CRITICISM OF EX-IM BANK IS NOT BASED IN REALITY

Many of the criticisms of the U.S. Export-Import Bank (Ex-Im Bank) cited by conservative opponents of its reauthorization are based on flawed logic and factual assertions that are not grounded in reality. The debate over the Ex-Im Bank's reauthorization must focus on these realities to ensure that American companies of all sizes, their employees, and the employees of their suppliers, can continue to compete on a level playing field in today's global economy. If the Ex-Im Bank is not reauthorized in a responsible way, hundreds of thousands of jobs will be lost and there will be a flight of companies from the U.S. to more supportive business climates in Europe and Asia.

IF THE EX-IM BANK IS NOT REAUTHORIZED IN A RESPONSIBLE WAY, HUNDREDS OF THOUSANDS OF JOBS WILL BE LOST AND THERE WILL BE A FLIGHT OF COMPANIES FROM THE U.S. TO MORE SUPPORTIVE BUSINESS CLIMATES IN EUROPE AND ASIA.

MYTH: Ex-Im Bank financing benefits only the large companies.

REALITY: The Ex-Im Bank supports three discrete exporter segments:

1. **Small businesses.** These companies need finance assistance to sell their exports. The general size of these transactions ranges from $50,000 to $500,000. Cross-border transactions carry higher capital requirements which discourage commercial banks from participating. Under U.S. government regulations, banks can lend to small business exports if Ex-Im Bank is involved.[1]

2. **Mid-market companies.** Commercial banks with mid-market customers who export are now subject to new regulatory constraints, such as Basel III.[2] These banks are unwilling to take on cross-border financing, particularly in frontier markets. The general sizes of these transactions range from $500,000 to $10 million. Without Ex-Im Bank support to these banks, exporters will not be able to arrange competitive financing. The annual reports of Japan's and Germany's export credit agencies (ECA) indicate billions of dollars of support for their mid-market companies.[3] Thus, financing is vital to counter the loans provided by foreign competitors, who often come with the assistance of their national ECA along with more favorable and more flexible terms.

3. **Large manufacturers.** Exporters of sophisticated capital-goods compete globally against foreign competitors. In every transaction, these non-U.S. competitors have access to aggressive, government-supported export credit financing. U.S manufacturers need Ex-Im Bank to offer equivalent financing terms and conditions so that customer decisions are made on the basis of product quality rather than terms of financing. GAAP accounting standards deny sales recognition to companies which make these loans directly.[4] These transactions range from equipment sales of $10 million up to the U.S. portion of mega industrial or infrastructure projects that can cost as much as $30 billion. These large U.S. manufacturers employ significant supply chain which in turn employs thousands of works who would to be impacted by an Ex-Im Bank shutdown.

[1] 12 CFR Part 3
[2] European Banking Federation - Basel III Assessment
[3] Hermes Annual 2012 and JBIC Annual Report 2013
[4] Generally Accepted Accounting Principles (GAAP) as set forth by the Federal Accounting Standards Advisory Board

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Ex-Im Bank is critical to each of these exporter segments. For the first two segments, Ex-Im Bank insurance and guarantees are fundamental to insure commercial bank participation in export finance which is otherwise restricted by government regulations. For the third segment, Ex-Im Bank financing is necessary to level the playing field and encourage foreign buyers to choose U.S. products versus Europe or Asia. While the largest proportion of Ex-Im Bank financing goes to major infrastructure transactions, the overwhelming volume of individual transactions are provided to the small and mid-market companies and is just as critical to their ability to export.

MYTH: Commercial banks alone can provide competitive export financing.

THE REALITY IS THAT ECA FINANCING IS INCREASINGLY REQUIRED AS PART OF ANY BIDDING PACKAGE FOR LARGE TRANSPORTATION OR INFRASTRUCTURE TRANSACTION.

REALITY: The Ex-Im Bank complements commercial lenders by enabling their participation in export transactions. Commercial lenders cannot compete directly with the foreign export credit agencies without Ex-Im Bank support.

All major commercial banks have tightened their lending criteria since the financial crisis. Foreign export credit agencies have filled the void, becoming larger, more flexible in terms of their programs, and more aggressive on behalf of their companies in undertaking strategic initiatives to establish commercial footholds in the frontier economies. Most have tripled in size since 2008.

The reason is simple—countries are seeking to utilize export growth as a core mechanism for rebounding from the financial crisis. For them, aggressive support of their exporters is simply an investment in their economy. According to the World Bank, in 2012 German exports represented 52% of its GDP, Belgium's 86% of its GDP and even Italy's exports represented 30% of its GDP, more than double that of the United States. In Asia, Korea's exports represented 57% of its GDP. This heavy reliance upon export growth is why export credits won't go away—they are fundamental to the recovery strategies of exporting countries around the world.

Commercial banks, both U.S. and international, since the financial crisis have become subject to regulatory constraints that discourage capital usage for export financing and are prohibited under Basel III from devoting significant capital to export financing. Ex-Im Bank is needed to neutralize these ECA offers so that U.S. companies can compete on a level playing field.

The reality is that ECA financing is increasingly required as part of any bidding package for large transportation or infrastructure transaction. For instance, ECA financing availability is needed to bid on nuclear facilities, large-scale power projects or petrochemical plants. Also, ECA financing is necessary when countries are purchasing expensive equipment like locomotives, satellites, or mining trucks.

MYTH: 98% of exports have access to private capital and don't need the Ex-Im Bank.

REALITY: The reality is that Ex-Im Bank actually supports anywhere between 10-20% of capital goods to frontier markets whose value is estimated at more than $166 billion (FY12) with exports financed by Ex-Im Bank reaching $20.44 billion for that Fiscal Year.

It is those exports—the high technology, cutting-edge exports—that are the exports most fought over.

WORLD INFRASTRUCTURE DEMAND IS ON THE RISE. A FAILURE TO SUPPORT THE COMPETITIVENESS FOR THESE EXPORTS WILL ONLY FORCE THESE EXPORTERS TO MOVE THEIR MANUFACTURING TO LOCATIONS WHERE THEY CAN OBTAIN MORE COMPETITIVE FINANCING.

Most exports, like agricultural commodities, tourism, or auto parts are settled with cash, letters of credit, or less than 90-days open account and thus do not require ECA financing. Contrarily, exported capital goods are necessary in developing countries as they expand their infrastructure and support the U.S. with high paying jobs. This capital equipment requires longer tenors that cannot be satisfied by commercial banks or commercial markets alone. The U.S., Western Europe, and Japan are in fierce competition to supply these critical goods and the follow-on sales they provide. Failure to win these transactions precludes U.S. companies from competing for the follow-on service and parts for a decade or more.

World infrastructure demand is on the rise. A failure to support the competitiveness for these exports will only force these exporters to move their manufacturing to locations where they can obtain more competitive financing.

MYTH: Ex-Im promotes production in one sector of the economy to the detriment of another sector.

REALITY: If a foreign exporter has ECA financing and its U.S. competitor doesn't have the support of Ex-Im Bank, the U.S. Company will likely lose the sale every time.

Protecting U.S. companies from unfair trade practices is the job of the International Trade Commission. Blocking exports to a project that competes against a U.S. company only concedes the project to European or Asian exports. Under such a policy, the U.S. loses twice. The consequence for U.S. exporters are declining investments in R&D, reduced exports, shrinking business, and increased job losses or no job growth.

A company like Delta, for example, doesn't want any new wide-body aircraft sales because it undermines their very successful business model that relies on older, refurbished planes. So its strategy is to attack Ex-Im Bank financing of Boeing aircraft, regardless of whether it would jeopardize hundreds of thousands of Boeing jobs and those of its 15,000 plus suppliers. But Ex-Im Bank cannot prevent sales of wide body aircraft from taking place; it can only give Boeing a fair chance to compete against Airbus. And for that the Ex-Im Bank deserves to be vilified? For those exporters needing competitive financing, we think not.

MYTH: Ex-Im Bank is just another Fannie Mae or Freddie Mac.

REALITY: Ex-Im Bank poses no risk to the U.S. government and does not disturb the marketplace.

Ex-Im Bank's portfolio is well-diversified regionally and by sector; the Ex-Im Bank portfolio is over collateralized, especially in its largest product sector; and it has significant counter guarantees taking low Japanese and other sovereign risk. Its loan loss rate is proscribed by Congress and is carefully monitored by the Ex-Im Bank and is currently less than one quarter of one percent. What's more, borrowers are acutely aware that defaulting to the U.S. government has significant adverse consequences.

BUT THE REAL ISSUE IS WHETHER THE U.S. SHOULD UNILATERALLY DISARM AND DRIVE OUR BEST MANUFACTURERS OFFSHORE. THE RESULT WOULD BE DEVASTATING TO THE ECONOMY AND TO AMERICAN JOBS.

The Ex-Im Bank's strong portfolio has withstood the test of market disruptions in the past. The Ex-Im Bank made money through the Mexican financial crisis, the Asian financial crisis, the Russian financial crisis, and the 2007-08 financial crises. It has made money for the U.S. Treasury throughout its existence from 1934 to the present and in 2013 paid a dividend of over $1.1 billion to the U.S. Treasury.

MYTH: If everyone is "subsidizing," than we should remain aloof.

REALITY: The World Trade Organization is clear that Ex-Im Bank financing terms and conditions are not subsidies.

OECD member countries charge market rates and enjoy good returns on their export credit programs. Countries like China and India, which don't follow the OECD arrangement, may still be providing export subsidies but most do not. Only once since mid-2010 has Ex-Im Bank financing terms gone beyond OECD terms in an effort to match a Chinese financing package in Pakistan. The bank has provided a dividend to the U.S. Treasury of over $2 billion in the past several years, and under the Federal Credit Reform act of 1990, CBO recognizes that Ex-Im Bank makes money for the taxpayer.

But the real issue is whether the U.S. should unilaterally disarm and drive our best manufacturers offshore. The result would be devastating to the economy and to American jobs. Recently, one of my association's members has received invitations from four foreign export credit agencies (three in Europe and one in Asia) in the past month to discuss moving production from the U.S. and for them to displace US Ex-Im Bank in support of these sales. U.S. sales teams are now hearing about quotations from House Financial Services Committee Chairman Hensarling, which have begun appearing in foreign competitors' sales pitches. Other companies have discussed export opportunities already lost because of uncertainty about the U.S.'s willingness to compete. This situation will only get worse as time goes on.

MYTH: Ex-Im Bank supports companies like Solyndra.

REALITY: The Ex-Im Bank doesn't invest in U.S. companies; it supports U.S. exports by providing financing to the buyers of U.S. goods and services contingent upon their selection of American exports.

A European company selected Solyndra solar technology to purchase and install in a project it was developing; Ex-Im Bank supported that sale. The equipment was installed, the project has been successful and the buyer is current on its loan repayment.

MYTH: The Ex-Im Bank provides disproportionate benefits to 10 major companies.

EX-IM BANK FINANCING SUPPORTS EXPORTS FROM SMALL, MID-SIZED AND LARGE BUSINESSES, 3200 IN ALL.

REALITY: Ex-Im Bank financing supports exports from small, mid-sized and large businesses, 3200 in all.

For most of these companies, the loss of Ex-Im Bank financing would preclude their ability to export their products. For some, the loss of Ex-Im financing would put them out of business.

The larger businesses also have thousands of small suppliers that are dependent indirectly on Ex-Im Bank financing. The bottom line is that Ex-Im Bank financing is critical to all of these companies.

MYTH: Ex-Im Bank direct loans compete against the private sector.

REALITY: Competitive financing from Ex-Im Bank may also require direct lending from the Ex-Im Bank to address liquidity shortfalls.

During the recent financial crisis commercial banks could not lend long term even with a U.S. government guarantee. But as the banks have recovered, Ex-Im has reduced its direct lending except in situations such as project finance where the commercial banks have not been interested in participating.

MYTH: Ex-Im Bank is no longer necessary.

REALITY: As export growth represents an increasing share of U.S. GDP growth, Ex-Im Bank plays an increasingly critical role both in supporting small business exporters and in leveling the financing playing field for the larger exporters.

With more small companies trying to export and larger exporters facing aggressive financing from the export credit agencies of their competitors, Ex-Im Bank's role continues to be vital to the U.S. economy and to American jobs.

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