

TESTIMONY OF JOHN MATTHEWS, BOEING CAPITAL CORPORATION,
ON BEHALF OF
THE NATIONAL ASSOCIATION OF MANUFACTURERS,
THE NATIONAL FOREIGN TRADE COUNCIL
AND
THE COALITION FOR EMPLOYMENT THROUGH EXPORTS
ON
REAUTHORIZATION OF THE EXPORT-IMPORT BANK

SENATE SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE
MARCH 8, 2006

Mr. Chairman and members of the subcommittee, I am John Matthews,
Managing Director of Boeing Capital Corporation, the financing arm of The
Boeing Company.

We at Boeing, and the other members of NAM, NFTC and CEE, strongly support
the reauthorization of Ex-Im Bank. Each year, Ex-Im Bank supports some 3,000
overseas sales of American-made goods and American-provided services.

During FY 2005, Ex-Im issued \$13.9 billion in financing – mostly guarantees and
insurance of commercial loans. That financing supported \$17.8 billion in U.S.
exports. Those export sales in turn supported thousands of jobs for American
workers.

Most of these transactions are sales by small- and medium-sized companies.
But even for large corporations like Boeing, Ex-Im Bank plays an essential role,
not only for our 50,000 commercial aircraft employees, but also for our 26,000
U.S. suppliers and vendors throughout all 50 states. In 2005, The Boeing
Company purchased approximately \$5B from more than 11,500 small business

suppliers in the U.S. Of that total, our commercial unit, Boeing Commercial Airplanes (BCA), paid \$1.4B to over 2900 American small businesses.

Today, I'd like to focus on three key points: 1) Financing is a key element of global competition; 2) Export credit agencies are growing around the world; and 3) Ex-Im Bank is financially sound.

FINANCING IS A KEY ELEMENT OF GLOBAL COMPETITION

Traditionally, companies competed on product quality, price and service. In today's world, financing is an increasingly important competitive element. Ex-Im Bank has two central missions: to level the playing field when U.S. exporters are confronted with competitors that have ECA financing; and when commercial financing is not available.

Each year, 70% of all Boeing's commercial aircraft sales are to overseas customers. Historically, 30% of these Boeing exports have relied upon Ex-Im to provide loan guarantees.

In FY 2005 alone, Ex-Im authorized financing to support the export of 78 Boeing commercial aircraft to 19 airlines located in 18 different countries around the globe, including nations in Africa and in Latin America. This represented 33% of all our exports for that year.

EXPORT CREDIT AGENCIES ARE GROWING AROUND THE WORLD

Virtually all major trading nations operate export credit agencies. The most recent data show that ECA financing is increasing worldwide. Last October, the International Union of Credit and Investment Insurers – the Berne Union – reported that its 52 member ECAs issued a total of \$788 billion in financing during 2004, the highest total ever measured. That total approaches 10 percent of global trade flows in that year. Even more telling, the 2004 total marked a 60 percent increase over the 2001 level of \$470 billion.

While the structure of ECAs varies from country to country, virtually all operate in close cooperation with their national government, and most operate with government financial support of some type. Faced with that financial backing for its foreign competitor, no U.S. company, no matter how large, can compete on its own. *When foreign ECA support is present, we must have the backing of Ex-Im Bank.*

EX-IM BANK IS FINANCIALLY SOUND

Ex-Im Bank is financially sound. At the end of FY 2004, the most recent public data, Ex-Im Bank had a total exposure of \$61.1 billion. Against that exposure, the Bank had \$9.6 billion in reserves – a very strong reserve position.

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 and premiums for its guarantees and insurance. Ex-Im does not subsidize interest rates. In financial terms, Ex-Im's crucial role is in mitigating risk, especially in markets where commercial financing is not available.

Specifically, in aircraft transactions, Ex-Im generally does not provide direct loans. Rather, Ex-Im guarantees that if the airline customer defaults on the loan, Ex-Im will assume the financial liability. These guarantees make it possible for certain foreign airlines, especially in developing countries, to secure commercial bank loans they might otherwise not qualify for at those commercial banks. Ex-Im has not incurred any losses on commercial airplane guarantees over the past fifteen years. This is a real testament to the continuing effective due diligence performed by the Bank before it provides guarantees to foreign airlines.

According to the Bank's FY 2004 annual report, Ex-Im generated a net income of \$2 billion, through its interest charges, premiums and fees. 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. As a result, the Bank is handicapped by the government's own budget rules.

CONCLUSION

Mr. Chairman, thank you for the opportunity to testify today. The Bank is indispensable to Boeing. It has been innovative and reliable in times of crisis such as the financial market's retrenchment in the aftermath of 9-11. It is critical to our ability to compete against a subsidized competitor while sustaining high-paying U.S. jobs. We commend this subcommittee for its timely consideration of Ex-Im Bank's reauthorization and we urge that the committee act expeditiously to report a reauthorization bill to the Senate, so that Congress can complete the legislative process prior to the September 30th expiration of the Bank's charter. I would be happy to answer any questions about the broader exporting community or provide more specific examples of the Bank's criticality to Boeing's ability to compete.

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