory to our contractor customer who had to mobilize for a job. I have heard similar anecdotes from other small business exporters. I believe more staff may be required to solve this problem.
- Third, Ex-Im Bank's requirements for U.S. content have traditionally been far more restrictive than what other exporter credit agencies allow. While understanding that the objective of Ex-Im Bank is to create export related jobs, one must often be willing to give up a piece of the pie to get some pie. By contrast, Canada's Ex-Im Bank equivalent would say that a CAT engine bought through a Canadian CAT dealer is all Canadian content, and that freight arranged through a Canadian freight forwarder is Canadian content even if the conveyance is not Canadian flagged. As commerce gets more global and sourcing more international, it becomes increasingly more difficult to achieve Ex-Im Bank's local content requirements despite their recent relaxation.

No doubt a major problem for Ex-Im Bank is Congressional mandates. These affect subjects such as allowable local content or foreign content. There are other mandates which interfere with Ex-Im Bank's business such as unilateral trade sanctions and perhaps most of all, too strict a policy objective of avoiding taxpayer loss through credit decisions about foreign buyers, and exposure fees designed to generate income from export financing.

Small business has special constraints compared to big business with respect to exports. Typically small businesses are limited to production in one or two plants and can't move that production to meet customer financing requirements. Multinationals with many factories can move sourcing to a host country where superior export financing is available. Thus, for a small business exporter the choice is to move manufacturing to a foreign country altogether, or to lose a particular deal if Ex-Im Bank financing is not on a par with that offered by competitive sources.

Small businesses, as well as large businesses, complain about the use of tied aid by foreign countries. The United States continues to fail to come to grips with this problem. Our policy intent has typically been to occasionally engage in matching tied aid with the intent of dissuading its use by others such as France, Germany, or Japan, rather than accepting its use by such countries as what they consider to be a legitimate export tool. A country as small as Holland can boast of $500 million of exports to China through a 10-year mutual collaboration based on Dutch special financing (ORET Program) and Chinese acknowledgement of the need to source from Dutch suppliers.

Our company recently lost a $15 million project for Bangladesh where Ex-Im Bank was unwilling to even consider making a proposal due to the per—capita income status of the country, even though we had evidence in advance of the Dutch loan offer. Within the last year we can point to our two Dutch competitors having received orders worth approximately $30 million to $40 million based on special financing for Bangladesh, China, and Vietnam. Such financing is under the auspices of the ORET Program which typically initiates a 35 percent grant element.

Within the last 5 years our German competitor has used similar financing from KfW for Vietnam, Thailand, and elsewhere.

Our current understanding is that the U.S. Treasury has restricted any further use of the Ex-Im Bank "war chest" to match tied aid loans. Even in the era of matching, Ex-Im still was oriented toward what I call the "dead body" approach meaning that the evidence required to justify a matching loan was burdensome, and that the only truly convincing evidence was a lost contract—the "dead body." I should acknowledge that in the mid-1990's Ex-Im Bank did adopt more realistic procedures to assess the existence of foreign tied aid offers.

A further problem with the tied aid issue has been the technical interpretation of a "matching" proposal or project. In the one case where we successfully received a tied aid match, Ex-Im actually forced us to "dumb down" our superior product by deleting environmental features so that we would be no better than our competition, i.e., our exact technical specification match. This also delayed project implementation by most of a year.

One policy comment: Exporters know that U.S. Government interagency coordination is an urgent requirement for better results. Yet we have no real consensus about what needs to be done.

In 1992, the Congress passed (and the U.S. Chamber supported) legislation (introduced by our Maryland Senator Paul S. Sarbanes) to create the Trade Promotion Coordinating Committee (TPCC), chaired by the Secretary of Commerce. It also required the President to submit an annual export development plan that would serve as a comprehensive blueprint for Federal trade development activities, including strategy to coordinate Federal programs involved, budget issues, etc.

The TPCC and the annual submission served for a while to improve interagency coordination especially when the late Commerce Secretary Ron Brown devoted his personal energy to the concept. However, the hoped for setting of priorities across agency lines has failed to materialize consistently. I urge that this Subcommittee examine this issue further not only in the context of the reauthorization of the U.S. Export-Import Bank, but also in terms of its interaction with the Office of the U.S. Trade Representative, the Overseas Private Investment Corporation, the Trade Development Agency, and the Small Business Administration.

It is frankly inconceivable to think of an export world without an Ex-Im Bank. It is also hard to imagine how Ex-Im Bank can function in any practical way with a budget cut of the magnitude of the one proposed by the Administration. The real question should be, how much more Ex-Im Bank can and should do, especially in a continuing strong dollar era, and how much *more* money it needs.

I close with one sober note. Last week the CEO of a major independent power producer based in Baltimore noted to me that all of its major equipment vendors are now foreign-based in part because of the superior financing programs from their host governments. A world without Ex-Im Bank is likely to be one where strategic industries such as power plant equipment makers adapt to the changing market environment by sourcing all their production where financing is available on terms attractive to their customers. That is how the world works. It is not only unrealistic but also very dangerous to think it can be changed unilaterally through American legislation.

PREPARED STATEMENT OF E. ROBERT MEANEY

SENIOR VICE PRESIDENT, INTERNATIONAL

VALMONT INDUSTRIES, INC.

MAY 17, 2001

Mr. Chairman and Members of the Subcommittee. My name is E. Robert Meaney, and I am Senior Vice President of Valmont Industries, Inc. I am here today at the request of Senators Hagel and Bayh to present the story of Valmont's experience with an unsuccessful attempt to obtain matching tied aid financing from the Export-Import Bank of the United States for a project in China.

I would like to start with some information about my company. Valmont is headquartered in Omaha, Nebraska. We are a publicly traded company listed on the Nasdaq with sales of about $900 million and 5,500 employees, two-thirds of whom reside in the United States. We have manufacturing facilities in eight States and 11 foreign countries. Founded in 1946, Valmont is the world's largest manufacturer of mechanized irrigation products, as well as the world's largest manufacturer of pole structures for applications such as telecom antenna towers, street and highway lighting poles, and large structures for utility transmission and distribution lines.

Our overseas markets range from developed countries like France and Japan to countries who are developing their modern infrastructure like Brazil, China, and the countries of Sub-Saharan Africa. We are very proud of our products. We are motivated by how they enhance the standard of living worldwide, and we believe they aid in the development of freedom and prosperity.

A good example of the importance of our products is the use of center pivots for irrigation. For those not from the Great Plains, center pivots are responsible for the great green circle patterns in fields of 160 up to 340 acres that you often see from airplanes. There are 300,000 of these circles in the world, more than half in the United States. We believe that 60 percent of the world's 300,000 circles use pivots from Nebraska producers, and that fully 40 percent of the world's circles are made by Valmont's Valley brand.

The original drivers for the industry were enhanced yields and the reduction of labor needed to move irrigation pipe by hand, but water conservation and environmental issues soon became as important, especially in international markets.

Water conservation has become a compelling priority for governments in developing countries. The statistics are well known: Only 3 percent of the world's water is fresh water. Only one-third of that is available for human use. Of that 1 percent, two-thirds is used to irrigate farms. Solving the world's water crisis means making farms better at stretching water resources. Nothing comes close to doing this on large fields, as well as center pivots. (Drip irrigation, the other principal water-conserving technology, is about as efficient as center pivots, but it is economical only on small- and medium-sized fields.)

With these strong environmental and agricultural drivers, our export center pivot business has expanded rapidly, especially during the past 7 years. To improve our speed of delivery and product support, we have built satellite manufacturing facilities in Brazil, Spain, Saudi Arabia, United Arab Emirates, and South Africa. We have also established distribution centers in Mexico, Australia, and now in Western China. This regional manufacturing and distribution strategy has been a great success for us. We have improved our market share against competitors both in the United States and in the regions involved. This has enabled Valmont to expand employment in Valley, Nebraska, our main irrigation technology center, and in a smaller operation in San Antonio, Texas.

It was in this context that in 1997 we made a decision to pursue the China mechanized irrigation market. After about a year of market development work, we began to sell a moderate number of machines to private customers, usually by confirmed letter of credit. At an early stage we began to understand that China is setting a high priority on water conservation .

Having concluded that China inevitably would start to adopt our technology in order to move toward water conservation and protection of its soil resources, we invested considerable effort in marketing in key areas with large farms. These regions included Inner Mongolia, Northeast China, Ningsha, Gansu, and Xinjiang. Our development effort was aided by the fact that Valmont had already established a pole manufacturing plant in Shanghai some years earlier. The pole plant has been a financial success, and its seasoned staff has supported the effort of the Irrigation team. In early 2000, we concluded a joint venture agreement with a strong Xinjiang company in order to follow our normal strategy of establishing a strong local organization to address local competition.

In early 1999, an unusual event occurred in Xinjiang. A small Austrian competitor closed a very large center pivot order for about $5 million. This was unusual because our competitors are usually either local companies or those few other Nebraska center pivot manufacturers. The competition in the international segment of our industry is intense, and small regional firms from Europe are normally not competitive. We were suspicious and soon discovered that the sole reason for the Austrians' competitiveness in the 1999 and in later deals was tied aid financing offering 25-year loans at 2.95 percent interest with 5-year grace periods. We consulted the Ex-Im Bank and learned that we could use Tied Aid Willingness to Match procedures to cancel out the very favorable terms being offered by the small Austrian company.

Racing against an uncertain deadline, we worked intensively with Ex-Im Bank personnel and gathered all the documentation necessary to file a formal request for a matching proposal to be considered at the February 2001 Ex-Im Board meeting. We have nothing but praise for the professionalism and enthusiasm of the Ex-Im staff assigned to assist us. We also received encouragement and support from our Nebraska legislative delegation here in Washington, especially from Senator Hagel and Representative Bereuter. We worked very hard to keep our Chinese customers' minds open in spite of pressure from the Austrians to close the deal with them.

At about the time we expected to receive Ex-Im's Board approval, we received word from Representative Bereuter's office that, although our request for a match to the Austrian tied aid offer had been approved by Ex-Im's Board, the Department of the Treasury opposed it. One month later, we received a letter from Ex-Im telling us officially that the Ex-Im Board was "unable to take favorable action on your request." As a result, the Chinese gave the order to our Austrian competitor.

These are the basic facts of the Valmont effort to obtain matching financing from the Ex-Im Bank. We are most disappointed that, after months of work, the attempt to use the Ex-Im Tied Aid program was a failure. It is not possible for Valmont to judge the overall fairness of the result, because we are not experts in policy matters. However, we are businessmen who try not to engage in activities which lead us nowhere. In this case, we wasted months of very valuable time.

Needless to say, the small Austrian company has now booked another order, this time for approximately $3 million. Because of the dramatic financing packages they offer to the customers in Xinjiang, their product line has a dominant share of the promising and growing market there. China is the only meaningful irrigation market in the world in which American, which is to say Nebraskan, companies do not dominate. Although these projects may seem like small ones to some, they are large ones for us. They are also more important than most because, as the initial installations in the region, the brands involved become the reference.

In the months since the disappointment of the rejection of our application, we have continued our marketing efforts to establish our brand by conducting seminars and field training sessions. Our competitor has not supported his product in the field. To us, this is undeniable proof that the only advantage he had was Tied Aid Financing.

In conclusion, we would like to say, for the record, that we believe strongly in the overall mission of the Ex-Im Bank and we wish to see its programs continued. It is our belief that the Tied Aid Willingness to Match program can serve an important purpose in protecting American businesses from unfair practices of foreign governments, but only if it is implemented in a streamlined and consistent fashion.

I would like to thank you, Mr. Chairman, and the other Members of the Subcommittee for your interest in this matter.

PREPARED STATEMENT OF DEAN R. DORT II

VICE PRESIDENT INTERNATIONAL, DEERE & COMPANY

ALSO ON BEHALF OF

THE NATIONAL FOREIGN TRADE COUNCIL AND

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

MAY 17, 2001

Mr. Chairman and Members of the Subcommittee, I am Dean Dort, Vice President International for Deere & Company. You may know us better as "John Deere"—the world's premiere producer of agricultural equipment; a leading manufacturer of construction, forestry, commercial, and consumer equipment; and a business leader in parts, engines, financial services, health care, and special technologies. We compete globally and create smart and innovative solutions in the form of advanced machines, services, and concepts for customers on the farmsites, worksites, and homesites of the world, where our distinctive brand and special competencies bring added dimensions of value.

Our company, founded by John Deere in 1837, has been a leader in product innovation and in service to agriculture since its inception. Throughout most of our company's history we have focused solely on the challenges and opportunities of providing products and services to American farmers and ranchers. We are proud of our relationship with our American customers and will continue to provide them the highest level of attention, but this segment of our business represents a very mature market. Therefore, it has become increasingly important that we look globally for expanded business opportunities in our agricultural, construction, and other product and service lines. Much of that global market is in developing countries, where the Export-Import Bank is a crucial business partner.

Ex-Im Should Be Reauthorized for 5 Years

I am here today representing the National Foreign Trade Council and the Coalition for Employment through Exports. The membership of those organizations includes our country's major exporters. CEE and NFTC urge Congress to reauthorize the Export-Import Bank of the United States (Ex-Im Bank) for 5 years. It is essential to American exporters and workers that the Bank's charter be renewed until September 30, 2006. This would avoid the difficulty which occurred in 1997, and again this year, when reauthorization occurs in the first year after a Presidential election and in the same year when the Ex-Im Chairman's and Vice Chairman's terms expire.

Adequate appropriations are as important as reauthorization in ensuring that the Ex-Im Bank is able to promote U.S. exports around the world. Ex-Im's budget must be adequately funded and its policies and procedures must be aligned with the realities of today's global marketplace.

The Global Marketplace: The Race Is On

Although Deere was selling products overseas under the direction of Mr. Deere's son, Charles, at the turn of the century, there has been a substantial increase in business outside the United States over the recent past. The net result is that in a relatively short period of time we have gone from an essentially midwestern company to a global enterprise.

Customers around the world today expect and are demanding a higher level of performance from John Deere. And Deere delivers, not just in products, but in the total John Deere experience—from ordering, to delivery, to billing, and especially to aftermarket service. Global customers judge us by the totality of dealing with us.

Why have customers become more demanding? Because they have at their fingertips more and better information, more choices from global competitors, and more experiences in a variety of products and of services to which they can compare. Financing is a huge part of their expectations—the sale often goes to those who can provide the financing to complete the sale.

Deere had sales in over 160 countries last year, most all of which were on a cash or private credit system basis. However, in some emerging markets, sales will occur only with Ex-Im Bank involvement. Since 1996, Deere has sold over $700 million of equipment—primarily combines, tractors, and cotton pickers—to republics of the former Soviet Union. All of these products were manufactured by U.S. employees. None of these sales would have happened without Ex-Im Bank's guarantee to the commercial banks which provided the money.

Ex-Im Is Being Outgunned by Other Export Credit Agencies

The United States is significantly behind its major trade competitors, and some of the minor world players as well, in supporting its exporters in emerging markets. This is true in terms of both quantity and quality. While we debate the latest round of proposed budget cuts for Ex-Im, other countries are increasing their budgets for similar programs, leading to increased exports and jobs. Based on 1998 Berne Union data, for example, Ex-Im financed $13.8 billion in United States exports that year, while Japan financed more than $130 billion and France financed more than $50 billion. Korea, Germany, Canada, and the Netherlands all financed significantly more exports than the United States.

In fact, the United States ranked seventh among eight advanced industrialized countries in terms of the amount of exports it supported with official export financing programs—behind the Netherlands and just in front of Spain.

Not only do America's trade competitors have more export credit backing from their respective governments, they also have more innovative programs that are increasingly being used to finance their exports. Additionally, these ECA's do not face the range of policy conditions, restrictions, and periodic unilateral sanctions that have been imposed on Ex-Im by the United States Government.

For example, Germany and Canada have created and are aggressively using the so-called "market windows." At least one other government—the United Kingdom—is considering a similar arrangement. These are quasi-official financing arms that operate outside of the OECD rules that establish world market lending rates as restrictive standards of borrowing. These "market window" activities borrow and lend money with the full faith and credit of their governments on much more attractive terms than Ex-Im or private banks. These market windows, such as Germany's KfW and Canada's EDC, claim that they operate on a commercial basis. However, there is no transparency or reporting on these activities to verify such claims.

One thing is clear: U.S. private financial institutions cannot match these terms. Moreover, Ex-Im Bank believes it does not have a clear enough legislative mandate to combat these ECA practices by creating its own market window or by matching market window transactions when needed on behalf of U.S. exporters and the jobs they create. We hope that the reauthorization legislation can rectify this serious challenge faced by U.S. exporters.

In examining the practices of other foreign governments—in Europe, Japan, and Canada—the one common theme among them is that they are aggressively competing against U.S. exporters and tailoring their export finance programs with the single objective of promoting their respective countries' exports. We emphasize: The foreign countries are competing against the U.S. companies. Ex-Im Bank must have a similar focus if American exporters and their workers are to succeed in the global marketplace. Without this, U.S. exports and jobs will be lost.

While Ex-Im Bank has made recent progress in updating some of its procedures to improve its competitiveness—with the support and encouragement of U.S. exporters—much more remains to be done. Needed additional steps include combating "tied aid" and "untied aid" practices through aggressive use of the tied aid war chest. We also can no longer afford to ignore the phenomenon of market windows. Ex-Im should have the legislative mandate to combat these practices, alongside a focused government-wide effort to negotiate rules to bring these practices within the OECD Arrangement.

U.S. Exporters and Workers Need a Stronger Ex-Im Bank

American exporters and our workers need a stronger Ex-Im Bank, with more robust financing products and a more aggressive approach. Today, all of Deere's operations are bringing out innovative products at an impressive rate—reaping the benefits of years of heavy investment in research and development and capital programs. Over $2.5 billion in R&D expenditures since 1995 has resulted in product lines that are second to none—whether ag tractors, lawn mowers, massive excavators, and dump trucks, mobile vehicle electronic controls or navigational devices.

We aim to compete and win, serving deeply satisfied customers with breakthrough innovations. And we will work with conviction, knowing we serve society in important ways, notably our vital role in feeding the world.

We can compete with anyone in the world on product, service, and price, but no U.S. company can compete on its own against foreign countries' well-funded and aggressive export credit agencies.

Increasingly, finance determines who wins export sales. Our customers expect us to bring financing. If our competitors are able to bring their governments' export credit agencies with them to the negotiating table and we do not have Ex-Im backing, we will lose out and the jobs flowing from those sales will go to foreign workers.

Ex-Im is of great importance to our employees. As an illustration of this, we have worked side by side with officials of the United Auto Workers—our largest union—to tell the story about the importance of Ex-Im projects to our factories and employees. We have met jointly on multiple occasions with Members of Congress and the Administration to convey this message.

Like most major exporters, significant numbers of Deere jobs depend on overseas sales. More than that, because we purchase $7 billion of supplies each year, the positions of many thousands of employees in the plants and offices of our suppliers depend directly on our exports. We have suppliers in most States of the Nation, including all the States represented by the Senators on this panel. Deere recently participated in a CEE and NFTC study along with twelve other exporters. The study identified 35,000 small- to medium-sized businesses, so called "invisible exporters," that benefit from Ex-Im participation in export business.

Ex-Im Bank is Financially Sound and is Not a Corporate Subsidy

There is a widespread misconception that taxpayer funds are used to subsidize the terms of a Bank-backed export transaction. In fact, Ex-Im guarantees are costly to the exporter. Exporters and our overseas customers pay fees for Ex-Im's participation in export sales, which in the last several years have covered the Government's costs of operating the Bank. Ex-Im charges interest on its direct loans (a program of critical importance to many small- and medium-sized business customers but not used by Deere & Company), and premiums for its guarantees and insurance. Therefore, we always prefer private financing without Ex-Im participation, but this option is usually not available in many of the markets where our greatest growth opportunities exist: The emerging markets.

According to the Bank's fiscal year 2000 annual report, the Bank generated $1.7 billion in revenues through its interest charges, premiums, and fees. Its total expenses, including borrowing costs, totaled $1.4 billion. Thus, the Bank generated a net $345 million surplus for the U.S. Government. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot utilize its own revenues to cover its costs. Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan-loss reserves. On the Government's books, the Bank will appear to have spent $927 million this fiscal year, even though the Bank's own financial statement will show a surplus. Thus, the Ex-Im Bank is handicapped by the Government's own budget rules.

Moreover, the Bank has a very low loss rate, historically about 2 percent. In fiscal year 2000, the Bank paid out $249 million in claims, even though the Federal Government's process for estimating losses required reserves of $938 million for the $12.6 billion in credit which was issued that year. The actual loss rate is far lower than the estimated loss rate that is used to calculate the loan-loss reserves that are required in annual appropriations. As a result, the Bank has accumulated $10 billion in reserves, against its approximately $61 billion in current exposure. That reserve rate is far higher than comparable commercial bank reserves.

The Administration's Proposed Budget Cuts Will Cost U.S. Exports and Jobs

We would also alert you to our concerns about the Administration's proposed budget cut for Ex-Im next year.

The Bush Administration has proposed a 25 percent cut in the Bank's fiscal year 2002 budget. All of this reduction would be taken from the Bank's loan-loss reserve funds. With fewer funds for the conservative, mandated, loan-loss reserves we have described, the Bank would have to reduce the amount of financing available for U.S. exporters.

The Office of Management and Budget (OMB) indicates that it would implement the budget cut through a combination of steps: (1) unilateral fee increases in some markets; (2) reductions in the amount of a transaction which the Bank finances; (3) restrictions on the availability of financing to some U.S. companies; and (4) a recalibration of the amount of loan-loss reserve required for a given amount of credit.

Of those four specific proposals, the first three would have the effect of reducing the competitiveness of the Bank and U.S. exporters. Unilateral fee increases, cuts in the Bank's share of a transaction and added hurdles for qualifying for Ex-Im Bank financing all would make U.S. exporters' financing proposals more costly and less attractive to our overseas customers.

Of particular concern to us is the fact that the Administration's proposed cut comes while other governments are increasing their own export credit agencies. Canada, for example, has increased the volume of its export credit agency to $30 billion in 2000, up from $19 billion in 1998. By contrast, Ex-Im's financing volume in fiscal year 2000 was $12.6 billion.

In sum, the Administration is taking the Ex-Im Bank in the wrong direction. U.S. exporters and workers will suffer. We urge you to encourage the Appropriations Committee to oppose the Administration's ill-advised proposal.

While our corporation has a variety of legislative measures before Congress, none is of greater importance to Deere & Company, its business goals and its workforce than assuring a fair competitive environment for our equipment businesses in developing countries. The Ex-Im Bank must continue to play a key role in helping American companies, and in turn their employees, compete in the global marketplace.

PREPARED STATEMENT OF D.P. (DARIN) NARAYANA

PRESIDENT, BANK ONE INTERNATIONAL CORPORATION

ALSO ON BEHALF OF THE

BANKERS' ASSOCIATION FOR FINANCE AND TRADE

MAY 17, 2001

Mr. Chairman and Members of the Subcommittee, my name is D.P. (Darin) Narayana, and I am President of Bank One International Corporation, a subsidiary of Bank One Corporation. Bank One Corporation is headquartered in Chicago, Illinois, and is among the five largest banking organizations in the United States. As part of my responsibilities, I manage Bank One's international banking services provided to the U.S. corporations and Bank One's trade finance group. I appreciate the opportunity to appear before your Subcommittee to share Bank One's views on the importance of the Export-Import Bank's programs.

In addition, I am also representing the views of the Bankers' Association for Finance and Trade (BAFT). I served in the past as President of BAFT, and Bank One is an active member of this organization which is committed to fostering international trade.

Bank One conducts banking operations in 12 States in the United States, and in addition, has international banking operations in California and New York. Bank One also has subsidiaries/branches and offices in 9 countries outside of the United States. We are a leading provider of financial services to all market segments with emphasis on medium to small businesses. In fact, the international trade finance activities of Bank One are focused mainly on the medium to small business customer segments.

If I could add a personal note here, I have been in the international banking business for over 30 years with two major U.S. regional banks, Norwest Bank of Minnesota (presently Wells Fargo Bank) and Bank One. My career has been primarily focused on supporting the international banking activities of medium to small businesses. During these years, I have been privileged to regard Ex-Im Bank as a key ally in supporting the export activities of the U.S. customers. I am, therefore, well aware of the high regard in which Ex-Im Bank is held by the exporting community of the United States.

The international trade finance activity of Bank One is conducted in close cooperation with our bankers located in States such as Indiana, Illinois, Colorado, Texas, Louisiana, etc. When examining our clients' needs for export financing, we are guided by the need to be competitive in order to facilitate our clients' success in obtaining an export order. We look for the best financing option, and we are sensitive to the competition faced by our clients. We certainly look to the Ex-Im Bank as an option; but we also examine other options including providing the financing ourselves and taking the credit and political risk of the foreign country. In fact, my experience indicates that Ex-Im Bank provides an important and at times crucial option to help our customers win the business.

Bank One's activities with Ex-Im Bank include obtaining guarantees for medium-term loans, utilizing the insurance programs and relying upon its working capital guaranty loans to support pre-export financing, as well as needs for performance guarantees by our exporting clients. In fact, during the year 2000, our activities with Ex-Im Bank exceeded $225 million. In addition to this amount, Bank One provided trade lines of credit to foreign financial institutions to support their financing of U.S. exports. In all cases, Ex-Im Bank's activities were complimentary to our trade finance activities.

I would like to illustrate Ex-Im Bank's crucial role in financing exports for our customers by providing examples:

- CTB, Inc., headquartered in Milford, Indiana, is a global supplier of products which help efficiently convert feed to protein which preserve the quality of grain for food and feed stuffs. CTB serves the poultry, swine, egg production, and grain industries. CTB's product lines include automated feed and watering systems, heating, cooling and ventilation systems, commercial egg production, and poultry nesting systems, etc.

  Bank One was able to provide a 5-year financing to Venezuelan buyers of CTB equipment with the help of the Ex-Im Bank's medium-term insurance policy. This financing would not have been provided without Ex-Im Bank's support given our analysis of the risks involved in financing the transaction.

  Bank One also provided a 5-year financing to Kazakhstan buyer to purchase CTB equipment under the Ex-Im Bank insurance policy. As you know, private sector funding for Kazakhstan is scarce, and Ex-Im Bank's role was crucial in helping our customer succeed in that market. Ex-Im Bank, in this case, was a lender of last resort.
- Chief Industries, Inc., headquartered in Grand Island, Nebraska, is engaged in the fabrication and sale of steel products, the manufacture and distribution of factory-built homes and the production and sales of Ethanol. They are also engaged in the manufacture and distribution of grain, drying and storage bins, aeration systems for use in agricultural buildings. This company is a leader in its field and its products have a demand in emerging markets.

  Recently, we used Ex-Im Bank's programs to support a financing facility for its exports to Mexico.
- Almond Brothers Lumber Company is located in Coushatta, Louisiana, and has successfully operated in that community for over 50 years. They have specialized in high-grade lumber that is primarily sold to international markets. In fact, their export sales as a percent of total revenues have reached over 90 percent in 1999 from a base of 5 percent in 1991.

  Obtaining financing based on foreign receivables is a very difficult option for U.S. exporters. Bank One was able to put together a $4.5 million line of credit to provide working capital for Almond Brothers based on Ex-Im Bank's working capital guaranty program. According to Mr. William Almond, "Without the Ex-Im programs, Almond Brothers would not have been able to expand and create the jobs in our parish that it has since 1997." Almond's employment has gone from 65 in 1997 to 89 in 1999 due to increased export sales. Additionally, the company impacts approximately 150 other jobs for loggers, truckers, and other providers of goods and services. Almond Brothers is the major employer in the parish where Coushatta is located, and the export support by Ex-Im Bank made a huge impact on the community.

On behalf of Bank One and Bankers' Association for Finance and Trade, I would like to urge the Subcommittee to support the reauthorization of the Export-Import Bank's charter for a period of 4 additional years without any amendments. In making this request and recommendation, I would also like to make the following points:

- U.S. exporters face the toughest competition they have ever faced in my 30 years in this business. Emerging market buyers need access to capital to purchase products from abroad. Financing is a crucial element of a sale, and foreign ECA's are being very aggressive in providing credit. Ex-Im Bank must step up to support the U.S. exporters with more flexible programs, more competitive financing at rates that are at parity with our competition and with speedier response.
- Ex-Im Bank's financing and its guarantees and insurance programs are a catalyst and, many times, represent an incremental source for commercial bankers in their efforts to provide export financing. For example, recently, Bank One arranged financing for Chinese buyers of medical systems manufactured by a company located in Milwaukee, Wisconsin. Of the approximately $40 million of financing we provided, Ex-Im Bank's participation amounted to 25 percent. This participation by Ex-Im Bank was crucial for the overall successful facilitation of the transaction.
- Multinational corporations that have subsidiaries in more than one country tend to source their exports based on the type of ECA support they can obtain. In other

words, a U.S. multinational can export from the United States or Canada or Germany; and sometimes, competitive financing offered by the ECA of the respective country can swing the decision on where they will source their export.

- Ex-Im Bank is not regarded as providing subsidies to U.S. exporters of financial institutions. In fact, we find that the foreign ECA's role in supporting the exporters from their countries is far more aggressive than Ex-Im Bank's role is in terms of U.S. exporters.
- In our experience with Ex-Im Bank, we find this institution to be sound, well managed, and is very relevant to the needs of the U.S. exporting community. We find Ex-Im Bank's risk assessment to be sound and is protective of the U.S. taxpayers' funds.
- Overall, export activity by small- to medium-sized companies in the United States is growing; and within a few years, our overall exports as a percent of GDP should approach the levels enjoyed by our OECD counterparts. Not supporting Ex-Im Bank at this time would amount to unilateral disarmament and will hurt the cause of American exporters.

I appreciated this opportunity to provide this testimony on behalf of the reauthorization of the Export-Import Bank of the United States, and I would be pleased to answer any questions the Committee might have.

PREPARED STATEMENT OF TERRENCE D. STRAUB

VICE PRESIDENT, GOVERNMENTAL AFFAIRS

USX CORPORATION

MAY 17, 2001

Thank you, Mr. Chairman.

My remarks this afternoon are submitted on behalf of USX Corporation, which has followed the activities of the U.S. Export-Import Bank very closely over many years. Recently, I have been privileged to be appointed a Member of Ex-Im Bank's Advisory Committee. I look forward to working with the Ex-Im Bank's Board of Governors to develop policies that will foster global economic growth and create increased export opportunities for U.S. businesses. USX strongly supports the policies of the Bush Administration which seeks to open foreign markets to American-produced goods and services.

There are some concerns on our part, however, that I would like to present in my testimony today. My concerns rest on a simple core point: *It does not make sense for the United States, or any other nation, to facilitate or subsidize the expansion of capacity to produce any major commodity which is already in massive world oversupply.* To do so will inflict great harm on all world producers of that commodity leading to loss of revenue, falling prices, and cash flow and, in the extreme, the collapse of the producers themselves.

But this is precisely the situation in which the American steel industry finds itself today. I won't repeat the points made in the written testimony submitted for this hearing by the *American Iron and Steel Institute.* I certainly support the proposition that the Ex-Im Bank's provision of funding to produce still more steel in a world market which has the capacity to produce nearly *300 million tons more than its needs,* doesn't make any economic or political sense. Indeed, U.S. Government economic policy, which is based on the fundamental principle that free markets should dictate the flow of capital, should not subsidize increased production of a product when there already is an oversupply of that product. The hundreds of millions of tons of foreign steel overcapacity, and the misguided policies by foreign governments that led to this overcapacity, was well documented by the Department of Commerce in its report issued last year: "Global Steel Trade—Structural Problems and Future Solutions."* I am submitting a copy of that report for the record.

Let me cite a real-life example of this problem: Last year, the Ex-Im Bank decided to provide export financing to support a steel project in China by the Benxi Iron and Steel Company which would add a million and a half tons to the company's capacity. This investment clearly further aggravated the foreign excess capacity problem. It didn't make economic sense, of course, but exacerbating this problem is that the Department of Commerce found just last month that this same producer has been dumping their exported steel into the U.S. market at margins of greater than 65 percent. Promoting U.S. exports must not be at the cost of American jobs. In

*Held in Committee files.

other words, the Ex-Im Bank must review its existing policies to make certain that it not only promotes U.S. exports but that it also makes certain that other U.S. industries are not adversely effected by imports arising from the Ex-Im Bank investment. This clearly did not occur in the consideration of the loan to Benxi Iron and Steel Company.

USX absolutely understands the value of exports. We export steel ourselves, and we sell through our subsidiary, USX Engineers and Consultants, a business we value highly and which we want to grow. In fact, in the 1990's UEC, which provides worldwide steel consulting services, participated in an Ex-Im Bank program to assist a former Soviet producer in Romania to become more environmentally efficient by providing technical and engineering services and equipment. This initiative, which has since ended, was not designed to increase production capacity but rather to help the producer become more environmentally sound.

But this China example, which actually increased production capacity, throws economic and business logic on its head. USX Chairman Thomas Usher, following appeals to the Ex-Im Board of Directors by then-Commerce Secretary Mineta, by then-Treasury Secretary Summers and by Members of Congress, to halt the financing of the China project, described the financing as "an affront to the hardworking men and women of my company and other U.S. steelmakers, struggling to remain in business despite a massive glut of world steel production." This, from a CEO who enthusiastically supports U.S. trade promotion objectives and policies, but believes they must not violate common sense. I have submitted for the record copies of the letters on this matter from Secretary Mineta, Secretary Summers, Congressmen Regula, Murtha, Quinn and Visclosky and from Mr. Usher.

What, then should U.S. policy be? I suggest three guiding principles:

First: By all means continue to have the Ex-Im Bank support the export of United States-produced goods and services.

Second: Enforce a policy under which:

- Investments are not made that would increase production of a commodity product for which there already is overcapacity.
- Invest only in modernization of existing facilities, such as in enhanced environmental safety initiatives, only when it does not result in increased production and avoid any investments in any foreign producers that are under investigation for or have been found to be dumping in the U.S. market.
- Make it a priority to invest in projects to reduce production capacity in areas where there is already global overcapacity.

Third: Encourage foreign governments to engage with the U.S. Government in negotiations to ensure internationally agreed policies that will prevent a recurrence of the tragic, and tragically wasteful, crisis we have today in steel. In fact, USX is prepared to assist in any appropriate manner in such governmental negotiations.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF TOM McKENNA

EXECUTIVE DIRECTOR, INDIANA DEPARTMENT OF COMMERCE

MAY 17, 2001

Introduction

On behalf of the Indiana Department of Commerce, I want to thank the Chairman and Ranking Democrat, Senator Hagel and Senator Bayh, for inviting me to address the Subcommittee on International Trade and Finance of the United States Senate Committee on Banking, Housing, and Urban Affairs. I am Tom McKenna and I serve as the Executive Director of the Indiana Department of Commerce. As a representative of the Indiana Department of Commerce, I am here today to support the reauthorization of the U.S. Export-Import (Ex-Im) Bank's charter, so that it may continue in full operation.

The Indiana Department of Commerce

The Indiana Department of Commerce is the lead economic development agency in the State of Indiana. Specifically, Commerce works to assist communities and businesses in efforts to develop, expand, and strengthen the quality of life in Indiana. This assistance also includes the promotion of international trade, energy efficiency, and tourism development. Commerce's aim is to ensure secure jobs, higher incomes, and competitive communities for Indiana citizens.

Commerce does this by providing grants and services for development throughout the State. Our customers include growing Indiana businesses, companies looking to locate a facility in the Midwest, communities accessing grants, organizations and businesses leveraging tax credits, and individuals who use our services.

Commerce's International Trade Division

As we move into an increasingly global economy, our International Trade Division continues to play a larger role in economic development. Indiana has been a national leader in export growth and in the attraction of inward investment—foreign-owned companies starting ventures in Indiana. Our International Trade Division stimulates this growth in a variety of ways, targeting our services to small- and medium-sized businesses—the ones that need our help the most. Namely, it provides personalized services and networking through our 13 overseas offices, and our Trade Show Assistance Program provides grants to companies that are seeking representation at an overseas trade show.

The benefit of an international presence has been tremendous for Indiana's economy—both through sending our goods overseas and in attracting foreign businesses to Indiana.

Indiana exports for 2000 ended at $16.52 billion. This represents an all-time high for Hoosier exports and an 18.3 percent increase over 1999's performance. Indiana outpaced the Nation in terms of growth, with U.S. exports growing by 12.6 percent.

The most notable increase in Indiana's exports came in gains to Mexico. Exports to Mexico exploded from $812 million in 1999 to $2.2 billion in 2000—an increase of $1.4 billion or 173 percent. Increased exports of machinery and transportation equipment account for most of the jump in exports to Mexico.

Indiana also more than doubled its exports to the Netherlands. Strong gains also occurred in Singapore, Brazil, Australia, France, Japan, and Germany. Indiana realized gains to Canada, its leading destination, but not as striking as some other destinations.

Nine out of 10 of Indiana's top export industries had increased sales to the world in 2000. The fastest growing industry was Primary Metals, with a 56 percent increase. Transportation Equipment rose by 20 percent in 2000, after a slow 1 percent growth in 1999. Some other industries with double-digit growth were: Industrial Machinery & Computer Equipment, Food Products, Chemicals and Rubber & Plastic Products.

There are a number of reasons for this superb growth. First, Indiana companies and local development offices do a terrific job of seeking new markets throughout the world for Hoosier goods. Indeed, our efforts at the State level play a small role, too. There is another resource, though, that helps Indiana companies—especially small companies—perform well in the international marketplace: The Export-Import Bank of the United States.

The Export-Import (Ex-Im) Bank of the United States

The Export-Import Bank assists in the export financing of U.S. goods and services. Ex-Im Bank facilitates exports by creating a level playing field and by providing financing tools to U.S. companies such as loans, guarantees, insurance, and export working capital guarantees. Moreover, because of the nature and size of some os these services, they are difficult for smaller companies to access through private lenders.

The purpose of the insurance program is to provide the company with protection against default due to political or commercial risk. Political risk encompasses events caused by Government action, which are beyond the control of the exporter or buyer. Commercial risk includes the buyer's inability to pay due to financial difficulty, such as an exchange rate devaluation. Insurance covering commercial risk does not cover contract disputes. This support is crucial to maintaining and to creating U.S. jobs through exports.

The Ex-Im Bank is vital to exports in the United States, especially for small companies. Without it, quite simply, some exporters would not be able to finance the projects associated with exports. While the Ex-Im Bank works with companies of all sizes, it is of even greater importance for small companies, which help propel increased exports.

For instance, if a small company in Indiana wanted to send a large shipment of exports to an emerging market overseas, the company might have to increase production or purchase new equipment to enter this market, and financing that growth would be difficult. However, Ex-Im Bank can offer a pre-export working capital guarantee, helping the exporter obtain a loan to allow the company to produce goods or provide a service for export. This finances the company's inventory and accounts receivable, helping make it financially feasible to fill the order. That is good for the business, the emerging market, and the U.S. economy.

The Ex-Im Bank has a very high success rate, primarily because if someone defaulted against it, they would be defaulting against the U.S. Government.

Finally, the Ex-Im Bank also helps exporters by insuring against political risks overseas. This is especially important in smaller markets, which happen to be some of the fastest growing destinations for U.S. exports.

Indiana Success Stories

Indiana is a great success story in the international marketplace, and the Ex-Im Bank has played a role in that story time and again. Please consider some of the following examples:

International Cryogenics

This small manufacturer of cryogenic materials is located just outside of downtown Indianapolis. It has been in business since 1980. The company worked with the Indiana Department of Commerce to obtain credit insurance with the Ex-Im Bank. International Cryogenics exports its materials to markets worldwide, but concentrates on Korea. Prior to obtaining credit from Ex-Im Bank, the company was only able to offer cash in advance terms, thereby limiting sales. Now, with the credit insurance, the company can offer more competitive open account terms, which has enabled it to increase sales and maintain its workforce.

G.R. Wood, Inc.

G.R. Wood, Inc. in Mooresville manufactures hardwood lumber from logs. In the early 1980's, G.R. Wood wanted to sizably increase its export of lumber to Europe. It applied for Ex-Im Bank's multibuyer insurance policy in order to mitigate some of the risks associated with exporting. Initially, exports were a small part of the business, but today exports represent about 50 percent of total sales.

Radian Research

Radian Research is a manufacturer of power and energy measurement instruments in Lafayette. In 1996, the company approached Ex-Im Bank for a multibuyer insurance policy in order to increase the volume of exports. The company needed Ex-Im Bank's assistance to obtain the necessary financing. Without Ex-Im Bank's insurance program, Radian's lender would not approve a credit line, which is necessary to increase exports. Ex-Im Bank approved the insurance policy in 1996 and the company has already increased its export volume.

Stories like this add up. In the last 4 years, the Ex-Im Bank has helped more than 50 Indiana businesses—and 36 of those are small businesses—through its insurance, working capital approvals or loan and guarantee disbursements. The total export value of those projects is more than $116 million. This is clearly a vital service to Indiana, especially considering the emphasis it places on small businesses.

It should be noted, too, that companies that export perform better than nonexporters, and they are better prepared for the future and an increasingly global economy. These companies also provide better jobs, with workers earning 6.5 percent higher pay. Additionally, they are more stable jobs because these companies are less likely to go out of business than comparable nonexporting companies.

Conclusion

The Ex-Im Bank of the United States is an important part of our economic future. Moving more goods into the international marketplace is vital to our growth—something Indiana has done well with the assistance of the Ex-Im Bank.

Exporting leads to a more stable economy and better jobs—both for the companies involved and for the Nation as a whole.

By helping companies that may not be able to increase trade otherwise, the Ex-Im Bank plays an essential role. Part of a globalized economy is increased competition from other countries, and it is vital that the United States operate at full strength. That means encouraging as many companies as possible—in all States—pursue increased exports. The Ex-Im Bank can help achieve that goal. Without the Bank, many of our companies will not be able to help us—the equivalent of going into competition but leaving some of your most important players behind.

We feel it is vital to reauthorize the Ex-Im Bank to full operation, and we urge you to do so. From Indiana's perspective, we know first-hand what kind of positive influence it can have on a State's economy. But we know we are not an isolated case, and the success Indiana has enjoyed will be shared by the Nation through the efforts of the Ex-Im Bank.

Again, we believe it is in the Nation's best interest to reauthorize the Ex-Im Bank of the United States. On behalf of the Indiana Department of Commerce, thank you for this opportunity to testify before the United States Senate Subcommittee on International Trade and Finance.

PREPARED STATEMENT OF C. FRED BERGSTEN

DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

MAY 17, 2001

Summary and Conclusions [1]

It would be a huge mistake for the Congress to cut funding for the Export-Import Bank, as proposed by the Administration, when it reauthorizes the Bank later this year. In light of the central importance of exports to the American economy during this period of slower growth and rising unemployment, and to reducing our huge current account deficit of about $500 billion in a constructive manner, the Bank's authorization (and appropriation) should instead be increased by about 50 percent.

In addition, the Ex-Im Bank needs new legislative authorities to enable it to provide American exporters with a level playing field vis-à-vis their foreign competition. Export credit agencies in other countries—especially Canada, Germany and Japan—have recently been devising new programs, notably "market windows" and the use of "untied aid," to promote their exports outside the agreed international guidelines. Our Ex-Im Bank needs authority to emulate these practices to permit U.S. exporters to compete equally and to fortify efforts by the U.S. Government to negotiate an elimination, or at least a substantial curtailment, of the offensive practices.

The rationale for these recommendations is enumerated in the remainder of my statement.

Exports and the American Economy

Exports of goods and services have been a major source of U.S. growth for 40 years. Since 1960, the share of U.S. gross domestic product accounted for by exports has tripled—a stunning increase in globalization for a mature industrial economy. In the 1990's, even as U.S. growth—powered by the forces of the new economy—turned in one of its best performances ever, the export share rose further from 9.2 percent to 10.3 percent. Globalization is likely to continue to accelerate and the share of exports in the U.S. economy is thus likely to grow substantially further in the future.

When other characteristics of companies are held constant, exporting firms perform much better than nonexporters. Worker productivity is 20 percent higher. Export jobs are better jobs: Production workers in exporting firms earn 6.5 percent more. They are also more stable jobs: Exporting firms are 9 percent less likely to go out of business than comparable nonexporting firms.[2]

Despite the dramatic export expansion, the United States will run a trade deficit that could reach $500 billion in 2001—almost 5 percent of our GDP. The deficit is no cause for panic but it is clearly unsustainable as it requires us to borrow almost $2 billion, net, from the rest of the world on every working day.[3] There are only two ways the deficit can be reduced: Fewer imports or more exports. For the health of the United States and the world economy, more exports are far better than fewer imports. Ex-Im can contribute importantly to that goal.

There is another key policy reason to support a stronger Ex-Im Bank. To its great credit, the Administration is seeking Congressional support for Trade Promotion Authority (aka "fast track") that would enable it to participate in new negotiations to reduce trade barriers multilaterally (especially in the World Trade Organization), regionally (especially to create a Free Trade Area of the Americas) and bilaterally. Such negotiations are vital to enhance the access of U.S. firms to world markets and to avoid new discrimination against the United States as other countries, in our absence from major negotiations, create regional deals of their own. It will be a dif-

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[1] This statement draws extensively on Gary Clyde Hufbauer's "The U.S. Export-Import Bank: Time for an Overhaul," Economics Policy Brief PB01–3, Washington, DC: Institute for International Economics, March 2001, and also on *The Ex-Im Bank in the 21th Century: A New Approach?* eds. Gary Clyde Hufbauer and Rita M. Rodriguez. Washington, DC: Institute for International Economics, January 2001. The latter volume includes the papers contributed to a major conference hosted by the Institute in May 2000 to honor the 65th anniversary of the Export-Import Bank. The volume also includes presentations by Secretary of the Treasury Lawrence Summers, Secretary of Commerce William Daley and Chairman of the House Financial Services Committee James Leach and former Secretary of the Treasury Robert Rubin.

[2] J. David Richardson. 2001. "Exports Matter . . . And So Does Trade Finance," in *The Ex-Im Bank in the 21st Century: A New Approach?,* eds. Gary Clyde Hufbauer and Rita M. Rodriguez. Washington DC: Institute for International Economics. Also see J. David Richardson and Karin Rindal. 1996. *Why Exports Matter More!* Washington, DC: Institute for International Economics and The Manufacturing Institute.

[3] Catherine L. Mann. 1999. *Is the U.S. Trade Deficit Sustainable?* Washington, DC: Institute for International Economics as updated by Catherine L. Mann. 2001. "Is the U.S. Trade Deficit Still Sustainable?" Washington, DC: Institute for International Economics. March 1.

ficult challenge for the Administration to garner a Congressional majority to support the needed authority, however, and the full support of the export community is an essential ingredient of assembling a successful coalition. It would make no sense to reduce official support for export activities just when the strongest possible assistance from that quarter is so necessary.

Ex-Im is only one way—and a comparatively modest way at that—of promoting U.S. export growth. However, it has two unique functions: It helps secure a level playing field for U.S. exporters, in the face of foreign export credit competition, and it corrects market failures in trade finance. These missions have challenged Ex-Im for at least three decades but the Bank, and the United States as a whole, now face a wholly new environment of world export competition.

The New Environment of World Export Competition

Ex-Im Bank and similar official export credit agencies (ECA's) in other countries traditionally finance exports of capital goods, mainly but not entirely to developing countries. Competition in these markets has changed dramatically since the 1970's, when the industrial nations first agreed to a "ceasefire" in export credit competition under the auspices of OECD Arrangement on Officially Supported Export Credits.

Thirty years ago, the dominant users of ECA's were vertically integrated "national champions" like Siemens, Hitachi, and General Electric. In that era, large firms were not nimble at changing the source of components for major capital goods. Instead, each firm would strive to produce components at designated factories within its corporate structure. The goal of the ECA's was to ensure that their national champion won the order; and the goal of the OECD Arrangement was to limit highly subsidized competition between the ECA's. Today, things are different:

- No longer are major capital goods, such as power plants and civil aircraft, made in vertically organized firms based entirely in a single country. Instead, economic efficiency requires enormous amounts of outsourcing. The value-added chain is sliced up and the slices are located wherever production costs are lowest.
- Responding to this new reality, important trading nations are using export credits (among other industrial incentives) in a strategic fashion to attract procurement and direct investment from multinational corporations that can choose from a range of locations around the world. Most other countries depend even more heavily on exports than does the United States; the competition in global markets is thus becoming tougher all the time.
- Both small- and medium-sized companies are becoming a bigger factor in the export picture. One reason is the slicing and dicing of the value-added chain. Another reason is falling communication and transportation costs: Air freight, fiber optics, and the Internet are all helping smaller firms reach new customers overseas. But small companies are still handicapped by the cumbersome character of trade finance.
- Meanwhile, foreign ECA's have invented clever ways around the OECD Arrangement to the disadvantage of U.S. exporters. Unlike the Ex-Im Bank, where the operating procedures are rooted in the bureaucratic practices of the 1980's, many foreign ECA's have acquired the streamlined characteristics of market competitors while retaining the advantages of Government support.

Securing a Level Playing Field: A Two-Track Strategy

In the field of export credit competition, as in many dimensions of international affairs, the olive branch is diplomacy. Through continued negotiations under OECD auspices, the industrial countries have whittled down the subsidies offered by the official government export financing programs. Despite U.S. efforts, however, the OECD Arrangement has not been extended to cover new practices and institutions that *indirectly* distort credit terms and export competition.

This is where the arrows come into play—specifically Ex-Im Bank. Unless the United States, through Ex-Im, is prepared to counter the financing terms offered outside the letter of the OECD Arrangement, foreign governments have little incentive to extend the rules, through OECD negotiations, to cover the new practices and institutions.

In the 1970's and 1980's, the United States successfully used both carrots and sticks to curb wasteful competition among OECD countries in the export credit realm. Substantial increases in Ex-Im program levels in the late 1970's enabled us to negotiate the original OECD Agreement that brought subsidized interest rates, unrealistic loan terms, tied aid, and bargain insurance terms back to commercial norms.[4] The creation of the "war chest" in the 1980's had a similarly salutary effect in checking competition in the use of tied aid to support exports. But in recent years Ex-Im Bank has been hampered both by a shortage of money and its own legislative constraints from effectively supporting U.S. diplomacy. The result is the growing importance of financial practices that skirt the edges of the OECD Arrangement on Official Supported Export Credits.

In an era of high U.S. trade deficits, it is not acceptable for the U.S. Government simply to sit back and accept the market-distorting practices that have crept into the export credit picture. Over the last few years, three financial practices have badly eroded the value of the OECD Arrangement, disadvantaging U.S. exporters: Market windows, untied aid, and interest make up.

Market windows. These are official institutions that operate both as official lenders and private banks. Canada's Export Development Corporation and Germany's Kreditenanstalt für Wiederaufbau are the leading exemplars. The Canadian and German market windows are hybrid institutions with advantages over both private banks and official ECA's.[5] Together, they did $12 billion of financing in 1999.

Unlike private banks, market windows get start-up money from the government. They pay no corporate income taxes. They raise funds with an implicit government guarantee. They can shift some of their administrative costs to the government payroll. Unlike official ECA's, market windows can respond rapidly and flexibly to commercial opportunities, and they can pay competitive salaries to attract talented personnel. Market windows have so far insisted, against U.S. objections, that they are *not* subject to the OECD Arrangement and its reporting requirements. Ex-Im may not even know that it faces competition from a foreign market window until a deal is lost.

Untied aid. In principle, untied aid is bilateral aid extended to a developing country with no requirement that the recipient procure goods and services from the donor country. The annual volume of untied aid is running about $11 billion. Supposedly the recipient country can use the aid funds to procure goods and services from the cheapest source worldwide.

In practice, "untied aid" is often an oxymoron. The recipient country knows very well who is providing the funds and places orders accordingly. Japan is the most important donor of untied aid. Peter C. Evans and Kenneth A. Oye provide a detailed case study of Chinese power plant purchases demonstrating that, for practical purposes, Japanese untied aid finances procurement from Japan.[6]

Unlike tied aid, nominally untied aid need not have a minimum 35 percent grant element. And unlike normal export credits, untied aid need not observe minimum commercial terms of the OECD Arrangement (interest rate, down payment, and maturity terms). Putting these two loopholes together, untied aid amounts to a backdoor route for subsidizing export credits.

Interest make up. Several European ECA's (e.g., France, Italy, Spain, and the United Kingdom) use this method to provide official export credits at the fixed rates permitted under the OECD Arrangement. In this method, commercial banks are guaranteed a return equal to the cost of borrowed funds (say the London Interbank Offer Rate, Libor), *plus a spread of 40 to 150 basis points a year,* when they provide official financing to overseas borrowers. Thus the ECA's "make up" the difference between the permitted OECD Arrangement rate and the commercial cost of funds.

There is nothing wrong with this in principle. However, the size of the "make up" may be excessively generous, relative to the services provided and the risks taken by the commercial bank. In turn, the generous spreads may induce European commercial banks to provide export financing for projects and countries that U.S. commercial banks would not extend to U.S. exporters. In extreme cases, the European commercial banks may even "kick back" some of the extra spread to the borrower, providing an additional inducement to buy European exports.

Market Failures in Private Trade Finance

Over the past decade, innovation in the private financial markets has moved at a breathtaking pace—but not in the realm of export finance, where the trend has been more retreat than attack. Commercial banks have merged with investment companies and insurance firms, and a whole new menu of financial products has been invented. These innovations have not, however, transformed the world of trade

[4] Peter C. Evans and Kenneth A. Oye. 2001. "International Competition: Conflict and Cooperation in Government Export Financing." In Hufbauer and Rodriguez, *op. cit.*

[5] Allan I. Mendelowitz. 2001. "The New World of Government-Supported International Financing." In Hufbauer and Rodriguez, *op. cit.*

[6] Peter C. Evans and Kenneth A. Oye. 2001. "International Competition: Conflict and Cooperation in Government Export Financing," in Hufbauer and Rodriguez, *op. cit.*

finance, and export credits are nowhere nearly as efficient a market as home mortgages. Market failures today are different than they were 20 years ago but they are no less important:

- On average, in 1995–98, the United States exported $128 billion of capital goods annually to developing countries (table 1). Many of these developing countries enjoyed reputations for economic stability—*before* the 1994–95 Mexican crisis and the 1997–98 Asian crisis. In the wake of the financial crises of the 1990's, however, commercial banks reevaluated the risks of trade finance. Today they are less willing to accept medium- and long-term export credit risk (terms over 1 year), even for shipments by major U.S. corporations to steady markets such as Brazil and Korea.[7]
- Meanwhile, small- and medium-sized exporters (whose ranks grew by 65 percent in the 1990's) report difficulty getting export credits, even for shipments to Europe or Japan. Small exporters are not big enough to establish strong client relationships with giant banks, and their trade finance business is not worth the hassle for medium-sized banks. Dot.com trade finance is still on the drawing boards. Banks have not yet securitized trade credits the way they have routinely bundled home mortgages.

Meeting the Challenge

Our competitors abroad have found new ways to play the export financing game at the official level while our private financial markets at home have not yet perfected export financing packages. This has left many U.S. exporters between the proverbial rock and hard place. Ex-Im is the arm of the U.S. Government that should buttress U.S. diplomacy in curbing export credit subsidies (however disguised). Ex-Im should also step in when private export finance is not available for particular foreign markets and aspiring U.S. exporters.

But Ex-Im is seriously disadvantaged in fulfilling its two core missions—providing arrows to reinforce the U.S. stance in official negotiations and stepping in when private markets fail. Ex-Im is limited by the modest size of its financial muscle, relative both to competitor ECA's and the needs of the export market (see table 1). Ex-Im is also limited by a series of crippling legislative constraints. Hence Congress should give the Bank new financial muscle and relax the legislative constraints that hamper Ex-Im.

Financial muscle. Table 1 compares Ex-Im Bank's financial muscle with its major competitors. The focus is on medium- and long-term credits (credits over 1 year), the arena where competition is hottest. In recent years, Ex-Im's medium- and long-term credits amounted to about 4 percent of U.S. capital goods exports to the world and 8 percent of U.S. capital goods exports to less developed countries (LDC's). The figures for competing G–7 industrial exporters were 6 percent and 15 percent respectively.

These comparisons, coupled with business experience recorded in our volume *The Ex-Im Bank in the 21st Century,* point to a clear recommendation. *Ex-Im should increase its medium- and long-term credit activity by at least 50 percent so that it can effectively carry out its dual mission.* With this increase, Ex-Im's total annual budget for new export credits, guarantees, and insurance would rise to about $20 billion, up from the current figure of about $13 billion annually.[8]

Under its current authorizing legislation, Ex-Im is permitted a total of $75 billion of loans, guarantees, and insurance outstanding at any one time.[9] Of this amount, $61.6 billion had been used at the end of fiscal year 2000. Annual repayments of outstanding loans, and expiration of guarantees and insurance, amount to about $10 billion annually. To support $20 billion of new activity each year in fiscal year 2002 and fiscal year 2003, and to provide a cushion for extraordinary circumstances, the Ex-Im ceiling should be raised to at least $110 billion.[10]

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[7] William R. Cline. 2001. "Ex-Im, Exports, and Private Capital: Will Financial Markets Squeeze the Bank?" In Hufbauer and Rodriguez, *op. cit.*

[8] An argument sometimes made against increasing Ex-Im's budget is that Ex-Im will turn into another giant government credit agency, like Freddie Mac or Fannie Mae. The comparison is totally misleading. Together, the two home finance agencies have floated about $1.4 trillion of securitized loans. By comparison with these elephants, Ex-Im is a mouse.

[9] Export-Import Bank of the United States. *2000 Annual Report,* p. 42.

[10] The rough calculation is as follows. Two years of new credit activity at $20 billion per year equals $40 billion. Two years of repaid loans and expired guarantees and insurance at $10 billion per year equals $20 billion repaid. Additional authorization for extraordinary activity (matching untied aid and short-term crisis loans) equals $10 billion. Cushion at the end of fiscal year 2003 equals $5 billion. Total authorization ceiling equals present authorization of $75 billion plus $40 billion minus $20 billion plus $10 billion plus $5 billion equals $110 billion.

The immediate constraint facing Ex-Im, however, is *not* the ceiling on loans, guarantees, and insurance. Instead, it is the combination of annual appropriations to cover possible losses together with the schedule of required reserve ratios. Annual Congressional appropriations have been running about $800 million to $900 million. For fiscal year 2001, the figure is $927 million. The OMB (in consultation with Ex-Im) sets required reserve ratios on loans, guarantees, and insurance for different countries and sectors to cover potential losses. The ratios are very conservative and Ex-Im reserves have now reached $10 billion to cover possible losses on assets of $60 billion.[11]

In order to support a 50 percent increase in annual activity, a combination of two measures should be taken. OMB should modestly reduce the required reserve ratios for seasoned loans. In addition, Congress should raise the current level of appropriations from $927 million in fiscal year 2001 to about $1.3 billion in fiscal year 2002.

By contrast with this recommendation, President Bush's budget calls for a 25 percent *cut* in Ex-Im's appropriation to $699 million in fiscal year 2002.[12] Ex-Im's total activity would be slashed from $12.6 billion in fiscal year 2000 to $8.5 billion in fiscal year 2002. Cutting Ex-Im's budget at this time would be a major mistake. It would undermine U.S. commercial diplomacy and U.S. exporters just at a time when faster export growth is needed to strengthen our economy and reduce the trade deficit in a constructive manner.

I should note that Ex-Im's budget has been cut before. There were sharp reductions in the middle 1970's and again in the early 1980's. In both cases, such steps clearly turned out to represent mistakes and the policies were quickly reversed. We should not repeat the historical errors of the past and, once again, lose market share for U.S. exports that has to be made up by redoubled efforts at a later time after much ground has been lost.

Besides increasing Ex-Im Bank's financial muscle, Congress should give Ex-Im legal authority to compete in the 21st Century of export finance—both to support U.S. exports and to bolster the OECD Arrangement. The legal authority would have several components, any of which could be implemented with Treasury approval:

- Power to match market-distorting "market window" activity both in third world markets and within the United States.[13]
- Power to use the so-called "war chest" fund to match officially untied aid.[14]
- Power to launch an "interest make up" program similar to the European programs.

Legislative contraints. Ex-Im faces several Congressional mandates that also make it a sluggish competitor. Three should be singled out for correction in the 2001 charter renewal:

- Under existing law, Ex-Im Bank must ensure that there is less than 15 percent foreign content in the exports it supports.[15] While the Ex-Im changed its procedures in 2000 to apply the foreign content rule more flexibly, the requirement can still be at odds with the new ways of slicing and dicing the value-added chain with components from a range of countries. Ex-Im should be permitted to act as the umbrella finance agency when a major project is predominantly built with U.S. capital equipment even if U.S. exports do not amount to 85 percent of the total. However, Ex-Im should also keep a running set of records with other ECA's to ensure that they either refinance part of the project or that, in their role as the umbrella finance agency for other projects, they finance an equivalent amount of U.S. exports.
- Over the last 20 years, Congress has given Ex-Im multiple tasks with wide-ranging national interest objectives. Ex-Im is mandated to meet official competition worldwide, make sound credit calls on risky transactions, create new financial instruments to access U.S. capital markets, manage more than $60 billion of global assets in a wide range of legal and financial systems, and aggressively help small, rural, and environmental exporters. Yet, over the same period, Ex-Im has been administratively starved. It has roughly the same staff numbers as 20 years ago,

[11] Under the Federal Credit Reform Act of 1980, Ex-Im is required to set aside very generous reserves for potential credit, insurance, and guarantee losses. Annual appropriations cover these reserves. According to Allan L. Mendelowitz, *op. cit.,* Ex-Im's excess reserves over probable losses may total $10 billion.

[12] As reported in *Inside U.S. Trade,* vol. 19, no. 9, March 2, 2001.

[13] To match market window finance within the United States, the powers under Section 1912 of the Ex-Im statute should be widened.

[14] The "war chest" was created in the mid-1980's so that the Ex-Im could match tied aid. It succeeded in invigorating negotiations that significantly curtailed tied aid. See Peter C. Evans and Kenneth A. Oye, *op. cit.*

[15] Allan I. Mendelowitz, *op. cit.*

it has minimal flexibility in its pay and average grade structure,[16] and its information technology system is outdated. Congress should scale up Ex-Im's administrative capability to the size and scope of its mission.

- There are times when economic sanctions are necessary, whatever the cost in terms of exports.[17] For Ex-Im, however, economic sanctions are more an issue of reputation than reality. In 1999, for example, Ex-Im, was closed for foreign policy reasons in only five markets: Cuba, Iran, Iraq, Libya, and Pakistan. To reduce the "reputation cost" of sanctions, however, Congress should eliminate the Chafee Amendment requirement that Ex-Im Bank transactions be withheld for foreign policy reasons under certain circumstances. If the Amendment is retained, it should be implemented only upon direct approval of the President, after consultation with the appropriate Congressional committees; currently, the power to curtail Ex-Im transactions for foreign policy reasons, is delegated to the Secretary of State.

Conclusion

With more financial muscle and a new legislative mandate, Ex-Im can fulfill its twin missions. On the one hand, it can reinforce U.S. diplomatic efforts to update the OECD Arrangement to curtail untied aid, and to bring market windows and interest make up plans fully within the purview of official discipline. On the other, it can fill the holes in private trade finance. Both missions will provide essential support for U.S. exports. Without new authority from Congress, Ex-Im will sink into irrelevance. U.S. exporters will be put at a severe disadvantage in world markets. The U.S. economy will suffer substantially. I urge the Congress to make the recommended changes when it passes legislation to renew the Bank's authority later this year.

Table 1. Medium and Long Term Official Export Credits Related to Capital Goods Exports, annual average 1995-1998. ($ billions and percentages)

	US	Canada	Japan	France	Germany	Italy	UK	Totals for G-7, except the US
				($ billions)				
Medium/long term credits	10.5	3.5	10.9	8.0	10.7	1.8	3.2	38.2
Capital goods exports				*($ billions)*				
World	270.9	34.4	212.1	86.8	173.6	72.0	91.3	670.2
LDCs	128.1	3.2	110.8	29.2	56.1	26.9	29.3	255.3
Medium/long term credits as percent of capital goods exports				*(percentages)*				
World	4%	10%	5%	9%	6%	2%	4%	6%
LDCs	8%	112%	10%	27%	19%	7%	11%	15%

[16] Ex-Im can hire only 35 employees outside the normal civil service pay structure.

[17] But unilateral U.S. sanctions seldom succeed and sanctions of all types have decreased sharply in effectiveness over the past several decades. See the comprehensive analysis in Elliot, Kimberly Ann, Jeffrey J. Schott, and Gary Clyde Hufbauer. *Economic Sanctions Reconsidered* (3rd edition). Washington, DC: Institute for International Economics. Forthcoming (2001).

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HAGEL FROM PETER A. BOWE

Q.1. Could you please go into a little more detail about your experiences with transactions in which your competitor is financed by the Tied Aid Program of the Netherlands Investment Bank for Developing Countries (NIO Bank)? Could you describe how the Netherlands' Investment Bank's financing terms are better than what Ex-Im Bank can provide?

A.1. Our Dutch competitor primarily uses the ORET program to support special financing in developing countries. ORET provides for grants of not less than 35 percent and not more than 50 percent of a project scope. (Information on ORET is attached.) The balance of the contract price is usually with market rate financing. The ORET program can be initiated in a collaborative process under which the Dutch supplier approaches the foreign user and states that ORET financing is likely available for the pending project. The in-country Dutch Embassy typically writes the buyer to confirm the general terms for ORET and a procedure for confirming its availability.

Not only is the financing attractive on its face, but it establishes a supplier/buyer dialogue under which the buyer, early on in the process, commits to product/project specifications based on Dutch supply.

Also attached is an excerpt from a Chinese government handbook about how Chinese buyers can access the Dutch ORET financing in a collaborative manner.

It is my understanding that Ex-Im Bank could choose to match ORET financing out of its "War Chest" Program if it wanted to. As mentioned in my testimony, "matching" is usually frowned on by the buyer country because the process creates a winner and a loser which, although that is the explicit intent of Ex-Im Bank, is not what the buyer country wants.

Q.2. In your testimony, you noted the possibility that a small business would need to move to a host country to obtain financing from the host country on better terms than what Ex-Im can offer. What criteria do the foreign banks require that would make it necessary for the small business to move offshore?

A.2. The issues here are essentially: (a) content requirements; (b) availability of attractive financing. Special financing by export credit agencies are always based on some minimum of lending country content. As mentioned in my testimony, Ex-Im Bank is more strict about United States content than other ECA's tend to be about content from their country. I provided some specific examples about Canada.

Another criterion would be availability of financing at all. For example, before Ex-Im Bank opened to Vietnam, Ellicott was exploring manufacturing a dredge in Canada, because the Canada ECA was open to Vietnam, and aggressive about its terms for Vietnam, where Ex-Im Bank of the United States was closed altogether.

Q.3. What is the negative impact on the United States economy of Ellicott going to a foreign Export Credit Agency for financing if the Export Credit Agency can offer better terms than Ex-Im Bank?

A.3. Building on the previous example, if Ellicott builds a dredge in Canada for Vietnam to access Canadian financing terms, then the Canadian content of that dredge will displace United States content to a substantial degree.

Q.4. What different approach do you suggest that the Ex-Im Bank take to help you compete?

A.4. (1) Ex-Im Bank should recognize that it needs to play the tied aid game more aggressively. It should do so more flexibly, i.e., avoid the "dead body" approach. (2) Ex-Im Bank needs lower transaction fees. Our Vietnam example where the Ex-Im Bank exposure fee is higher than that charged by other ECA's on a similar term loan. (3) Ex-Im Bank should be more flexible about minimum United States content. (4) Without ignoring credit underwriting standards, Ex-Im Bank should be more aggressive about where and when it takes foreign risks.

Q.5. You mentioned that Ex-Im has high exposure fees. If exposure fees are increased, would you deterred from using the Bank?

A.5. Exposure fees are a cost of doing business which the end user compares between competing proposals, American and non-American. All other things being equal, an increase in exposure fees directly reduces the competitiveness of U.S. exports, and vice versa. So higher fees don't necessarily deter us as the exporter from using Ex-Im Bank, but they deter our customers from choosing Ex-Im Bank financing and therefore deter them from choosing us as an American supplier when European alternatives exist.

The ORET/MILIEV Programme

see also:

- Het Oret/Miliev Programma

13 Annex 3 - Feasibility study checklist

The ORET/MILIEV programme

The text of the second (revised) edition of the Oret/Miliev Programme (Development-Related Export Transactions/Industry and Environment Programme), published in February 2000, English edition in May 2000, has been slightly amended. The amendments were published in the Government Gazette (no. 251, 28 December 2000). The full, updated text of the Oret/Miliev Programme is given below. As yet, this text is only available via the Internet.

Private Sector Department (DOB), Ministry of Foreign Affairs, Bezuidenhoutseweg 67, Postbus 20061, 2500 EB Den Haag.

Contents Page

1 PROGRAMME CHARACTERISTICS

1.1 Enhancing employment

The ORET programme was launched in 1983 as a combination of programmes run by the Ministry of Economic Affairs and the Ministry of Foreign Affairs (Directorate-General for International Co-operation). Its purpose was to support development-related export transactions by Dutch companies. These transactions were initially financed through the award of soft loans to developing countries. The programme assumed its present form in 1991, when loan-based financing was replaced by the award of grants to cover part of the transaction costs. In 1993, the MILIEV (Industry and Environment) programme was set up with the aim of promoting projects with a positive environmental impact. MILIEV had higher grant percentages but was otherwise identical to ORET. On 1 January 1998, the two programmes were combined to form the ORET/MILIEV programme, which no longer applies separate criteria to environmental projects.

The ORET/MILIEV programme is designed to help generate employment, boost trade and industry in developing countries and promote environmental protection. The programme reduces the costs to developing countries of eligible projects through the award of grants for the purchase of capital goods, services or works from the Netherlands.

An ORET/MILIEV grant must be applied for by the Dutch company that wishes to implement the project. The grant is allocated to the developing country through the Netherlands Investment Bank for Developing Countries (NIO Bank). The grant agreement contains a clause whereby the developing country authorises the NIO Bank to make payments from the grant directly to the supplier. The grant is therefore awarded to the developing country; the Dutch supplier is only paid the agreed price. Yet the prospect of a grant award also benefits the supplier.

decision - gives the applicant a claim on the Dutch government to provide funding, and as such qualifies as a grant under the terms of the General Administrative Law Act (AWB) 1. A Dutch company that applies for a grant to be awarded to a developing country is thus an applicant within the meaning of the AWB. The present document accordingly uses the terms 'applicant', 'supplier' and 'exporter' synonymously.

The legal basis for ORET/MILIEV is enshrined in article 2.7.4 h of the Ministry of Foreign Affairs' Grant Regulations - hereafter 'Company Grant Regulations' - published in the Government Gazette 1998, no. 249). The present document explains how the Minister for Development Co-operation, from whose budget the programme is financed, intends to use his powers in this area.

The ORET/MILIEV programme is subject to a number of international rules and agreements. Since grants must be used to purchase deliveries from the Netherlands, ORET/MILIEV is regarded as a form of 'tied aid'. It is therefore governed by agreements signed between Western nations under the auspices of the Paris-based Organisation for Economic Co-operation and Development (OECD) to curb state aid - the so-called consensus - and by EU Directives. These exclude projects to export agricultural commodities or military equipment and impose severe restrictions on projects involving nuclear power and the supply of aircraft. They also specify that other projects can only be supported under specific conditions (see chapter 3).

1.2 List of eligible countries ⤒

The list of developing countries eligible for ORET/MILIEV aid was adapted as a consequence of the debate in the Lower House of Parliament on 28 June 1999. The list consists of two parts: see annexes 2A and 2B of the present document. Annex 2A lists those countries for which ORET/MILIEV aid is unconditionally available (the 'active' list). Annex 2B contains the 'passive' list. Projects in these countries are eligible for aid only if the applicant can name foreign rival bidders and can prove that government support is essential to secure the order. The applicant must do so by submitting an official document providing irrefutable evidence that the government of the developing country is asking for donor aid for the project in question, or by showing satisfactorily that at least one of the rival bidders is receiving government support. He must also submit a declaration from the Dutch embassy in that country stating that government support has been requested, or that such aid is being given by other foreign authorities to support a rival bid.

This country list may be amended. The text of the list and any such amendments will be published in the Government Gazette. The most recent text of the list and the text of the present document and its annexes can be consulted on the Internet (see chapter 6).

1.3 The budget ⤒

NLG 330 million has been set aside for ORET/MILIEV per annum, NLG 80 million of which is reserved for published in the Government Gazette. Part of the budget will be needed to fund ongoing and newly approved projects. New projects can only be approved if there is enough funding available for each year in which disbursements are planned. Project proposals cannot be approved if there is no funding available.

The total grant that can be offered at the request of any one company or group of companies is limited to 20% of the available annual budget. The same limit is applied to the total amount that can be awarded to a single country, with the exception of China and India.

1.4 The grant allocation ⤒

The ORET/MILIEV grant will normally equal 35% of the total value of the transaction, or 50% in the case of Least Developed Countries (LLDCs). (LLDCs are shown in italics in the country list.) Grants for the purchase of ocean-going vessels governed by the export credits agreement (shipping) are equal to 25% of the value of the transaction, calculated in line with prevailing international rules. These grants are offered to the national government of the developing country where the project is to be carried out.

Grants can be effected in various forms (as a full grant, in part as an interest subsidy or to facilitate lease agreements).

It is up to the beneficiary government to decide whether or not to pass the grant on to the 'owner' of the project, and if so, whether this should be done in the form of a grant or a soft or commercial loan. If the end user is a public institution, the full amount is usually passed on as a grant. If the end user is a private entity, it is usually passed on as a more or less commercial loan in such a way that it does not give the company concerned an unfair advantage over other private operators. It is important to identify early on what conditions beneficiary governments are likely to impose on the end user in order to assess the financial viability of a project.

The authorities are expected not to charge any kind of taxes on transactions funded with ORET/MILIEV grants. In some countries, governments tax end users retrospectively. This information is also important when compiling a financial analysis (see below and chapter 2).

The grant is paid out by the NIO Bank on behalf of the Dutch government. The NIO Bank will outline the arrangements governing payment in a grant agreement concluded with the government of the developing country concerned.

The non-grant element can be provided by the recipient government from its own budget or in the form of a bank loan, suppliers' credit or a lease contract. It can even consist of soft loans or grants from other donors. The non-grant element must be secured by a Letter of Credit, bills of exchange or other means, provided it assumes a form that the NIO Bank has approved in advance as a banking institution. Lease contracts are only permitted if ownership of the goods is transferred to the lessee following payment of the final lease instalment (financial lease).

1.5 Scope of the transaction ↟

The transaction covers that part of the project for which the Dutch supplier is contractually liable. This could involve the supply of goods, services or works from the Netherlands or other countries, including the developing country itself. The supply of *capital goods, services, works, independent service contracts or a combination of these*, are eligible for ORET/MILIEV funding. The transaction must contain enough elements - such as technical assistance, the supply of spare parts for a reasonable number of years or agreements governing ongoing co-operation once the project is up and running - to ensure the intended sustainable effect. The application must give a clear picture of these different transaction components. See also the detailed explanatory notes accompanying the application form.

1.6 Transaction costs, contingencies and profit ↟

The transaction amount is the price which has been contractually agreed between the supplier and the end user. The transaction may include preparatory costs (such as *feasibility studies*) and costs incurred to secure the contract (*acquisition costs*). These costs cannot be co-financed using an ORET/MILIEV grant since development funding may not be used for 'retroactive financing'. An exception may be made if the supplier can show that he uses an integrated standard cost price calculation, and has included a fixed overhead for these costs in the standard cost price. Independent feasibility studies are also ineligible for funding since they can be co-financed under other schemes (such as PESP). The same applies to *commission costs* (these are not eligible for co-financing from a grant). *Agents' costs* are also not eligible for co-financing from a grant, with the possible exception of work performed by the agent during the implementation of the transaction and costs on the basis of a multi-year agreement in which a set commission for implementing the transaction has been agreed.

If the applicant thinks it likely that one of these exceptions will occur, he should explicitly ask permission, in his application, to include these exceptional costs. In the former case the supplier must declare that the agent's costs will be incurred in respect of activities that take place after the relevant government has signed the grant agreement with the Netherlands relating to that particular transaction. In the latter case he must submit a copy of the agreement. In both cases he must supply in the final justification and documentation sufficient evidence that the costs were actually incurred. The agent's costs may never exceed 2% of the transaction sum.

The grant can be used to cover *financing costs* which are part of the transaction sum, provided these costs have actually been incurred. *Contingencies* must relate clearly to the specific risks forecast and must not exceed the customary amount for such transactions or the amount that is justified by circumstances. The contract must also stipulate that unused contingencies cannot be added to the profit. Contingencies may only be used after written permission has been received from the principal/client and the Industry and Development Department (DOB) of the Ministry of Foreign Affairs. The proposed *profit margin* must be reasonable and in accordance with accepted norms, bearing in mind the fact that the ORET/MILIEV grant will increase the feasibility of the transaction and reduce the financing risk.

Taxes, import duties and other levies imposed by the developing country may not be included in the transaction. Local spending to purchase land or to compensate for the appropriation of land may not form part of the transaction.

1.7 Dutch content

Supplies from the Netherlands (the 'Dutch content' or 'Dutch share') should account for at least 60% of the transaction sum. Since the use of products and services from the developing country increases the likelihood of the end user continuing the activity using his own resources and also benefits the country concerned, the Dutch content may in two cases be lower:

- if the products and services produced in the developing country amount to 10% or more of the transaction sum, the Dutch content may be at least 50%;

- if there is a service contract involving the deployment of a high proportion of local experts, the Dutch content may be at least 40%. The fact that service contracts can lead to follow-on contracts for Dutch companies has been taken into account.

1.8 Size of the transaction

The size of the transaction may not exceed NLG 60 million. If there are two interrelated transactions in a single project, such as a major construction project and the independent supervision of this project, the upper limit will be applied to the sum of both transactions.

Transactions worth more than NLG 60 million must be approved by the Minister for Development Co-operation, who will reach a decision in consultation with the Minister of Economic Affairs. Permission may be given for a maximum of two applications per year, with the total overspend on the transaction limit amounting to no more than NLG 60 million. (There would, therefore, be room - given sufficient funding available within the budget - for a single transaction worth NLG 120 million or two with a combined value of up to NLG 180 million.)

To qualify for this exception, proposals must:

have been produced jointly by a number of Dutch companies and institutions and concern interrelated offers and

have been formulated together with institutions in the developing country concerned in order to offer an integrated and sustainable solution to a major problem and

result in long-term co-operation between local and Dutch companies and institutions and/or in local investment by Dutch companies, provided there is sufficient funding available within the ORET/MILIEV budget. In view of the demands such projects make on the ORET/MILIEV budget, the applicant will be asked to estimate the probability of the project commencing in year x and of 75% of the grant being spent in the first two years (years x and x+1).

1.9 The applicant ⤒

Company grant applications may only be submitted by companies registered and operating in the Netherlands. Companies must also have sufficient export experience, show adequate technical, organisational and financial capacity to successfully carry out the transaction and generally be able to contribute to sustainable economic relations with the developing country. If required, applicants must also be able to provide guarantees. Applicants who are unsure about their eligibility can contact the Ministry of Economic Affairs (Market Development Department).

Occasionally, developing countries or companies in those countries order goods or services from the Netherlands with ORET/MILIEV support without naming a specific supplier. In the agreements with China and India, this option is deliberately left open. Such requests are notified through the Netherlands Foreign Trade Agency (EVD) if ORET/MILIEV assistance appears an option. Even in such cases, ORET/MILIEV support will only be considered when a formal application to that effect has been submitted by a Dutch company.

Under the agreements with China, the applicant must first ascertain whether the project concerned appears on the list which has been drawn up jointly between the Dutch and Chinese governments. This list is officially revised every six months, on which occasion projects are promoted from category III (the initiative has been notified to one government) to category II (the initiative is given priority by both governments and is being taken into consideration) or even to category I (the initiative is being submitted for approval). Interim changes of status are possible. The package offered to India is governed by standard procedures. Vietnam, with which no special agreements have been concluded, operates a list of projects to be allocated to the Netherlands.

1.10 The principal/end user ⤒

Grant agreements are concluded with the national governments of developing countries, usually with the Ministry of Finance or the Ministry of Planning. The actual principal, contracting party and end user of the goods, services or works is often another central government unit or a local or regional authority. It may also be a private company. Beneficiary governments will generally be unwilling to directly pass on a grant to a private company since this could lead to unfair competition. Private companies should therefore have negotiated clear agreements with their governments on this matter.

Projects in which the supplier helps to improve the capacity of the end user to successfully complete and possibly expand the project are especially welcome. This can lead to a collaboration agreement involving a participating interest in the end user's company, investment in a new joint venture or other form of co-operation. Supply contracts can also arise from such collaboration. However, the supplier/applicant must not have a controlling interest in the end user's company at the time of the application.

If moveable capital goods are supplied, the end user must provide guarantees that they will continue to be used to benefit the project in the developing country.

1.11 Open tender or direct negotiation

There are generally three ways in which applicants can secure a contract: by responding to open calls for tender issued by or on behalf of the developing country; by formulating a project in partnership with a local end user which they often later expand and exploit together; or by taking part in a project run by another organisation which has acquired the contract in one of the two aforementioned ways. It is up to the developing country to decide *how* a contract should be awarded: either by issuing an international public call for tenders or by direct negotiation with one or more companies. Some developing countries may ask bidders to arrange ORET/MILIEV-type assistance, while others will explicitly forbid them to include such offers in their bids.

Dutch companies applying for ORET/MILIEV assistance are generally advised to find out as soon as possible whether a grant offer is being considered so that they can include this information in their tender. With this in mind, DOB will, if requested, provide a company whose ORET/MILIEV application is being considered with a declaration (in English, French or Spanish) stating that a grant will be awarded if the application meets the ORET/MILIEV criteria. While this declaration is not binding, it is generally regarded by developing countries as an adequate indication.

1.12 Rival applications

The developing country is also responsible for deciding *who* should ultimately be awarded the contract. Usually there are no problems if contracts are awarded by public tender. Occasionally, however, local companies object if the government of the developing country allows foreign companies to include financing assistance from their own governments in their bids while they themselves have no access to government support. In all cases, the rules applied by the developing country are adhered to.

Occasionally, several Dutch companies bid for the same contract and apply for ORET/MILIEV assistance. Sometimes only some of these bidders apply for a grant. No information is ever released however about which Dutch companies have submitted an application, nor the amounts involved.

ORET/MILIEV assistance is tied to projects. Approval of an application therefore means that the grant is allocated to the developing country, irrespective of the applicant, provided the latter is registered in the Netherlands and satisfies the eligibility criteria. However, each applicant can be asked to meet specific individual requirements in order for the ORET/MILIEV grant to be made available.

To protect companies that have invested time and effort in a detailed tender specification, applications relating to the same project are only processed for up to two months after the first application has been taken into consideration.

If an application is rejected on these grounds, the applicant can - if he later secures the contract and can produce an agreement signed by the principal stating that the contract will be dissolved if ORET/MILIEV funding is not obtained - resubmit an application which will then be processed more quickly. The applicant may be asked to state why he was nevertheless selected by the developing country.

If a developing country issues a call for tender which prescribes a longer or shorter period than two months, the period prescribed by the developing country will apply.

1.13 Length of the decision-making period ⤒

The Dutch applicant will be informed as to whether or not the application has been granted, and if so, whether any associated conditions have been imposed on the company and/or on the developing country. This notification will be issued in the form of a decision no later than six months following acknowledgement of receipt of the application.

The time required by the applicant to supply any additional information or to answer any questions is not included in this period.

1.14 Programme management ⤒

The ORET/MILIEV programme is administered by DOB, in conjunction with the Market Development Department (DMA) of the Ministry of Economic Affairs and in consultation with the Export Credit Insurance and Investment Guarantees Directorate (EKI) of the Ministry of Finance.

ORET/MILIEV applications are appraised by DOB with the help of external experts in the strictest confidence and in consultation with the Ministries of Economic Affairs and of Finance for the evaluation of the Dutch content, the sustainability of economic links with the developing country concerned and compliance with the consensus provisions and EU regulations. If the application is approved, a decision is taken to award the grant and the NIO Bank is instructed to offer the grant to the country concerned. The amount offered is a maximum. The actual grant payment is based on the contractually agreed transaction sum, if approved (see above).

2 REQUIREMENTS ⤒

2.1 Basic documents ⤒

An application for ORET/MILIEV funding must include:

1. An *accurate and fully completed and signed application form.*

2. A *declaration from the national government of the developing country* outlining the significance of the project for that country and stating how it intends to finance the project (taking into account the donor contribution), and preferably also what form of supplier recruitment procedure it will use (open tender or direct negotiation). A clear indication must be provided (such as a budgetary pledge from the government itself or a declaration from a bank in a form that is acceptable to the NIO Bank that it will supply the necessary credit).

3. A *feasibility study covering the entire project of which the transaction is a part.* The feasibility study must be sufficiently detailed and include all the information concerning the project, the transaction (including figures and calculations), the end user and the supplier that is needed for the appraisal. See also the checklist in annex 3. The feasibility study must provide adequate insight into the cash flow of the project.

The applicant must supply reasonable evidence that his application meets the criteria (see chapter 3). The application must be submitted to DOB in duplicate, i.e. with a full copy of the three basic documents and any other annexes. The application and all the annexes should be worded in Dutch or English.

Companies wanting to submit an application must therefore complete a great deal of preparatory work, often with the help of the end user. In some cases, they can apply for a grant from the project studies funds administered by Senter and Netherlands Development Finance Company (FMO). The principal/end user will not always be aware of the requirement to supply information about the organisation or company responsible for the project. However, this is required by the consensus provisions. If necessary, the Dutch embassy can be asked to emphasise to the government concerned the need to provide this information for a grant appraisal. If the information required cannot be supplied, there is no point in submitting an application.

Only application forms that have been filled out in full and signed and are accompanied by the documents mentioned above, will be taken into consideration. Once an application has been accepted for consideration, the appraisal will be carried out in the light of the information that has been supplied at that time. As a rule, no new information will be requested or accepted during the appraisal, although incidental requests for explanations may be made.

3 APPRAISAL CRITERIA ↟

The application must meet the following criteria:

1. The project is *commercially non-viable* according to OECD regulations;

2. The project ties in with the aims of *development* policy;

3. The transaction contributes to *sustainable economic relations* between the Netherlands and the developing country.

4. The project has a positive impact on the environment (in the case of MILIEV applications) or the project does not harm the environment (in the case of ORET applications).

3.1 Re 1. Commercial non-viability ⤒

The OECD member states have agreed that tied aid can only be given to projects which are commercially non-viable (see chapter 4). A project is regarded as commercially non-viable if within 10 years it fails to generate sufficient income under free market conditions to cover the initial capital investment and ongoing (operating and financing) costs, or if no bona fide bank is willing to supply credit to fund the project.

Calculations to establish whether a project is commercially viable or not play a key role in many applications. They take the form of a cash flow analysis resulting in a calculation of the accumulated cash flow in year 10 (plus a forward analysis of years 11 and 12). Foreign loans are ascribed an interest rate equal to the OECD's commercial interest reference rate (CIRR). This calculation is applied to the project as a whole. It is not applied to the individual transaction (which is generally only part of a project), or to a project from which specific activities have been omitted. A clear definition of the overall project is therefore crucial (see chapter 4). The forecast of projected revenue must be based on reasonable and properly substantiated market prices. If the developing country uses subsidies to keep prices artificially low, world market prices should be considered.

The test of commercial non-viability (the CV test) is not applied if the developing country is a Least Developed Country (LLDC).

The aim is for the consensus to be fully applicable to ships as well, but at present it only applies to certain types of vessel. Vessels covered by the Sector Understanding on Export Credits for Ships (mostly newly-built, self-propelled ocean-going vessels in excess of 100 GRT) need not be assessed for commercial non-viability.

The provision of development aid by an EU member state for orders for ocean-going vessels must, however, be notified to the EU and approved by the European Commission under European Regulation (EC) no. 1540/98 of 29 June 1998 (OJ L 202). The Commission will examine, inter alia, whether aid was open to bids from different shipyards. The criterion it applies in this respect is that Dutch shipyards should be notified of the potential shipbuilding transaction by letter at least a month before the ORET/MILIEV application is submitted.

The examination by the European Commission may, however, include a CV test. Both the consensus and the CV test apply to small ocean-going vessels and inland navigation vessels.

3.2 Re 2. Relevance to development policy ⤒

The application must tie in with the plans of the developing country and must not conflict with co-operation agreements between the Netherlands and that country.

Although the main aim of Dutch development policy is poverty alleviation, the proposed project need not itself have a direct positive impact on the poor. However, it must not harm their interests, nor have a harmful effect on disadvantaged groups and/or women.

Projects must comply with local laws, or, if these are demonstrably inadequate, with international norms. The applicant can, if he wishes, use the OECD's project appraisal guidelines, the Aid Quality Assessment.

Projects must help to create lasting employment in the developing country concerned and generate a sufficiently large "overall" economic effect. With this in mind, they will be assessed against the following criteria:

· The effect on *long-term employment*
This effect can be either direct or indirect, for example, through infrastructure improvements. A description of the anticipated effect is usually sufficient.

· *Economic feasibility*
A key indicator of economic feasibility is provided by the economic cost-benefit analysis, an analysis which measures the impact of the project on the economic development of the country concerned. It should result in an Economic Internal Rate of Return (EIRR) which is higher than the reference rate applicable to that country (at least 10%).

· *Sustainability*
To measure the sustainability of the project results, an assessment will be carried out of the project's financial viability, the adequacy of the project management and whether the technology supplied matches the capacities of the project organisation:

§ A project is considered *financially sustainable* if during its economic life span it generates sufficient income to cover the costs of the initial capital investment (excluding the ORET/MILIEV grant, to which no costs are attached) and the operating and replacement costs. To this end, the assessment will ascertain whether its net cash value is positive at the current market rate, or if the Financial Internal Rate of Return (FIRR) is above the weighted average of the current market rates on foreign and domestic loans. Even if a project generates little or no income, it can still be regarded as sustainable if the government guarantees that it will cover its ongoing costs and build up reserves for replacement investments. In such cases, the project should ideally be brought under the management of a business-like (project) organisation. Assurances must be given that the project has been set up efficiently (based on a cost-efficiency analysis).

§ A project is considered *institutionally sustainable* if the organisation responsible for it has sufficient capacity in all respects (including manpower, financial, technical and organisational capacity) to manage the project and continue operating it independently. Training in management, financial control and planning, and careful support during implementation can strengthen this capacity but cannot as a rule create it where it did not previously exist. Applications which fail to adequately address this aspect or leave it in doubt will not be offered ORET/MILIEV funding. Ideally, the supplier will try to conclude a long-term partnership with the local end user, even after the project has ended.

§ A project is considered *technically sustainable* if the goods, services and/or works to be supplied under the transaction are of such technical quality that they can be maintained and repaired by the end user. If local staff need technical training, the project should make provision for this. Where a developing country applies certain standards or where standardisation is one of its aims, the goods supplied should comply with these standards. The transaction must provide for the supply of sufficient spare parts and other forms of 'after-sales service'.

Occasionally, the content and overall amount of a proposed transaction must be revised following this appraisal. This could reduce the amount, or it could lead to an increase, for example if DOB makes the offer of ORET/MILIEV conditional on extra training or other provisions being included in the transaction. Both the applicant and the end user must accept that in the event of such a requirement, the contract and its financing must be revised if ORET/MILIEV assistance is to be provided.

3.3 Re 3. Sustainable economic relations

The applicant must establish satisfactorily that the project is contributing to co-operation with companies in the developing country and could have a positive knock-on effect on other Dutch and local firms. The project must act as a catalyst by generating follow-on contracts and/or investments by the same company and/or others.

The applicant must be a bona fide company (see also article 1.1.4 of the Company Grant Regulations) with a healthy balance sheet and profit and loss account, as well as being of sufficient quality and size to successfully implement the transaction.

A. The proposed transaction must be recognisably Dutch. In other words, at least 60% of the value of the transaction must originate in the Netherlands. (For the two exceptions, see chapter 1 and the next paragraph.) If necessary, this must be ascertained individually for each transaction component. If more than 50% of a component originates in the Netherlands, that component is regarded as 100% Dutch (see also application form). However, products can satisfy this condition while still being regarded as a foreign brand item; the reverse is also true. Queries regarding the Dutch share of the transaction should be addressed directly to the DMA department of the Ministry of Economic Affairs.

Since it is very important to use local experts for service contracts in order to "root" the project locally and boost its sustainability, and bearing in mind that service contracts can lead to follow-on orders for Dutch companies, a smaller Dutch content can be permitted in these transactions, provided that it does not fall below 40%.

3.4 Re 4. Beneficial (MILIEV) or non-

harmful (ORET) impact on the environment ⤒

The proposed project may not be harmful to the environment. Applications for large infrastructural projects and for projects in environmentally-sensitive areas must therefore contain a sound Environmental Impact Report showing that the project will not have a harmful impact on the environment, or that the harmful impact on the environment is proportionately small compared to the environmental benefits, and can be effectively tackled.

Projects intended to have a beneficial impact on the environment will be registered as MILIEV projects.

4 INTERNATIONAL RESTRICTIVE AGREEMENTS ⤒

4.1 The "consensus" ⤒

International agreements to restrict government support for the insurance of export credits have been in existence since the 1930s. Since then, numerous agreements have been drafted in international fora, including the European Community (EC), to limit the various forms of export aid. During the 1960s, these forms of aid were joined by the new concept of "tied aid": the provision of assistance to developing countries to encourage the import of capital goods and services from the West.

The OECD member states have been working to conclude agreements on tied aid since 1971, partly at the instigation of the EC. In 1978 this resulted in the "Arrangement on Guidelines for Officially Supported Export Credits", more commonly referred to as "the consensus" since it is a gentlemen's agreement where decision-making is based on consensus. The consensus provisions were significantly tightened in 1992 under Finnish chairmanship (known as the Helsinki package), when they assumed their present form. The agreements are regularly revised in line with practical experience, most recently in 1998.

The consensus contains agreements governing various forms of aid. It specifies the minimum grant component for development assistance (the Netherlands applies the minimum percentages to ORET/MILIEV funding) and lists the countries to which, the projects for which and the conditions under which such assistance can be given. Arrangements have also been concluded about how to supervise compliance. These state that the consensus partners must notify each other of all development assistance proposals before a commitment is made. This is done through a specially created network (OLIS) under the supervision of the OECD secretariat. The notification process allows the consensus partners to respond to proposals, raise objections or request consultations at consensus meetings in Paris. Notification is subject to waiting periods and limits.

The main consensus provision is that assistance may not be given to commercially viable projects (see chapter 2). Although this criterion does not apply to certain projects, they must still be notified in the interests of transparency they must still be notified in the interests of transparency and to ensure that projects are not deliberately designed to fall below the threshold for the CV test.

Applicants are advised to familiarise themselves with the terms of the Arrangement and with 'Ex Ante Guidance for Tied Aid' published in 1996, both of which can be consulted via the website www.oecd.org (click on 'On-line Documents'). 'Ex Ante Guidance' describes the experience gained through the consensus and lists the characteristics of projects that are likely to be commercially non-viable. These characteristics are also used as guidelines during discussions between consensus partners.

The European Union (EU) has passed a Council decision making the consensus binding on member states even when trading with non-EU countries. The EU has also drafted its own rules for cases not covered by the consensus. This means that EU member states must also notify proposals for the provision of tied aid to Brussels.

4.2 Project definition

A distinction is made between the terms "project" and "transaction". In practice, the consensus partners use the following definition of a project: "the smallest complete, physically and technically integrated productive unit which will fully utilise the proposed investment and to which all the financial benefits which can be attributed to the investment will accrue".

Occasionally, the project and the transaction are one and the same. Generally, however, the transaction relates to only part of the project or is part of a larger overall package for the realisation of the project as a whole.

With the help of the OECD secretariat, the consensus partners will ensure that commercially viable projects are not artificially split into profitable elements which can be commercially financed and unprofitable elements for which tied aid is applied for - or into smaller components which are therefore exempted from the CV test but which would not in themselves be free-standing elements.

5 SPECIFIC POINTS TO ADDRESS

5.1 Price-quality check

A price-quality check is carried out routinely during the appraisal of ORET/MILIEV applications. If the application is in response to an international call for tenders by the developing country, the survey is less detailed; in all other cases it is carried out in greater depth. The experts called in by DOB will compare the proposed deliveries and transaction sums with current prices and prevailing quality norms and will if necessary analyse each one to the level of individual transaction components, cost prices, profit margins, provisions, agents' costs and the like. Their recommendations can result in specific conditions being attached to an ORET/MILIEV grant and to applicants being asked to adjust the price, quality and/or volume of the goods, services or works supplied.

5.2 Taxes

Once again it must be stressed that the Dutch government expects transactions benefiting from ORET/MILIEV funding not to be taxed by the beneficiary country. Any taxes, import duties and other levies charged by the developing country to the end user in respect of the transaction may not be included in the transaction.

5.3 Environmental Impact Assessment

Applications for large-scale infrastructure projects or projects in environmentally sensitive areas must include a fully substantiated Environmental Impact Assessment showing that the project will not damage the environment or that harmful effects can be adequately dealt with and will not outweigh the project's positive environmental impact.

5.4 Confidentiality

Since applicants are being asked to supply information of a commercially sensitive nature, the Government Information (Public Access) Act allows this information to be kept confidential. All applications are treated in the strictest confidence and no information about the existence of individual applications is ever passed to third parties unless permission has first been obtained from the companies concerned. However, the nature of the proposed transaction, an indication of the transaction sum, the size of the grant and the name of the principal/end user (not the supplier) are publicised (internationally) during the notification process. An annual summary of all ORET/MILIEV grants awarded over the past year is also sent to the Lower House of Parliament.

5.5 Anti-corruption clause

If at any time an applicant is found to have acted unlawfully in order to obtain a contract, the matter will be reported to the relevant authorities. In such cases, the Minister for Development Co-operation may declare all pledges made to the applicant immediately null and void. In addition, action can be taken to recover amounts already paid.

5.6 Liability of the Dutch government

The ORET/MILIEV programme provides for the award of grants which qualify as Official Development Assistance (ODA) from the Dutch government to the governments of developing countries. If these beneficiary governments accept the ORET/MILIEV grants and the conditions attached, they are obliged to use them for the purchase of goods, services or works supplied by the Dutch companies named in the grant agreement.

The Dutch government does not show any preferential treatment towards a Dutch company in respect of these governments. Beneficiary governments are free to select the company with the offer that suits them best. Once they have made their choice, however, they must ensure that sound contracts are signed with the Dutch suppliers/contracting parties and that these contracts are complied with. The Dutch government can if necessary help these governments in this process.

The Dutch government is not itself a party to ORET/MILIEV transactions, other than as a provider of finance.

6 SUBMITTING AN APPLICATION ↑

6.1 Preparation ↑

DOB will send a copy of this programme description and the ORET/MILIEV application form on request. However, both documents can be consulted and downloaded directly via the Internet from the website www.minbuza.nl.

If a company is thinking of submitting an ORET/MILIEV application, it is advised to seek advice at the earliest opportunity from DOB, the Dutch embassy in the developing country concerned, the Ministry of Economic Affairs (for the Dutch share, commercial viability, or prior reporting of ocean- going vessels), the NIO Bank (for financing and payments), its own bank (idem) and the NCM (for credit insurance, if necessary).

The feasibility study will play a key role in the appraisal of the application. Given the requirements which this study must meet, it may be advisable to hire in a professional expert to help draft this study or to adapt and expand an existing feasibility study which has been compiled by the principal/end user. Two-thirds of the costs of the study can be refunded by Senter if it is drawn up as part of the PESP programme managed by Senter. If a company wishes to apply for PESP programme funding for a feasibility study which will be used later in an ORET-MILIEV application, it is advised to ensure that the study covers in detail all the aspects which will be needed for the ORET-MILIEV appraisal. This will speed up the latter appraisal.

6.2 Start of procedure ↑

Applications must be submitted to DOB in duplicate, i.e. with a full copy of the three basic documents and any annexes, and must be worded in Dutch or English. All applications will be registered by DOB on receipt. Applicants will be sent an acknowledgement of receipt within a week. The date of this acknowledgement marks the official start of the appraisal procedure, which will take up to a maximum of six months to complete (see chapter 1).

If an application is incomplete, i.e. does not contain the three basic documents described in chapter 2, the applicant will be given the chance to complete the application. The application will not be processed if it is not completed or insufficiently completed within a date set by DOB. The time the applicant needs to supplement the application is not included in the six-month period within which the procedure must be completed.

6.3 IPC ↑

DOB passes on all the applications it has received and registered to the Interministerial Project Committee (IPC). The IPC is made up of representatives of DOB, DMA of the Ministry of Economic Affairs and representatives of the Export Credit Insurance and Investment Guarantees Directorate of the Ministry of Finance. The committee includes, as observers, representatives of the Ministry of Housing, Spatial Planning and the Environment (VROM), the NIO Bank, the Dutch Credit Insurance Company (NCM) and the Senter agency of the Ministry of Economic Affairs. The IPC examines which aspects of an application need supplementation or investigation.

7 SUBSEQUENT PROCEDURE ⤒

7.1 Assessment ⤒

DOB will often call in independent external experts to help assess applications: in 2000, as in previous years, the Netherlands Institute of Economics (NEI) acts as "overall" consultant and, via the NEI, one or more branch experts are asked to give sector-specific advice and to carry out the price-quality check. Any such advice must take into account all the listed criteria.

These experts must confine themselves to the information supplied by the company in relation to the application and to the preliminary supply contract. They may only ask for explanatory notes to the information that has already been supplied and are consequently not allowed to carry out any additional research or request any new information, unless DOB has given them permission to do so.

In certain cases DOB will organise an interview between the applicant and external experts so that questions can be answered. If the applicant is unable to answer questions directly he is given the chance to do so in writing within a period set by DOB.

7.2 Recommendation and decision ⤒

The NEI will submit a draft recommendation to DOB containing conclusions and recommendations within six weeks. This might include suggestions for conditions to be attached to the transaction or adjustments to be made to the transaction and project. DOB will send a copy of this draft recommendation to the applicant, who will be asked to respond within two weeks. Once the NEI recommendation and the applicant's response have been studied, DOB can if it wishes ask for the recommendation to be revised, but need not do so. If DOB accepts the recommendation, it is formally adopted. DOB then uses it to draft an appraisal leading to a recommended decision to the Minister for Development Co-operation.

If the application is approved, DOB will notify the applicant by means of a formal decision stating that the Minister for Development Co-operation is prepared to offer, via the NIO Bank, the government of the developing country an ORET-MILIEV grant, which will be used to finance part of the proposed transaction between the applicant and the developing country. The decision lists the conditions with which the company must comply and the obligations it must meet. The general conditions and obligations relate to, among other things, the progress and final reports and the right to inspect projects and audit accounts. They also include an anti-corruption clause. The specific conditions and obligations differ per project. In some cases DOB will write to the applicant to make sure that it can comply with such conditions and obligations before reaching a decision.

If the final decision is a *rejection*, the applicant will be sent a formal decision stating the reasons.

7.3 Objections and appeals ↟

Decisions on ORET-MILIEV applications constitute company grant decisions as defined in the AWB. Both the approval and rejection of applications constitute decisions against which applicants can register an objection and lodge an appeal. Both the decisions themselves and the AWB set out the statutory period within which objections can be lodged with DOB.

Lodging an objection or an appeal against a decision has the effect of suspending the procedure. As a result, the NIO Bank will only offer a grant agreement to the recipient country once the statutory period of six weeks for objection or appeal has expired.

7.4 Notification ↟

The intention to grant ORET-MILIEV aid is notified to the OECD and the EU at the earliest opportunity, if possible immediately after the finalisation of the NEI's draft recommendation. Other countries then have six weeks to ask questions or register objections based on the perceived commercial viability of the project of which the transaction is a part. Failure to respond within 30 days following the notification date will be taken as tacit approval of the application. Applications for transactions worth less than SDR 2 million are covered by the same qualifying period, except where deliveries to LLDCs are concerned. These are not subject to a qualifying period ("prompt notification").

If questions are asked or objections raised, the qualifying period will be suspended while responses are prepared. It then resumes until 30 working days have elapsed. If the objections are sustained, the project - and hence the proposed transaction - will not qualify for government support and none of the consensus partners will be allowed to provide tied aid for that transaction.

Consensus partners can agree unanimously to deviate from the consensus in the case of certain projects, i.e. to allow tied aid in cases where it should not be provided or to prevent it in cases where it could, strictly speaking, be provided. Such agreements are referred to as "common lines" and are regularly used to prevent the award of tied aid to projects perceived as commercially viable (the so-called "no aid common line"). If a company believes that other countries may provide tied aid for a project which will not be supported by the Netherlands, it can apply for an agreement of this kind in consultation with DMA at the Ministry of Economic Affairs.

7.5 Grant agreement ↟

Once the application has been approved by the Minister for Development Co-operation, DOB will instruct the NIO Bank to offer a grant to the developing country and to draft an agreement to this end. This *grant agreement* regulates the payment procedure and sets out a number of general conditions, for example in respect of financial and other securities, taxes and arbitration and any specific project-related conditions. Once the draft has been approved by DOB, the NIO Bank sends the agreement to the government of the developing country to sign before signing it itself. If an application is approved before the contract between supplier and client is signed, the NIO Bank generally first sends a general declaration of intent (preliminary grant agreement) which may or may not be subject to approval by the OECD and EU. This is generally followed by the definitive grant agreement. In exceptional circumstances, DOB may offer a definitive grant agreement straightaway.

The NIO Bank will only send out a *definitive grant agreement* once:

· the exporting company has sent DOB and the NIO Bank an original signed contract with the principal/end user (including all annexes, a detailed breakdown of the transaction sum and the financing agreement governing the non-grant component of the transaction);

· DOB and the NIO Bank have approved this contract;

· the NIO Bank has approved the financing arrangement for the non-grant component of the transaction.

The grant agreement will take effect as soon as all the conditions specified in the agreement have been met and the notification procedure has resulted in the OECD and EU approval of the intended ORET/MILIEV grant.

The commitment is valid for six months. It can be extended for a maximum of two further six-month periods (that is, a total of 12 months in all) at the request of the developing country or the supplier, after which it will lapse. If the offer is extended, it can no longer be guaranteed that the grant payments will be effected in line with the original payment schedule.

Once the commitment lapses, it cannot be reversed. If the developing country subsequently decides it wants to accept the grant, the applicant must submit a new application and the ORET/MILIEV appraisal procedure will have to be re-run in full. If no fundamental changes have been made to the project and/or the transaction, this second application will be processed more quickly, unless the original commitment was made too long ago. A commitment must always be re-notified if at least two years have elapsed since it was last notified.

If for any reason a developing country or an applicant rejects the transaction, the applicant or the developing country must inform DOB. DOB will then withdraw the decision, close the file and cancel the allocations set aside for the project.

7.6 Payment instalments ⤒

Once the grant agreement takes effect and the supplier has provided a down payment guarantee, the NIO Bank, acting on behalf of the developing country, will make an initial payment from the grant component of the transaction, amounting to 10% of the transaction sum. If the applicant can show satisfactorily the need for a different percentage of start-up funding, a different percentage may be paid. If the overall down payment exceeds the down payment from the grant component, the surplus must be provided from the non-grant component of the transaction.

Subsequent payments by the NIO Bank to the supplier will be made in accordance with the contract and the grant agreement, the provisions of which must tie in with each other. The NIO Bank can pay out the remainder of the grant component in a fixed ratio with the non-grant component, but can also conclude other payment agreements in consultation with the applicant and the principal/end user, subject to approval by DOB. Once the initial down payment has been made, the grant can be used to reduce the interest payments on a loan.

The payments by the NIO Bank and from the non-grant funding will always be made simultaneously. The NIO Bank will not make a payment if the other payment is not made and vice versa.

The final instalment is always 5% of the transaction amount. The supply contract must stipulate that 5% of the ORET/MILIEV grant and 5% of non-grant funding will be reserved as final payment. Payment of the final instalment will be made when the definitive amount of the company grant has been determined, i.e. after all the conditions set by DOB and the NIO Bank have been met and DOB has approved the supplier's final justification and documentation (see chapter 8), usually a few months after the transaction has been completed. If the supplier is prepared to issue a bank guarantee for this sum and meets the entire costs of such a guarantee, the final instalment can be paid earlier, when the transaction is completed.

8 OBLIGATIONS ⤒

8.1 Conditions and obligations ⤒

By signing the grant agreement, the government of the developing country commits itself to the arrangements and provisions contained in it. The supplier is obliged to comply with the conditions and meet the obligations set out in the decision.

8.2 Notifying changes ⤒

If at any time following receipt of the application or during the implementation of the transaction, events should occur which alter the circumstances or content of the transaction, the supplier must report this immediately and submit any proposed changes to the transaction to DOB and the NIO Bank for their approval. Substantial changes will usually require a new notification to the consensus partners.

8.3 Progress reports ⤒

Under the terms of the ORET/MILIEV programme, the supplier is obliged to provide narrative and financial reports on the progress of the transaction every six months, on 1 March and 1 September. This reporting obligation takes effect as soon as the supplier receives the formal decision. It therefore begins to apply even before the transaction has begun, for instance when it is still at the contracting stage. At this stage, the supplier reports factors that delay the start of implementation and assesses his chances of securing the contract.

The progress report must be drawn up according to the model appended to the decision. It may be brief, but it must provide a clear and comprehensive picture of the progress of the transaction, both in practical and financial terms. It must include information concerning the progress made, the obstacles encountered, any delay or acceleration in the speed of the implementation process, anticipated progress and as detailed a breakdown as possible of anticipated expenditure, especially of the grant element (forecast spending, the amounts involved and when spending is likely to take place).

DOB will send the report to the Dutch embassy in the country concerned for its remarks. The embassy is authorised to inspect the project during the implementation phase.

8.4 Final justification and documentation

The supplier is obliged to submit a request that the definitive amount of the company grant be determined to DOB no later than six months after the transaction has been completed. It should also submit the following documents for approval:

· *"Final Certificate of Completion"* issued by the principal/end user governing the activities covered by the transaction;

· *narrative and financial summaries of the overall transaction compiled by the supplier*, plus an explanation of how far the specified conditions have been met and the set goals achieved; also to what extent (and why) the contingencies were used;

· an *auditor's report drawn up by an independent Dutch auditor* to the effect that the completed transaction has been audited and approved, plus a breakdown by the same auditor of expenditure in guilders, local and other currencies, confirmation from the same auditor that the Dutch share totalled at least 60% (unless permission was given for a lower share to be applied), and a declaration that the stated agents' costs were incurred for the benefit of activities carried out after the grant agreement was signed between the beneficiary government and the Netherlands, or that the agent's fee was indeed paid to the agent (see chapter 1).

The final justification and documentation should give third parties a clear indication of the way in which the overall transaction was implemented, both in practical and in financial terms. When it receives the final documentation, DOB will send a copy to the relevant Dutch embassy with a request for comment.

8.5 Project conclusion ⤒

Once the final justification and documentation has been approved, the go-ahead will be given for the payment of the final instalment (unless this has already taken place on the basis of a bank guarantee, see chapter 7) and DOB will provide the supplier with a decision determining the definitive amount of the company grant. From this point, DOB's active involvement in the transaction is formally terminated. It is only at this stage that reporting obligations are lifted.

8.6 Final evaluation ⤒

After a year, DOB will ask the relevant Dutch embassy and the developing country for a current assessment of the sustainable effects of the transaction. DOB can also have the final evaluation carried out by third parties and call in external experts to this end. In the interest of the final evaluation, the supplier is obliged to provide all information requested concerning the implementation of the transaction and to allow inspections and financial audits to be carried out.

8.7 If obligations are not met... ⤒

If it becomes clear that the supplier has not fulfilled the obligations mentioned above or other obligations arising from the formal decision, DOB can take one of the following steps:

· revoke or amend the decision to award a company grant;

· reduce the company grant;

· (if the transaction has already been completed) revoke or amend the decision determining the definitive amount of the company grant. This can be done up to a period of at least five years after the transaction has been completed.

The effect of these three sanctions is essentially that the company grant ultimately received is lower than the maximum sum referred to in the decision awarding the company grant. In such cases the company grant recipient (the supplier) will be required to repay some or all of the money that it has already been paid.

· suspend the payments.

A decision to reduce the grant (or to cancel it altogether) will only be taken after due consultation with the grant recipient (the supplier).

9 ADDRESSES ⤒

For more information and to order an ORET/MILIEV application form:

Ministry of Foreign Affairs

Industry and Development Department (DOB)
Bezuidenhoutseweg 67
Postbus 20061
2500 EB Den Haag
The Netherlands
Tel. +31 70-348.60.24
Fax +31 70-348.67.26
Website: www.minbuza.nl
E-mail: dob@dob.minbuza.nl

For information:

Ministry of Economic Affairs
Export Financing Division, Market Development Department (DMA/EF)
Bezuidenhoutseweg 30
Postbus 20101
2500 EC Den Haag
The Netherlands
Tel: +31 70-379.63.97
Fax: +31 70-379.64.07
Website: www.minez.nl
E-mail: dma@minez.nl

Netherlands Investment Bank for Developing Countries (NIO)
Koningskade 40

Postbus 93060

2509 AB Den Haag

Tel: +31 70-3149696

Fax: +31 70-3149617

E-mail: nio@fmo.nl.

10 Annex 1 - List of abbreviations ⤒

11 Annex 2a - Active ORET/MILIEV countries list ⤒

Africa	**Asia**	**Latin America**	**Europe**
Benin	Armenia	Bolivia	Bosnia
Burkina Faso	*Bangladesh*	Colombia	Georgia
Cape Verde	China	Cuba	Macedonia
Côte d'Ivoire	India	Ecuador	Moldova
Eritrea	Indonesia (as of 1-1-00)	El Salvador	
Egypt	Jordan	Guatemala	
Ethiopia	Palestinian Territories	Nicaragua	
Ghana	Philippines	Peru	
Mali	Sri Lanka		
Mozambique	Thailand		
Nigeria	Vietnam		
Tanzania	*Yemen*		
Uganda			
Zambia			
Zimbabwe			

Least Developed Countries (LLDCs) are shown in italics

12 Annex 2b - Passive ORET/MILIEV countries list ⤒

(Applications will only be considered if it can be demonstrated that a foreign company wishes to make a rival bid with assistance from a foreign government.)

Africa	Asia	Latin America	Europe
Algeria	*Afghanistan*	Belize	
Angola	Azerbaijan	Costa Rica	
Burundi	*Bhutan*	Dominica	
Cameroon	*Cambodia*	Dominican	
Centr. Af.Rep.	Fiji	Republic	
Chad	Iran	Grenada	
Comoros	Kazakhstan	Guyana	
Congo	Kiribati	*Haiti*	
Djibouti	Kyrgyzstan	Honduras	
Equat. Guinea	*Laos*	Jamaica	
Gambia	*Maldives*	Panama	
Guinea	Marshall Is.	Paraguay	
Guinea Bissau	Micronesia	St Vincent & the	
Kenya	Mongolia	Grenadines	
Lesotho	*Nepal*	Surinam	
Liberia	N. Marianas		
Madagascar	Pakistan		
Malawi	Papua New		
Mauritania	Guinea		
Morocco	*Solomon*		
Namibia	*Islands*		
Rwanda	Syria		
Sao Tome /	Tajikistan		
Principe	Tonga		
Sierra Leone	Turkmenistan		
Senegal	Tuvalu		
Somalia	Uzbekistan		
Swaziland	*Vanuatu*		
Tunisia	*Western Samoa*		

N.B. Since 1 August 1999, Botswana, Lebanon and Venezuela have ceased to qualify for tied aid under OECD rules, due to the rise in their per capita GNP. These countries were still included in the country lists published in July.

Least Developed Countries (LLDCs) are shown in italics

13 Annex 3 - Feasibility study checklist ⤒

The feasibility study will address the following elements (this list is not exhaustive)

General and economic background, government policy and other institutional aspects, specific reasons for undertaking the project, existing obstacles, previous attempts, analysis of the situation without the project.

Short and long term objectives, project definition, activities carried out during and after the implementation stage, users (plus their financial capacity, where relevant), planning and organisation, management and supervision, total costs, budget for capital investments and ongoing costs, method and source of financing and financing conditions, physical inputs and outputs, cash flow, duration, risks, other stakeholders, financial, technical and management capacity of co-implementers, role of the government, taxes and subsidies.

1. Commercially non-viable (assessed by means of a cash flow analysis at company level, excluding the proposed ORET/MILIEV grant)

2. Relevant to development:
(Has no detrimental impact on the poor, disadvantaged groups and/or women)

· Contributes to long-term employment in the developing country

· Economically feasible (assessed by means of a cost-benefit analysis at the level of the beneficiary country, macro-level)

· Sustainable:

§ Financially viable (assessed by means of a cash flow analysis at company level, inclusive of the proposed ORET/MILIEV grant)

§ Institutionally viable

§ Technically viable

3. Contributes to sustainable economic relations

4. Has a positive/has no detrimental impact on the environment; satisfies local / Dutch / international requirements.

When answering a question on the application form reference may be made to passages in the enclosed feasibility study if this makes the answer clearer. Simply referring to the feasibility study to answer a question is not permitted.

4. Detailed specification, financial basis and documentary evidence

The specific role and aims of the transaction within the project, the content of the transaction as opposed to the content of the project, technical specification of the goods, services and/or works, organisation, etc.

Evidence that the transaction will not form part of a project that has been artificially divided into profitable and unprofitable (commercially non-viable) elements.

Documentary evidence relating to the information supplied.

In order to clarify the difference mentioned above between the two types of grant, the grant received by the applicant company is hereafter referred to as the 'company grant'.

From: "Ning Shao" <mbccs@online.sh.cn>
To: "weizhong song" <songwz@hotmail.com>
Date: Fri, Mar 2, 2001 12:25 PM
Subject: Re: Translation

The attached translation came from Douglas Lee from the US Embassy in Beijing.
-Ning Shao

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II Holland Government Loans

1. Loan Management Entities

The Ministry of Foreign Affairs and the Ministry of Economic Businesses are the approving entities regarding loan management. The government entrusts the NEI to appraise the loan application projects, while the Ministry of Finance is responsible for the inspection of whether the projects are in violation of any international agreements. The three above-mentioned Ministries also form the IPC to review the applying qualification of the projects. NIOBANK signs and implements the loan/grant agreements on behalf of the Netherlands Government.

2. Loans made to China (Summary)

The Netherlands Government started to provide China with mixed government loans in 1987. Until 31 Dec.1998, China has actually used Netherlands government loans amount in 58 valid projects for USD 446 million.

Currently, guarantors that handle Netherlands government loans are the China EX-IM, Bank of China, Chinese Construction Bank, ICBC, Agricultural Bank of China and Bank of Communication.

3. Loan Conditions (Summary)

Netherlands Government loans are implemented through ORET and MILIEV. Loans are made up of two parts - grant and export credit. When the Netherlands Prime Minister promised the loans in 1995, soft money accounted for 40% for ORET projects and the rest was export credits. The loan period is usually 7 to 8 years. Annual interest rates vary from 4% to 7%. For MILIEV projects, soft money percentage is usually 60%, the remaining part can be export credit or self-raised money from the loan applicants. In 1997, the percentage of ORET soft money was adjusted to 45%. ORET and MILIEV have been merged into one program since Jan 1st 1998. Soft money percentage was dropped to 35% for new projects; however, for projects of special interest to the Netherlands government, a 60% grant percentage can still be achieved.

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4. The application procedure

In order to make good use of a Dutch govt. loan, a bilateral loan working group has been set up by the Chinese government and the Netherlands government. The meeting is held twice a year, either in Beijing or the Hague. The application and selection of new projects, the inspection of old projects, the issues regarding the cooperation on loans as well as other related matters are discussed in the meeting.

The application procedures for Netherlands government loan:

1). After the project acceptation procedure is finished in China, the Ministry of Finance of China proposes the project to the Ministry of Foreign Affairs of Netherlands, and submits the project feasibility study report at the same time.

2). The enterprises in both countries initiate contact in the technological and commercial areas.

3). The Chinese on-lending bank analyzes the project; Netherlands Economic Institution (NEI) appraises the project according to the submitted project feasibility report, and conducts the evaluation on the spot if necessary.

4). After both sides make positive conclusions, the enterprises of both countries formally sign the commercial contacts.

5). The project company submits the loan application forms to the Netherlands Ministry of Foreign Affairs through the supplier. The Netherlands government inspects the project according to the reports from NEI.

6). After the Netherlands government approves the project, banks of both sides sign the export credit agreement. The Ministry of Finance of China and NIO Bank sign the gift loan agreement. The project becomes effective.

As agreed by both sides, the loan projects are divided into three types.

1). Projects that have been approved by both governments and will become valid after completion of the agreement procedure.

2). Projects that have been theoretically approved by Netherlands government; NEI exams the feasibility reports of the projects.

3). New projects proposed by the Chinese government.

3. Explanation

The approval procedure for Netherlands government loan is relatively more complicated and time-consuming. Both the Chinese government and Netherlands government have exchanged opinions on the simplification of procedure to make it more efficient.

The new projects will be selected according to strict standards. The focus will be made to support large-scale national infrastructure construction, environmental projects and imports of advanced technologies in industrial and agricultural areas. The Netherlands especially attaches importance to cooperation on dredgers and wastewater treatment.

The Netherlands government stresses the importance of exports from the Netherlands. The project usually will not receive approval from the Netherlands government without the involvement of enterprises from the Netherlands.

CC: Ellicott.Balt(AMorse,MBarnes,MTorres),Ellicott.SMT...

RESPONSE TO WRITTEN QUESTION OF SENATOR MILLER FROM PETER A. BOWE

Q.1. Has the Chamber of Commerce taken any position on the proposed 25 percent cut in funding for the Export-Import Bank?

A.1. The Chamber of Commerce is opposed to any cut in funding for the Export-Import Bank.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HAGEL FROM E. ROBERT MEANEY

Q.1. Could you provide an estimate of the loss to your company that this rejected application caused?

A.1. In the short term, Valmont Industries, Inc. has lost immediate sales of approximately $9,000,000 USD. This figure represents the total estimated value of the Xinjiang Production and Construction Corporation's irrigation project. Our Austrian competitor, Bauer, will obtain the center pivot sales for the entire project.

In the long term, the loss of this project could cost Valmont and other Nebraskan mechanized irrigation companies as much as $100,000,000 USD per year. With the Austrians establishing their name and product in the Chinese market, Valmont and other United States companies will have a difficult time in overcoming their dominance. This will be particularly true if Bauer continues to offer tied aid financing and U.S. companies do not have a way to compete with it.

Q.2. Was Ex-Im Bank able to explain to you why your application was denied?

A.2. No. Ex-Im Bank provided a general letter stating that our Tied Aid PC application was denied. There was no detailed explanation provided.

Q.3. Are you aware of any criterion that is published that advises you of when Tied Aid can be offered?

A.3. Yes. The U.S. Ex-Im Bank provides information in regard to its Tied Aid program in U.S. Ex-Im literature and on their Internet home page.

Q.4. You stated that Austria obtained succeeding sales. Has Valmont tried to bid for those follow-on sales? If not, why not?

A.4. Valmont has inquired about follow-on sales in Xinjiang. However, Bauer's offer of tied aid leaves us uncompetitive. The Chinese continue to buy Bauer center pivots because they can purchase them on terms of 20–25 years with approximately an interest rate of 2.95 percent.

Valmont has continued a strong market development program in Xinjiang. This has included establishment of a manufacturing joint venture, a model farm, and numerous seminars.

Q.5. What is the standard type of Ex-Im financing that could be offered and how did it differ from Austria's financing terms?

A.5. The U.S. Ex-Im Bank offers several programs that could be considered "standard." Ex-Im's Export Credit Insurance Program and Guarantee Program could have been considered in this case. However, those Ex-Im programs would not have been competitive with the Austrian Tied Aid Terms.

In the above-mentioned programs, Ex-Im requires a 15 percent down payment on the part of the buyer. The repayment terms would be approximately 5–7 years. The bulk of the project loan (85 percent) would have an interest rate of probably close to 10 percent. Financing for the initial 15 percent down payment would have to be provided by a commercial bank. The terms for the 15 percent down payment would be one year financing at an interest rate between 12–15 percent.

The Austrian Tied Aid Program offers the Chinese no down payment (100 percent financing). The repayment terms are between 20–25 years. There is an initial 5-year grace period on repayment. The interest rate offered is between 2.55 percent and 2.95 percent.

Ex-Im's current "standard" programs cannot compete with the Austrian Tied Aid Program. Valmont needed Ex-Im's Tied Aid Matching Program to compete with the Austrians on the Xinjiang irrigation project.

Q.6. Was commercial bank financing not available to you for this transaction?

A.6. Commercial bank financing would probably have been available. However, the loan terms would not have been competitive with the Austrian Tied Aid financing.

Q.7. Do you envision future ventures for which Valmont could use Ex-Im financing?

A.7. Yes, wherever there are global opportunities to conserve water for production agriculture and provide lighting, utility, and communication infrastructure, we see the possibility of using Ex-Im's programs. The U.S. Ex-Im's Export Credit Insurance Program and Guarantee Program are two options available to assist us in obtaining sales in international markets.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MILLER FROM E. ROBERT MEANEY

Q.1. What was the Treasury's reason for opposing the tied aid to China?

A.1. The U.S. Treasury Department did not provide a reason to Valmont Industries, Inc. The U.S. Ex-Im's application denial letter to Valmont did not mention Treasury's involvement in our application review or provide Treasury's reason for its opposition. We learned about Treasury's involvement in a letter we received from Congressman Bereuter.

Q.2. What, if anything, did you do after you found out Treasury said no? Was there any recourse available to you?

A.2. After learning that Treasury said no, we consulted the U.S. Ex-Im Bank in regard to our options. The Ex-Im Bank informed us that there was nothing further that we could do. There was not any recourse made available to Valmont.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HAGEL FROM D.P. NARAYANA

Q.1. If exposure fees were increased, would you or your clients be deterred from using Ex-Im Bank?

A.1. Any increase in exposure fees would be a major deterrent for exporters and Bank One to utilize Ex-Im Bank programs. Increased exposure fees would raise the price of U.S. exports, impact negatively the competitive position of U.S. companies, and jeopardize jobs in the U.S. exporting community. We already find that Ex-Im Bank's exposure fees are not competitive in certain markets. Ex-Im Bank and other Export Credit Agencies (ECA's) operate under an OECD negotiated agreement with guidelines for minimum exposure fees. Any exposure fee increases would serve only to further debilitate Ex-Im Bank's ability to support U.S. exports.

Q.2. Could you go into more detail about the aggressive terms offered by Export Credit Agencies of Canada and Germany and how often sourcing is changed from the United States to Germany or Canada because of the terms offered by the foreign Export Credit Agencies?

A.2. Both Canada and Germany purport to operate as private sector entities while taking advantage of their quasi-public sector status to lower their cost of capital for funding export transactions (market windows). We know firsthand of companies that have sourced product out of Canada versus the United States because of the Canadian export credit agency's willingness to accommodate approvals quickly and provide low-cost funding. Quantitative data from either Germany or Canada is difficult to obtain because transactions funded through market windows are not subject to public record requirements. Clearly, we can foresee an increasing trend of Canadian and German exporters benefiting from financing cost advantages and of United States companies choosing to source product from their foreign-based subsidiaries where they can benefit from lower financing costs. The result is a reduction of export-related jobs within U.S. companies. Going forward, we see more foreign ECA's moving toward similar market window operations to compete with Canada and Germany.

Q.3. Are there procedures used by the Ex-Im Bank that can be modified to make your partnership more effective for the U.S. exporter?

A.3. Ex-Im Bank has been successful through the years because of its ability to function as an independent agency. The Ex-Im Bank's independence allows the Bank to remain in dialogue with the private sector and attuned to the needs of the U.S. exporting community. Ex-Im Bank needs to continually refine the organization's ability to response quickly and flexibly to requests for transaction approvals. The most frequent complaint about Ex-Im Bank is that the Bank moves too slowly in an increasingly "real time" global environment. Retention of highly qualified personnel should be a high priority.

RESPONSE TO WRITTEN QUESTION OF SENATOR MILLER FROM D.P. NARAYANA

Q.1. Mr. Bergsten says in his testimony that Ex-Im Bank's budget had sharp reductions in the middle 1970's and again in the early 1980's. You indicated you have been "supporting the international banking activities of medium to small businesses" over a number of years. From your perspective did you see any impact of the Ex-

Im Bank's budget reductions in the middle 1970's and early 1980's on the activities of medium to small businesses?

A.1. Without question, the reductions in Ex-Im Bank's budget in previous years had a dampening impact on U.S. exporting activity. Medium and small businesses particularly are sensitive to any decrease in support available from Ex-Im Bank because of their dependence on the Bank's programs as a primary tool to enable them to cultivate and retain foreign market sales. Ex-Im Bank operates as a crucial partner to financial institutions that work with medium and small businesses by providing competitive solutions to their export needs.

STATEMENT OF AMERICAN IRON AND STEEL INSTITUTE (AISI)

ON BEHALF OF U.S. MEMBER COMPANIES

MAY 17, 2001

The American Iron and Steel Institute (AISI) is pleased to provide the following statement on behalf of its U.S. member companies who together account for approximately 70 percent of the raw steel produced annually in the United States.

AISI has always supported a strong and competitive United States Export-Import Bank (Ex-Im), which remains essential to promote U.S. exports of manufactures, i.e., steel-containing products. At the same time, the U.S. steel industry has a unique and important perspective on Ex-Im activities because the Bank, over many years, has asked AISI in particular to comment on scores of requests for official financing assistance to U.S. exports of steel plant and equipment, either to increase or modernize foreign steel capacity or to improve its environmental performance. It is from this perspective that we submit our statement.

Problem of World Steel Overcapacity; Simple Position, No Simple Issue

There is massive global excess steel capacity—approximately 275 million metric tons (see attachment). As a result of this massive overcapacity, the steel sector globally is dysfunctional; there is a crisis in world steel markets; and this crisis has engulfed the United States and North American steel industry.

This global steel crisis is a direct result of four decades of pervasive foreign government intervention in the steel sector, intervention that has helped to build, perpetuate, and exacerbate the world steel overcapacity problem.

Our position is simple enough: If private banks believe it is economic to loan money for foreign steel industry modernization or further steel capacity buildups, that is their business, but we strongly object to Government involvement in such efforts. Unfortunately, this issue is anything but simple.

Confronting Confirmed Foreign Competition
AISI Position on Ex-Im Bank Prior to 1998

The problem historically has been that other governments continue to provide official financing aid for steel projects abroad, and so such projects invariably go ahead anyway with or without U.S. Ex-Im aid. Thus, for many years, AISI has confronted the likelihood that the *only* effect of our opposition to U.S. Ex-Im financing support in these cases is to deny U.S. suppliers the business, i.e., to “cut off our nose to spite our face.”

The key problem, in other words, has always been beyond the control of U.S. Ex-Im to solve. Prior to 1998, we always took the view that this is less a problem with Ex-Im, and more a problem for USTR, Treasury, and U.S. trade policy. The real problem, we used to say, is how to get *other* governments to stop this irrational and unending intervention in the steel sector, which is the key cause of the global and U.S. steel crisis.

Historically, then, and for only one reason—confirmed foreign competition—AISI has objected to, but usually not opposed, Ex-Im financing support for foreign steelmaking projects. This is *not* the case, however, since an unprecedented steel crisis hit United States and NAFTA shores in 1998. When it struck, it became very clear to us that—regardless of confirmed foreign competition—we could no longer just hold our nose, object, but not oppose requests for Ex-Im financing support that exacerbate world steel overcapacity.

1998–Present, Unprecedented Crisis; Change in AISI Position

The past 3 years should have been the best of times for an American steel industry restored to world class status, which in recent years has added over 20 million tons of new, state-of-the-art steel capacity. Instead, we have a national steel emergency. Its main cause is the record 3-year surge of dumped, subsidized, and disruptive finished steel imports. The last 3 years have been the three highest steel import years in U.S. history. A tidal wave of unfairly traded and disruptive finished steel imports from non-NAFTA countries has led to serious import injury. Its effects include:

- A record 18 steel company bankruptcies since December 1997.
- Record low steel prices.
- Scores of facility shutdowns.
- The loss of over 23,000 good jobs.
- Reduced shipments.
- Large financial losses.
- A lack of access to capital.
- Unprecedented market instability.

Today, more than 21 percent of the total U.S. steel capacity is operating, under Chapter 11 bankruptcy, with additional bankruptcies threatened.

It is important that the Subcommittee understand that this has been a transplanted crisis caused by global excess steel capacity, market-distorting practices, and major structural economic failures elsewhere. The result has been an unprecedented surge of imports, which has turned the United States and NAFTA region into the World's Steel Dumping Ground.

This has led to a change in our position on requests to Ex-Im. Given the serious injury to U.S. steel companies, employees, and communities from the record 3-year surge of unfairly traded and disruptive steel imports—and because this injury is the direct result of government assistance to foreign steel projects—AISI has been forced to harden its position on requests to use U.S. taxpayer dollars for steel projects abroad.

In view of massive world steel overcapacity and its key role in helping cause the global steel crisis and our national steel emergency, AISI will oppose future requests for U.S. Export-Import Bank financing assistance that increase foreign steel capacity. With respect to future requests for U.S. Ex-Im financing aid to help modernize or improve the environmental performance of existing foreign steel capacity, we will consider the following factors, among others: (1) Whether the project in question could lead, either directly or indirectly, to dumping and injury in the U.S. market; (2) whether it involves a *de facto* increase in effective foreign steel capacity; or (3) whether it is part of efforts to downsize current foreign steel capacity.

China Example; Wrong Signal At Wrong Time

In light of all that has been said above, the U.S. Export-Import Bank decision in January to extend official financing support for a project that will add another 1.5 million metric tons of hot-rolled steel capacity in the People's Republic of China (PRC) was ill-timed and wrong-headed. It sent the wrong signal at the wrong time.

As far back as April 2000, AISI wrote to the Bank making it clear that our U.S. members were "opposed to financing support by Ex-Im or any other government's official lending institution for this project." What we said then was this:

- China already has the world's largest and fastest growing steel industry.
- The PRC government is currently trying to limit domestic steel production due to serious oversupply conditions in a number of product lines.
- It is increasing government subsidies to steel in preparation for China's entry into the WTO.
- The PRC government, which seems committed to the long-term goal of import substitution, continues to discriminate against imports of steel and of steel-containing products.
- U.S. exports of steel to China have declined substantially over the past 10 years.
- China's exports of steel to the United States in this period have increased significantly.

Once again we stressed that, "if private banks wish to finance further steel capacity expansions in China, that is their business. But AISI believes that *no government* should be involved in helping China build up further its steelmaking capacity." In opposing official financing support for this project, we stressed that:

- There continues to be substantial global excess steelmaking capacity.
- This project would lead to yet another significant addition to China's steelmaking capacity.
- There is a distinct possibility that this project could lead to competition with and injury to U.S. steel producers.
- China has a history of trading unfairly and causing market disruption in the U.S. steel market.

In voicing strong objections, AISI was not alone. In December of last year, then-Commerce Secretary Norman Mineta wrote a letter to then-Export-Import Bank Chairman and President James Harmon, urging that Ex-Im deny the proposed financing. Secretary Mineta said the following:

> *The Department of Commerce has recently initiated an antidumping duty investigation on hot-rolled steel from China, the same product this financing is designed to support. . . . Under Ex-Im Bank policy, financing that supports dumped or subsidized exports is only allowed under exceptional circumstances. . . . The Department of Commerce has requested that Ex-Im Bank revise its economic impact procedures to give greater consideration to the combined impact of chronic overcapacity in the global steel industry and the historic level of unfair trade in the world steel market on the U.S. steel industry. . . . Lending institutions supported by American taxpayers should not be adding to global excess capacity in the steel industry. Consistent with*

this request to Ex-Im Bank, the United States also is seeking a moratorium on multilateral development bank financing that leads to substantial increases in steelmaking capacity. . . .

Shortly before Secretary Mineta wrote his letter, then-Treasury Secretary Larry Summers wrote to World Bank President James Wolfensohn. Dr. Summers said:

The U.S. Government is seriously concerned about the substantial overcapacity in the world steel market. In many steel-producing countries, this is a result of interferences by governments using market-distorting measures and trade barriers to foster the growth of the domestic industries. These findings are consistent with those of a recent report by the OECD, which concludes that world steel making capacity remained well above demand between 1985 and 1999. Given these conditions, we believe that it would be hard to justify MDB financing in support of increases in steel-making capacity. . . . This is a high-priority matter for my government. . . .

In addition, many Members of Congress wrote to Ex-Im urging against official financing assistance for the PRC hot-rolled steel project. As but one example, the Executive Committee of the Congressional Steel Caucus said:

. . . we are writing to express our strong opposition to any proposal to provide financing backed by U.S. taxpayers that would ultimately increase the global capacity for steel production. We are particularly concerned about a proposal under consideration by the Ex-Im Bank regarding financing for the Benxi Iron and Steel Company of China. . . . the Administration has recently announced its intention to secure a ban on financing by multilateral lending institutions of projects that would increase steel production overcapacity. It would be a severe blow to this effort if an American institution were to violate principles we encourage on an international level.

That, however, is exactly what Ex-Im did. The reaction to this wrong signal sent at the wrong time was outrage, especially from the parties most directly and adversely affected, the U.S. steel industry and its employees. A coalition of major U.S. steel companies and the United Steelworkers of America called the Bank's decision "disgraceful," saying it was "unconscionable and utterly inconsistent with explicit, broader U.S. policy interests." Thomas J. Usher, Chairman and CEO of USX Corporation wrote to Mr. Harmon, calling the Bank's decision "an affront to the hard-working men and women of my company and the other U.S. steelmakers struggling to remain in business despite a massive glut of world steel production." AISI echoed these comments. In a January 4 press release, we said:

At a time of substantial world steel overcapacity, steel trade crisis in the U.S. market, growing U.S. steel company bankruptcies and a pending U.S. antidumping case on hot rolled steel from China, we strongly condemn this Ex-Im action, which was also taken over the strong objection of the current Administration. In response, we request that the 107th Congress review the current "economic impact" procedures that Ex-Im uses in determining whether to provide financing support, and we urge the incoming Bush Administration to seek greater multilateral *discipline on official financing support for projects that increase steelmaking capacity.*

Solution and Policy Imperative; Get Governments Out of Steel Business

China is not an isolated example. In 2000, AISI also wrote strong letters to the U.S. Export-Import Bank in opposition to requests for Ex-Im financing support to help build additional steel capacity in India and Turkey.

AISI's full North American membership believes it is time to get governments out of the business of building additional steel capacity. In recent months, AISI's Canadian, Mexican, and United States member companies have spoken as one about this critical problem and the urgent need for a solution. In recent joint media releases and policy statements, NAFTA steel producers have said the following:

- *Global excess steel capacity has played a large role in the steel crisis, and NAFTA steel producers have suffered serious injury from unfair and disruptive steel imports linked to uneconomic excess capacity offshore.*
- *The recent decision by the U.S. Export-Import Bank to help China build yet more hot-rolled steel capacity at a time when U.S. mills are going bankrupt is an outrage. We urge the new Bush Administration to work with the other NAFTA governments to achieve greater multilateral discipline over official export financing aid for projects that increase steel capacity.*
- *Uneconomic excess steel capacity outside of the NAFTA region is a continuing cause of harm to NAFTA steel producers. If private banks wish to fund projects*

to build up further steel capacity in countries that already have excess capacity, that is one thing. But, given the events of the past 3 years, it is time to make it more difficult for governments to support such projects.

- *If OECD governments wish to continue to provide official export financing support for steel projects, such assistance should in the future be limited to projects that involve environmental clean up or the downsizing of steelmaking capacity.*
- *The perpetual imbalance between steel supply and demand exists only through deliberate governmental actions. To restore the basic principles of economics to this distorted market, governments must be held to a stricter standard of responsibility and restraint.*
- *It is time to let the markets work in determining whether additional steel capacity gets built or not. It is essential that OECD governments—and especially NAFTA governments—question why it is that, once again, governments have to be involved in the building of substantial additional export-oriented steel capacity offshore.*
- *At a time of significant world steel overcapacity and growing steel trade tensions, we urge NAFTA governments to take the lead in getting governments and governmental organizations out of the business of funding additional steel capacity.*
- *Steel is in crisis, and not just in North America. Because the crisis is global, long term and structural; because it has, at its root, world steel overcapacity (as much as 35 percent of world steel production); because this overcapacity exists outside the NAFTA region; and because this overcapacity is continuing to grow, we recommend that NAFTA governments work closely together to:*

  —encourage all governments to avoid government or quasi government assistance to increase steel capacity, especially if the capacity increase is for export markets;
  —encourage all governments to avoid, to the extent possible, support of uneconomic steel capacity;
  —promote a serious discussion of the world steel overcapacity problem at the OECD Steel Committee and in other international forums;
  —obtain a commitment by all major steel producing and trading nations, both governments and industries, that we need, once and for all, to resolve this problem.

Conclusions

AISI supports a competitive, well-financed U.S. Export-Import Bank, but there is massive global excess steel capacity, a crisis in world steel markets and an emergency steel situation in the United States. Therefore, Ex-Im needs to be very careful that it not contribute further to the problems affecting both the United States and world steel industry.

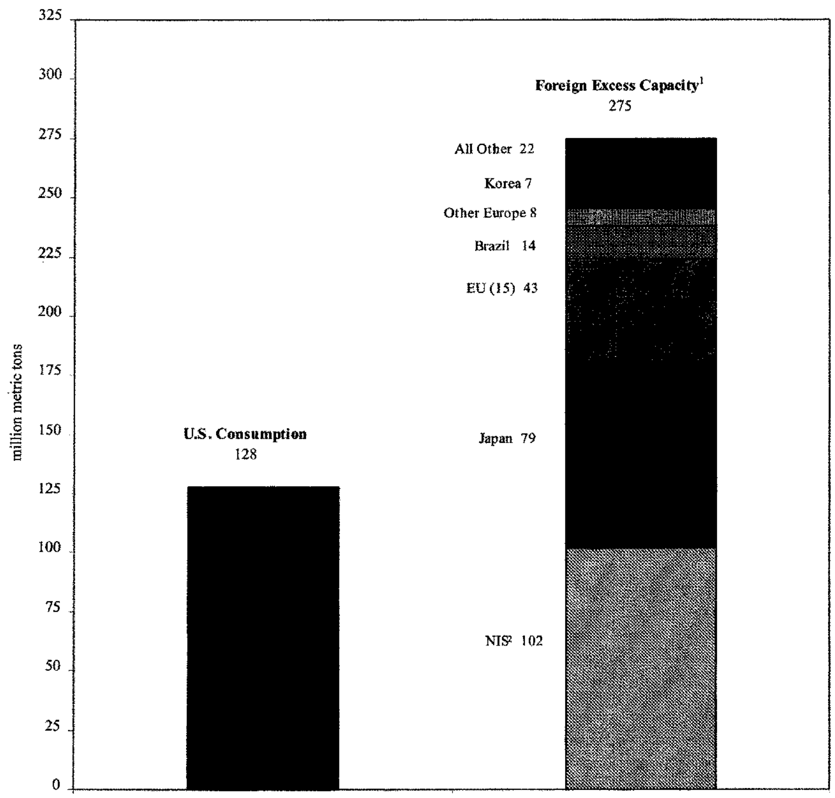
The recent United States Ex-Im Bank decision on China was a serious policy mistake. It must *never* be repeated. While further multilateral discipline on steel export financing support is the ultimate solution, the U.S. Export-Import Bank's policy on whether to support or not additional steel capacity abroad must be consistent with the overall U.S. government policy in this area.

To that end, AISI looks forward to working closely with Senators Specter and Rockefeller—the current Chairman and Co-Chairman of the Senate Steel Caucus—as well as with the Senate Banking Committee and other relevant Committees of Congress to tighten further the Bank's economic impact procedures. Some initial ideas are to:

- Give maximum weight to the presence of world overcapacity in the product and the possibility of trade diversion from additions to foreign capacity.
- Take fully into account both past and pending unfair trade case actions against the country or product in question.
- Ensure as much early warning as possible to interested parties that could be adversely affected by requests for official export financing support.

AISI greatly appreciates this opportunity to submit comments to the Senate Banking Committee's Subcommittee on International Trade and Finance on the issue of the U.S. Export-Import Bank. For us, this issue of Ex-Im is now part of the most important issue in world steel trade: Global excess steel capacity and what to do about it.

Foreign Excess Raw Steelmaking Capacity Was More Than Two Times as Great as Total Annual U.S. Steel Consumption in 1999



Source: *Capacity:* OECD, OECD Steel Outlook 1999/2000 (OECD, 1999) at 20. *Apparent consumption (crude steel equivalent)* : IISI, Spring 2001 Outlook, table 7.

[1] Excess capacity is difference between capacity and consumption in 1999.

[2] The New Independent States (the former Soviet Union) refer to Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Russia, Ukraine and Uzbekistan. Russia, Ukraine and Kazakhstan account for 97 percent of total NIS steelmaking capacity.

Note: Final 2000 world capacity data has not yet been published, but world apparent consumption and production both increased by over 7 percent in 2000 compared to 1999 according to IISI. As a result, calculated excess capacity will be lower in 2000. On the other hand, 2001 will likely show little, if any, increase over 2000 in terms of world production and consumption, so the calculated excess capacity will likely increase with continued capacity expansion.