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Testimony

of Linda Menghetti Dempsey
Vice President, International Economic Affairs
National Association of Manufacturers

*For the Hearing of the Senate Committee on Banking, Housing and Urban
Affairs*

on "Perspectives on the Export-Import Bank of the United States"

June 2, 2015



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Chairmen Shelby, Ranking Member Brown and members of the committee, thank you for the opportunity to testify today. I appreciate the chance to highlight on behalf of the National Association of Manufacturers (NAM) the importance of reauthorizing the U.S. Export-Import Bank to help manufacturers compete in the global marketplace that will enable them to support and sustain good-paying manufacturing jobs throughout every state.

The NAM is the nation's largest industrial association and voice for more than 12 million women and men who make things in America. Manufacturing in the U.S. supports more than 17 million jobs, and in 2014, U.S. manufacturing output reached a record of nearly \$2.1 trillion. It is the engine that drives the U.S. economy by creating jobs, opportunity and prosperity. The NAM is committed to achieving a policy agenda that helps manufacturers grow and create jobs. Manufacturing has the biggest multiplier effect of any industry and manufacturers in the United States perform more than three-quarters of all private-sector R&D in the nation – driving more innovation than any other sector.

Importance of Exports to U.S. Manufacturing and Jobs

Since its origin, the United States has recognized the importance of exports to promoting industrial and economic growth and supporting jobs. The ability of U.S. companies to export has also been a critical issue for the NAM since its founding. With 95 percent of consumers outside the United States and global demand for manufactured goods that far exceeds domestic demand, manufacturers in the United States need to win more sales overseas if they are going to sustain and grow operations and employment.

World trade in manufactured goods reached \$11.8 trillion in 2013¹ and greatly exceeds U.S. consumption of manufactured goods (domestic shipments and imports), which totaled \$4.1 trillion in 2014. U.S. manufactured goods exports have more than doubled in the past decade, reaching a record \$1.6 trillion in 2014. While that growth is impressive, U.S. manufacturers and exporters are facing an increasingly challenging global economy where growth has slowed. America lags behind many of its largest trading partners when it comes to exporting. U.S. exports comprised only 9.5 percent of global trade in manufactured goods in 2013. We can and

¹ Data from the World Trade Organization Statistical Database, accessed on Jan. 29, 2015. Most recent data available.

must do more to expand U.S. exports if we are going to grow manufacturing and the jobs it supports in the United States.

The importance of exports to the bottom line for manufacturers across the United States is not a theoretical issue. More than 40 percent of respondents in a recent National Association of Manufacturers (NAM) survey cited exports as a primary driver of growth for their company.² Those survey respondents who were more positive about their export potential over the next 12 months were also more optimistic in their company's economic outlook, sales and capital spending plans.

Nor are exports a theoretical issue for the workers employed in every state by our nation's manufacturers. As new export opportunities emerge overseas, manufacturers in the United States are able to both sustain and create American jobs. According to the latest figures from the U.S. Department of Commerce, every \$1 billion in exports creates or supports 5,796 jobs.

Recently, exports have played a significant role in the ongoing manufacturing recovery. Since the end of 2009, export-intensive sectors with substantial export growth have seen the largest job gains. U.S. manufactured goods exports support higher-paying jobs throughout the United States. Moreover, jobs supported by exports pay, on average, 18 percent more than other jobs.³ Employees in the "most trade-intensive industries" earn an average compensation of nearly \$94,000, or more than 56 percent more than those in manufacturing companies that were less engaged in trade.⁴

Importance of Ex-Im Bank to Growing U.S. Exports

One vital tool that thousands of manufacturers use to compete successfully in global markets is the Ex-Im Bank. The NAM strongly supports Ex-Im Bank's mission to support U.S. jobs through exports and views the Bank as one of the most important tools the U.S. government has to help grow U.S. exports and jobs.

The Export-Import Bank is essential to boosting exports of U.S. products. In FY2014, Ex-Im Bank enabled more than \$27 billion in exports – leveraging about \$20.5 billion in authorizations. Nearly 90 percent of those transactions directly supported small-businesses, with an estimated \$5 billion in support for small business exporters. Furthermore, the Bank has maintained its incredibly low default rate of through the recession and through several years of record growth. At the end of FY2014, the Bank's default rate was less 0.2 percent. Notably, Ex-Im's activities are already targeted and, by law, must not compete with private sector lending activity.

Ex-Im Bank helped promote just under two percent of total U.S. exports in FY2014. While it does not need to finance the great majority of U.S. exports, it is considered vital in

² Moutray, Chad, "NAM/*IndustryWeek* Survey: Manufacturers Bullish, But Frustrated with Washington," *IndustryWeek*, June 9, 2014. See <http://www.industryweek.com/global-economy/namindustryweek-survey-manufacturers-bullish-frustrated-washington?page=1>.

³ David Riker, *Do Jobs in Export Industries Still Pay More? And Why?*, International Trade Administration, U.S. Department of Commerce, July 2010, accessed at www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003208.pdf.

⁴ Calculations from the Manufacturers Alliance for Productivity and Innovation (MAPI) Foundation, using 2013 input-output data from the Bureau of Economic Analysis, accessed at www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/Foreign-Trade-and-Investment/Impact-on-Compensation/Impact-on-Compensation.aspx.

certain areas of significant growth, particularly for small- and medium-sized business exporters, long-term financing for large projects, sales to emerging markets and sales to foreign state-owned entities.

- Small and Medium-Sized Business Exports. Ex-Im is vital to many and medium-sized businesses to enable them to start to export overseas. Small businesses, both those that are direct exporters and those that supply domestically to larger U.S. exporters, will feel the blow if Congress fails to reauthorize Ex-Im Bank. Those companies that utilize Ex-Im Bank insurance programs to enable their working capital will be faced almost immediately with a dilemma about how to pay their workers and make the mortgage payments on their facilities, let alone consider growing and hiring. Suppliers whose U.S. customers lose out on large infrastructure, aerospace and energy projects overseas because they cannot bid without access to Ex-Im Bank will also see their orders shrink. Of the Bank's 3,300 small business transactions in FY 2014, 545 companies were first-time Ex-Im users. Ex-Im's role in jump-starting new small and medium-sized exporters is particularly important.

Many small and medium-sized manufacturers across the country have turned to Ex-Im Bank to take advantage of new international trade opportunities and grow their workforce. Special Products & Mfg., Inc. (SPM) in Rockwall, Texas, is a second-generation, family-owned business that has grown – with the help of exports – from a small garage shop in the 1960s into a firm with more than 200 machine operators, welders, assemblers, engineers and other associates in a 140,000 square foot state-of-the-art factory. Over the past several years, SPM has seized opportunities to expand their business into the world marketplace. From Europe to South America, SPM is exporting products ranging from new and improved gas station pumps to large steel enclosures for drill rig drives. SPM also supplies many companies like General Electric and Caterpillar, and SPM's Chief Operator Officer Ed Grand-Lienard made the trip to Washington earlier this year to let Congress know that the future of American manufacturing is in jeopardy of being seriously hurt if the Ex-Im Bank is not reauthorized. This company is just one of the many small businesses that have reaped the benefits of expanded market access and tools like Ex-Im Bank, and the NAM would be happy to provide others to the committee.

- Long-Term Project Finance. Ex-Im Bank, like foreign export credit agencies (ECAs), has taken on an increasingly important facilitation role for export financing as the role of commercial banks in financing long-term projects continues to shrink in the wake of the financial crisis. U.S. regulatory guidelines that favor domestic receivables over foreign sales⁵, implementation of Basel III rules⁶ and the European sovereign debt crisis⁷ have all impacted the ability and appetite of banks to participate in long-term export financing projects at competitive rates. While some banks have been able to restore effectively their balance sheets, commercial bank participation in long-term, high-volume funding (tenors longer than 10 years and over a few hundred million dollars) remains highly selective. Many experts – including top executives from UK Export Finance (UKEF), Korea Trade Insurance Corporation (K-Sure) and Deutsche

⁵ Office of the Comptroller of the Currency, Treasury Department, Comptroller's Handbook, at 17-18, accessed at <http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-asset-based-lending.pdf>.

⁶ Basel Committee on Banking Supervision, "Basel III: A global regulatory framework for more resilient banks and banking systems." December 2010, accessed at <http://www.bis.org/publ/bcbs189.pdf>.

⁷ Berne Union Yearbook 2012 at 55, accessed at <http://www.berneunion.org/wp-content/uploads/2013/10/Berne-Union-Yearbook-2012.pdf> - Quoting Steve Tvardek, Head of the OECD Export Credits Division, OECD.

Bank – suggest that Basel III will continue to constrain commercial banks from playing a significant role as long-term funders of large-scale projects and other sales.⁸ As a result, ECAs are increasingly a driving force for large-scale, long-term projects – particularly projects in the infrastructure, energy and aerospace sectors.⁹ *Infrastructure Journal* data show that ECA lending activity in commercial project finance transactions increased threefold from less than \$10 billion in 2009 to more than \$30 billion projected for 2013, and ECAs are providing the only project finance available in some markets. In particular, Japan Bank for International Cooperation (JBIC) is a global leader for energy and infrastructure project finance¹⁰ and Korea EximBank is rising in prominence, particularly in its priority energy sector.¹¹

- *Emerging Markets*. Many U.S.-based lenders also turn to Ex-Im to mitigate geopolitical and collateral risk in an effort to provide viable trade financing solutions for exporters. Without Ex-Im, many private lenders have limited options: opt not to finance otherwise viable export activity in emerging markets, charge rates that are uncompetitive globally or place limits on the overall amount of financing to particular emerging markets. Ex-Im Bank, for example, offers medium- and long-term guarantees that provide flexible lender financing options for buyers of U.S. capital goods and services. Ex-Im also supports commercial banks through letter of credit (LC) confirmations that reduce a bank's risks, offering private sector lenders greater flexibility in working with their client base.
- *Government and State-Owned Enterprise (SOE) Transactions*. U.S. exporters from a broad number of sectors increasingly are selling to foreign governments and state-owned entities. Be it medical equipment sales to foreign state-owned hospitals, power generation equipment to foreign state-owned utilities or communications satellites to foreign governments for national mobile satellite systems, such sales support greater exports and jobs in the United States, but are difficult to win. In some cases, the foreign purchaser favors suppliers with a government entity on the other side of the table. In other cases, like a nuclear power plant project overseas, an ECA lending option is a requirement to participate in the initial bidding phase – even if the customer ultimately opts for another financing option. While the governments of most of the United States' major trading partners are willing to oblige, Ex-Im is the only government entity able to play such a role for U.S. exporters. Without Ex-Im's presence, U.S. exporters simply would not be eligible to compete for many of these substantial foreign sales.

In short, while Ex-Im's role is relatively small compared to the overall size of U.S. exports, it plays an outsized and highly important role in opening the door to U.S. exports for certain types of transactions where U.S. exporters continue to see substantial growth opportunities.

⁸ Berne Union Yearbook 2014 at 66, accessed at <http://www.berneunion.org/wp-content/uploads/2012/10/Berne-Union-80-Yearbook-2014.pdf>.

⁹ See, e.g., "Power Shift: The Rise of Export Credit and Development Finance in Major Projects." November 2013; Baker & McKenzie with *Infrastructure Journal*, accessed at http://www.bakermckenzie.com/files/Publication/7dc07b54-651f-4168-9c81-0abdfdc432ca/Presentation/PublicationAttachment/6943f6ae-5718-42f8-a587-9a06c65902d7/fc_global_powershift_nov13.pdf.

¹⁰ "Power Shift: The Rise of Export Credit and Development Finance in Major Projects." [need Publication, date]

¹¹ "Filling the funding gap – Korea Eximbank" *Project Finance International* (March 2013), accessed at <http://www.pfie.com/filling-the-funding-gap-%E2%80%93-korea-eximbank/21071929.article>.

The Global Export Credit Dimension

One of the significant roles that the Ex-Im Bank plays is aiding U.S. exporters and their workers to compete in a global economy that is characterized by dramatically increasing export credit assistance provided by governments in Europe, Asia and Latin America. As detailed in a study released by the NAM in 2014, *The Global Export Credit Dimension: The Size of Foreign Export Credit Agencies Compared to the United States* (2014),¹² there are more than 60 ECAs worldwide and the ECAs of our top nine trading partners – Brazil, Canada, China, France, Germany, Japan, Mexico, South Korea and the United Kingdom – provided nearly half a trillion dollars in annual export support. Other key findings of that report include:

- The ECAs of China, Japan, South Korea and Germany are already individually larger than the Ex-Im Bank, and all of the nine major foreign ECAs are larger as a share of their countries' GDP than the Ex-Im Bank is compared to U.S. GDP;
- China's primary ECA provides more than five times the assistance than the U.S. Ex-Im Bank does;
- Major foreign ECAs, including those in Germany, China and Canada, are expanding exports more successfully than the Ex-Im Bank. The Ex-Im Bank supported 2.42 percent of total U.S. exports in 2013, while Germany (3.63 percent), China (12.50 percent) and Canada (20.29 percent) helped to support even more international sales;
- Foreign ECA activity grew sharply in several major countries, including China, South Korea and Canada, between 2005 and 2013; and
- Official ECA activity is particularly critical to key and growing manufacturing sectors of the global economy, including infrastructure and transportation where manufacturers in the United States are well positioned to grow in related exports if competitive financing is available.

While the United States is a relatively small player in ECA activity, it has worked intensively to negotiate strong rules to eliminate market distortions and subsidies that oftentimes characterize foreign ECAs. In particular, the United States has led efforts to bring developed country members of the Organization for Economic Cooperation and Development (OECD)¹³ and non-OECD countries to the negotiating table. Largely as a result of U.S. leadership over several decades, most of the OECD's industrialized countries have agreed to uniform standards for fair and commercially based ECA lending.¹⁴ Sector-specific arrangements have also been

¹² NAM, *The Global Export Credit Dimension: The Size of Foreign Export Credit Agencies Compared to the United States* (2014), accessed at

http://www.nam.org/uploadedFiles/NAM/Site_Content/Issues/Global%20Export%20Credit%20Dimension%20Web.pdf; see also NAM, *Forfeiting Opportunity: Ex-Im Bank Reauthorization Is Essential for*

Manufacturers to Compete Globally in the Face

of Massive Foreign Export Credit Financing (2014), accessed at

http://www.nam.org/uploadedFiles/NAM/Site_Content/Issues/Forfeiting%20Opportunity%20Web.pdf.

¹³ Members include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. OECD, "Members and Partners," accessed at

<http://www.oecd.org/about/membersandpartners/>.

¹⁴ Most prominently, OECD members developed the "Arrangement on Officially Supported Export Credits" (ECA Arrangement) that sets out financial disciplines for standard export credits and for export credits for certain sectors that reduce and eliminate potential market distortions. In particular, the ECA Arrangement – which has been agreed to by Australia, Canada, the European Union, Japan, New Zealand, Norway, South Korea, Switzerland and the United States, emphasizes that OECD ECAs should be competing "on quality and price of goods and services exported rather than on the most favourable officially supported terms." OECD, "Official Export Credit Agencies,"

negotiated to provide even stricter discipline on ECA financing related to ships, nuclear power, aircraft, renewable energy, climate change mitigation and water projects.¹⁵

Work with non-OECD countries has been more difficult and that is where the greatest concern about subsidized ECA financing lies. The United States has worked intensively to undertake negotiations with key developing countries to agree to operate their ECAs based only on commercial considerations. As a result of U.S. efforts, 18 major providers of export credits¹⁶ have been invited to participate in the International Working Group on Export Credits (IWG), which held its first meeting in November 2012 and has met several times. Work is slow as many non-OECD participants have been “cautious” and not clearly committed to the process.¹⁷

The U.S. Ex-Im Bank’s role, while small in the global economy, is critical to many thousands of exporters. Failing to reauthorize Ex-Im is tantamount to unilateral disarmament and will also negate U.S. leadership in seeking to eliminate foreign ECA market distortions and subsidies.

Time is of the Essence

Last fall, Congress extended Ex-Im Bank’s authorization through June 30, 2015. Manufacturers need Congress to act quickly on legislation to provide a long-term reauthorization of Ex-Im Bank. Reliable access to export financing is a vital part of being globally competitive, and the Ex-Im Bank has taken on even greater significance in today’s turbulent financial environment. Manufacturers in the United States – and their customers overseas – operate based on long-term plans that often involve multiyear projects in which the Ex-Im Bank is a critical partner. Without the certainty of a long-term Ex-Im reauthorization, U.S. exporters have already been put at a significant disadvantage, which will hamper growth here at home and result in lost opportunities for American workers and businesses.

If Congress fails to enact quickly a long-term reauthorization of Ex-Im Bank, manufacturers will be forfeiting opportunities to competitors overseas and, thereby, risk the loss of not just of exports, but of manufacturing growth and good-paying jobs in every state.

- If the Ex-Im Bank is not reauthorized, tens of billions of dollars in U.S. exports will be put at risk annually. Manufacturers overseas will increasingly win foreign sales that could have been won by manufacturers in the United States. The loss of U.S.-manufactured exports will be at the expense of thousands of manufacturers in the United States and hundreds of thousands of American workers who rely on Ex-Im services to boost their export sales.

accessed at <http://www.oecd.org/tad/xcred/eca.htm>; see also, OECD, “Official Export Credit Agencies,” accessed at <http://www.oecd.org/tad/xcred/eca.htm>.

¹⁵ OECD, “Official Export Credit Agencies,” accessed at <http://www.oecd.org/tad/xcred/eca.htm>.

¹⁶ The 18 participants are nine participants in the OECD arrangement (Australia, Canada, the European Union, Japan, New Zealand, South Korea, Switzerland United States) and nine non-OECD members (Brazil, China, India, Indonesia, Israel, Malaysia, Russian Federation, South Africa and Turkey).

¹⁷ “Report on Export Credit Negotiations,” U.S. Department of the Treasury, December 2013. The IWG held two full meetings (hosted by China in May 2013 and the European Union in September 2013) and one technical meeting (hosted by Germany in March 2013); European Commission, Report from the Commission to the European Parliament and the Council – Annual Report on negotiations undertaken by the Commission in the field of export credits, in the sense of Regulation (EU) No 1233/2011 (May 28, 2014), accessed at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2014:299:FIN>.

- Weakening America's export competitiveness will be particularly damaging in the face of intense and growing global competition that has already resulted in a substantial decline in America's share of the global manufacturing market.
- Even greater manufacturing export opportunities will be lost on an annual basis as trade expands and U.S. exporters effectively cede foreign sales. The loss of new export opportunities will be particularly severe for small- and medium-sized businesses and for exports to emerging markets and infrastructure sectors where growth is expected to be strongest.

Time is of the essence. The uncertain future of the Ex-Im Bank is already putting U.S. export sales at risk.

Conclusion

There is broad support for Ex-Im Bank's reauthorization from job-creators across the country. Over the past year, more than 83,000 letters from manufacturers, exporters and constituents have been sent to you and your colleagues. In February, more than 700 people from 41 states – representing a broad spectrum of manufacturing sectors and along the breadth of the supply chain – came to Washington, D.C., to ask their Members of Congress to support a long-term reauthorization of Ex-Im Bank. This week, the NAM is hosting its annual Manufacturing Summit in Washington and hundreds of NAM members are here to advocate for policies – including the long-term reauthorization of Ex-Im Bank – that benefit manufacturers in the United States.

The Ex-Im Bank is a targeted tool and a last resort that enables U.S. businesses to find a foothold in an increasingly competitive marketplace. Failure to reauthorize the Ex-Im Bank is already creating uncertainty that is putting U.S. exports at risk. The failure to reauthorize the Ex-Im Bank will have even greater, more lasting and more damaging effects on manufacturers of every size throughout the United States, threatening tens of billions of dollars in export sales as well as the security of hundreds of thousands of American jobs that depend directly or indirectly on the Ex-Im Bank's export financing. I urge you to move forward quickly on a long-term reauthorization for Ex-Im Bank to enable it to effectively fulfill its principal mission of supporting U.S. jobs through exports.

Thank you, Chairmen Shelby and Ranking Members Brown for holding this hearing and for providing me the opportunity to testify on the importance of a long-term reauthorization of the Export-Import Bank to our nation's manufacturers.