WHAT HAS EX-IM DONE FOR SMALL BUSINESS LATELY?

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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WHAT HAS EX-IM DONE FOR SMALL BUSINESS LATELY?

WEDNESDAY, JUNE 13, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:05 a.m. in Room 2360, Rayburn House Office Building, Hon. Donald Manzullo (chairman of the Committee) presiding.

Chairman MANZULLO. Good morning. We are going to call this committee hearing to order. First of all, I would like to welcome to the Small Business Committee Congressman Bill Shuster of the great state of Pennsylvania.

Welcome.

Mr. SHUSTER. Thank you very much. I looking forward to serving on the committee with the chairman and the other members and, as a small business owner myself, I look forward to working with the business community across the country and I believe that I have a knowledge of the trials and tribulations that small business face, so I am looking forward to working with you.

Chairman MANZULLO. Well, as the owner of an automobile agency, you are having some interesting times, correct?

Mr. SHUSTER. Absolutely. Not such good times, but interesting.

Chairman MANZULLO. We look forward to the additions that you can make to our committee.

Mr. SHUSTER. Thank you.

Chairman MANZULLO. This morning, we launch the committee's trade agenda with an examination of how the Export-Import Bank of the United States helps small businesses. Later this year, Congress must decide on Ex-Im's reauthorization. In addition, Congress must decide what it wants to do with the president's budget request to cut Ex-Im by 25 percent. With these upcoming policy debates, it is imperative the members understand Ex-Im's programs.

The bank has been derisively called "Boeing's Bank" for years. I do not mind that Ex-Im helps large businesses win export deals. Last year, Boeing purchased over $231 million from 55 companies, mostly small businesses, in the congressional district that I am proud to represent. The 16th District of Illinois is the largest supplier to Boeing in all of Illinois. Much of these products eventually wound up overseas.

However, we must make sure the Ex-Im does not lose sight of its mission to also help small business exporters. Nine years ago, after much resistance from Ex-Im, this committee played a crucial role in moving the bank to help more small business exporters.

Thanks in part to the leadership of a tremendous friend, a great member of Congress, Norm Sisisky of Virginia, Congress required that Ex-Im allocate at least 10 percent of their resource dollars to help small business exporters.

Ex-Im will be pleased to tell you today that they have more than met this goal. Eighty-six percent of transactions and 18 percent of the dollar volume is devoted to small business. With the change in administration, I want to make sure that we do not return to the pre-1992 days when Ex-Im did not realize the growing importance of small business exporters. I cannot believe I said that, but I did. This is a non-partisan—I think we are more non-partisan than bipartisan up here and I guess I just chastised the Bush administration if it has any indication it wants to go back to where we were before the Clinton administration took power on it. Not chastised, encouraged to continue to help out small businesses.

We have to remember that the number of small business exporters has more than tripled over the past decade and they comprise 97 percent of all U.S. exporters.

This is only part of the story. Only 12 companies in the 16th District of Illinois and 285 firms throughout the entire state of Illinois directly benefitted from Ex-Im's programs since 1995, yet the 13 largest exporting companies in the U.S. who use Ex-Im's programs more frequently have 186 suppliers, most of them small businesses, from the 16th District alone.

These include Scott Force in Spring Grove: Prem Magnetics and Modine Manufacturing in McHenry; Chemtool of Crystal lake; Cherry Valley Tool and Machine Company of Belvedere; Clinton Electronics of Loves Park; J. Rubin & Company and Bergstrom Manufacturing, and Kysor/Westram, et cetera. There are more than 35,000 suppliers to these large companies nationwide. Thus, the benefit of Ex-Im goes way beyond big exporting companies to workers who may not even know what they product eventually makes its way overseas.

Thus, at a time of zero economic growth and the largest trade deficit in U.S. history, it makes no sense to make cuts as dramatic as proposed for Ex-Im.

I hope someone from the administration is here today and I am sure you have something to say about that, too.

Our foreign competitors are not making any cuts to their export credit agencies. A 25 percent cut in Ex-Im program, budget would be a gift to our foreign competitors. At a time when we are trying to encourage more small businesses to get into the global marketplace, we should not be cutting trade finance for small business exporters.

I look forward to the testimony of the witnesses before us. I want to particularly thank those who have traveled a long distance to be with us, especially my constituent, Sharon DeDoncker of Aqua-Aerobics in Rockford.

I now yield for an opening statement from our good friend, the ranking minority member from New York, Mrs. Velazquez.

[Chairman Manzullo's statement may be found in appendix.]

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

When discussions turn to accessing new markets, it is commonly thought that the major forces in trade are large, multi-national cor-

porations. Of course, this is a misnomer because just as small businesses are setting the pace in the domestic economy, they are also trailblazers on the international front, leading the way by opening new markets every day.

Today, small businesses make up one-third of our trade and, according to the Department of Commerce, 88 percent of all small businesses engage in exporting products.

A key mechanism in ensuring that this country's small businesses have the support they need to succeed is the Ex-Im Bank. By providing loan guarantees and insurance credits to U.S. companies, they promote business growth. This hearing comes at a time when both the Financial Services and the International Relations Committee are preparing to move forward with the reauthorization of the agency.

Today, we are going to look specifically at what Ex-Im is doing to help our nation's small businesses. Although the vast majority of this nation's small businesses export something, still relatively little of Ex-Im funding, approximately 18 percent, go to small businesses. While this is a slight increase, clearly with the dominant role that small businesses play in the economy, much more needs to be done. This is especially true in the areas of women and minority owned businesses. The face of business is changing. Currently, Latinas represent the fastest growing sector of the business community. With this reality, agencies like Ex-Im not only have to be sensitive, but their strategic planning must reflect that reality.

This being said, it is unrealistic to expect Ex-Im to do the job if they are not given the necessary resources. Unfortunately, the president's budget request will leave the agency woefully underfunded. Through the cuts to many of the critical programs, billions less in loans will be provided this year.

We all know what happens when funding is cut for these programs. First, we will withdraw from some of the markets that have less than secure economic foundations, like the former Soviet Union republics, Africa and the Caribbean. These are countries who benefit not only economically from trade, but politically as well.

Also, lending will be denied to those riskier businesses, many of which will be small businesses. This is the wrong approach and coupled with the 43 percent cut to the SBA small businesses will take it on the chin. This is not how we should be treating the driving force of this economy.

We must ensure that small business exporters are given the necessary tools to succeed in a competitive marketplace. To do this, Ex-Im must remain a viable source of capital and being able to provide the necessary protection for these firms, not just in an uncertain economy, but in an increasingly uncertain world.

I thank the witnesses for appearing before us today and look forward to hearing your suggestions on how this committee can help small businesses continue to lead the way in the international market.

Thank you.

[Ms. Velazquez' statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

All the complete statements of members of Congress and members of the panel will be introduced and made a part of the permanent record without objection.

Our first witness is Dorian Vanessa Weaver. I had the opportunity to talk personally with Vanessa yesterday. She is a member of the board of directors of the Ex-Im Bank. There are five members of the board of directors. It is a full-time position. Her duty there is dedicated to helping out small business and she knows something about small businesses.

You did not tell me this yesterday, but your father was the SBA administrator during President Carter's years.

Ms. WEAVER. Yes.

Chairman MANZULLO. From 1983 to 1994, Ms. Weaver developed a highly successful high technology, Engineering Research Associates, which was named National Small Business of the year. She was actively engaged in the key management and strategic decisions. She advanced an improved software and systems technology, creating highly acclaimed computer systems for U.S. and international markets. She is an attorney who graduated from Georgetown University. I look forward to your testimony, Mrs. Weaver.

Ms. WEAVER. Thank you very much, Congressman.

Chairman MANZULLO. You bet. Go ahead.

We have these lights up here that—if it gets to yellow, you have about a minute; when it gets to red, if you could begin to wind up, we would appreciate it.

Thank you.

TESTIMONY OF VANESSA WEAVER, BOARD MEMBER, EXPORT–IMPORT BANK OF THE UNITED STATES, WASHINGTON, DC

Ms. WEAVER. Thank you very much. Mr. Chairman, Congresswoman Velazquez, members of the committee, I want to thank you for giving me this opportunity to testify before you today. Your advice and the advice of your staff is enormously important to me and to us. I want to thank you for guiding us over the years and look forward to working with you in the future, particularly to help small business and to keep the heat on to provide the kinds of services and products that they need.

We turn to you today to seek your advice and ideas and I look forward to working with you throughout the next year and a half of my term and certainly the Export-Import Bank will continue to do so throughout its history.

I have a long and special interest in small business. My great-grandmother and my grandmother and grandfather both had small businesses and, of course, my father had a great interest in small business when he was administrator of the Small Business Administration. So it is sort of a family tradition and it is one that I follow with great pride and vigor.

During the last decade, we saw a period of great economic prosperity and it is my belief that in order for us to sustain that long period of economic growth we must provide the financial resources to businesses, particularly to small businesses, encouraging them to move into emerging markets. Those are markets which have greater risk, but I think they also will provide much greater opportunity and without us those exports would not go forward.

So, in short, we exist to encourage exports to emerging markets and provide financial support in those markets where financial and economic information is weak. Frequently, the private sector will not fund exports to those regions because they do not have enough information to judge whether the credit is good. But as a government entity working with other emerging market governments, we have the kind of clout to ask for financial information, determine whether the credit is good and move forward. It is one of our best justifications.

Last fiscal year, we supported $15.5 billion in exports. For every taxpayer dollar invested, we allowed $18 of exports to go forward. We supported 2176 small business transactions, 86 percent of those, of course, of all of our transactions were for small business. Eighteen percent of our financing was for small business, 377 were first-time users of the bank.

We saw remarkable increases in our two primary programs, the Working Capital Program and the Insurance Program.

As the congressman mentioned, we saw a 25 percent decrease in the amount of requested authorizations from last fiscal year to this fiscal year and when I first heard that, I became very concerned for the benefits of small business. We did an evaluation internally and figured out that the risk premium that OPM sets up to measure the risk of a particular country or transaction had decreased, which meant that we could use more of our program budget, so when we took into consideration that we would be able to use less of the program budget, less per transaction, which meant that we could support more transactions, and then we added the cancellations in the previous years, sometimes exporters decide not to go with something or there are not as many disbursements on a particular policy as expected, at any rate, that amount was about $90 million. So when we added the $633 million and the $90 million, we figured out we had about $723 million to work with.

Insurance programs are zeroed out. They do not count against the program budget, but the working capital and loan guarantees do count against the program budget. So I asked all around the bank about whether or not this decrease in program budget would affect small business transactions and I have been assured that we expect to be able to finance every single small business authorization next year.

That means that we do not anticipate increasing fees. We do not anticipate reducing the amount financed for small business or in any way affecting the financial support for small business. In short, we expect to be able to fund all the small business transactions next year.

We are continuing to push to let small businesses know more about us. We have aggressive marketing campaigns. We have direct mail programs. We conduct seminars, conferences, we work with established groups, we have city/state partners we turn to, the TAP program for working with other organizations and associations. We particularly reach out to minority-owned businesses and women businesses. We have people dedicated to this. In fact, a number of full-time employees dedicated to small business in the bank is about 112. The actual resources that get dedicated to processing small business applications and handling those processes is

actually substantially more, perhaps 50, 60, even higher percent of our administrative budget.

At any rate, in our efforts to move forward, we rely on an administrative budget and we are asking for more of a share in an administrative budget to help us retain the high quality staff to carry out our goals which are to reach out to more and more small businesses. And we would also like to look at improving some of our systems so that we can automate a few things to take the kind of more routine transactions, automate them and spend more time providing the kind of services and programs and marketing efforts to reach small businesses.

So, in short, in conclusion, while the global economy has changed substantially since our inception in about 1930, our mission, which we are going to stay true to, is to provide and sustain U.S. jobs and we are going to do so by helping small businesses. I will go anywhere to help a small business, I will come to any conference, I will speak to anyone. Please let us know how we can help. We really appreciate your support and any kind of advice. We are doing a good job, we can always do better, so we turn to you for any ways in which we can do better.

Thank you very much. I would be happy to answer questions.

[Ms. Weaver's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much for your testimony.

Our next witness will be Joseph Waters. Mr. Watters is the president of Hoffman International out of Piscataway, New Jersey and he is the immediate past chairman of the Small Business Exporters Association.

Mr. Watters.

TESTIMONY OF JOSEPH WATTERS, PRESIDENT, HOFFMAN INTERNATIONAL, PISCATAWAY, NJ

Mr. WATTERS. Good morning, ladies and gentleman. I appreciate the opportunity to appear before this distinguished committee.

May I open by advising and repeating what the chairman just told you, that I am appearing here wearing two hats. The first involves my position as president of Hoffman International, an 80-year-old, 50-employee private New Jersey company, and a second hat as a director and the immediate past chairman of the Small Business Exporters Association.

I do not want to overstate the case, but I do want to assure all the members of this committee that there exists no subject that is closer to hearts, the minds and, yes, even the pocketbooks of small business exporters than an adequate budget for the growing activities of the Ex-Im Bank. All of our association members, small businesses such as Air Tractor of Olney, Texas; Leawood Export of Kansas; Transcon Trading of Irmo, South Carolina; MD International of Miami; Systems Integrated of Orange, California; Princeton Medical of Marietta, Georgia; OMI of Versailles, Ohio; and, yes, even Hoffman International of Piscataway, New Jersey can and do become quite passionate about this subject.

Let me be clear, every one of our members is substantially dependent upon a competitive, efficient and viable Ex-Im Bank to provide the financing assistance which is so critical for all of us to

compete and do business in the global marketplace. And that marketplace is not the same as it existed some 10, 15, or 20 years ago.

There was a time when the USA mousetrap was far and away the best on the market. Today, mousetraps from Japan, China, Europe, Canada and elsewhere can compete very well. And while we can enjoy enormous pride over the high value of the U.S. dollar and it may reduce the cost of our overseas holidays as well, it also creates a much more competitive pricing environment today.

Today's marketplace demands turnkey package pricing, including competitive financing arrangements, providing a customer with payout terms that can match its cash flow requirements.

Frankly speaking, without the Ex-Im source for providing this kind of financing, a significant number of our members would simply have to fold their tents. It is just not possible to sell agricultural planes to Costa Rica, package hospitals to Mexico, or, in my case, new and used construction road building equipment and spare parts to Ghana without short and long-term financing which are either guaranteed or insured by our Ex-Im Bank.

My company has been involved in exporting for the past 30 years and I have personally observed a continued slippage of traditional letter of credit sale terms to that of financed sales. For example, at this moment, for Africa, our company is working on five to six transactions involving approximately $8 million worth of forestry, construction and road building equipment for clients in Cameroon, Senegal, Mali and Uganda. In Latin America, we just completed the sale of a used $270,000 crane based on a three-year loan for Guatemala and have three similar transactions financed in Mexico.

In Russia, where our company delivered over $10 million of road building equipment in 1995 and 1996, we are in the midst of finalizing new sales of approximately $3 million and see enormous potential in Russia for years and years to come.

All of these activities are supported by one or more Ex-Im Bank finance programs. Emerging markets such as the countries I mentioned represent key opportunities for small business sales, but financing by our U.S. commercial banks is simply not possible in those areas without Ex-Im's support. Absent Ex-Im's medium term insurance, the crane built in Shady Grove, Pennsylvania does not go to Guatemala. Without Ex-Im's working capital medium term bank guarantee, the new Mack Trucks from Allentown, Pennsylvania, the kilns from Bartlett, Tennessee and the forestry equipment from Franklin, Virginia are not moving to Ghana. And without the new Ex-Im program of accepting Russian bank guarantees, machinery components from Madison, South Dakota are not moving to Kransogorsk, Russia where they are assembled with other Russian made components for road patching machines that fix potholes.

With this new program alone, we can foresee the manufacture of 100 to 150 of these machines every year versus the 10 to 15 we do now. The impact of all these increased sales on the economy of Madison, South Dakota as well as the filtered-down effect across the national economy is enormous.

Government statistics indicate an explosive growth in the export sector by U.S. small businesses and yet still only 1 percent of all such small firms are involved. The untapped dimension of small

businesses exporting is staggering and the potential contribution of fuel to our economic engine is quite dramatic.

And with the current economy softening, these exports take on an even added importance. And yet despite all this tangible, undeniable evidence of a dire need for an Ex-Im Bank that can handle greater volume more efficiently and more competitively, we are faced with an administration proposal that wants to reduce its budget.

Frankly, all of our association members, whether Democrat, Republican or Independent, are quite dismayed when we hear the administration tell us how importantly it values the role of small business and how vital it is for us to be in the global marketplace and, at the same time, proposes to reduce the budget of a critical organization that is already severely limited and working at full capacity. The contradiction of these positions is mind boggling to me and my peers.

As president of a small exporting business and chairman of an association of such firms, I not only encourage this committee to overwhelmingly reject the suggestion of reducing the Ex-Im budget, but rather find a way to increase it.

Thank you very much.

[Mr. Watters' statement may be found in appendix.]

Chairman MANZULLO. Thank you very much. I appreciate the way you mentioned the names of those towns. Did you notice how members perk up when they hear their states that are mentioned?

We have a firm, Bergstrom Manufacturing, just bought out Kaiser-Westram that provides all the HVAC systems for Mack Trucks, so I really appreciate that.

We have a vote coming up right now. I would suggest that we take the vote and then come back. I think it is one vote, it is a general vote, so we are going to stand adjourned for a few minutes and then we will be right back and start with your testimony, Mr. Barr.

[Recess.]

Chairman MANZULLO. I will call the committee back to order.

Our next witness is George Barr, who is testifying on behalf of the U.S. Chamber of Commerce.

Mr. Barr, I look forward to your testimony.

TESTIMONY OF GEORGE BARR, FOUNDER, ANATECH, LTD., SPRINGFIELD, VA, REPRESENTING U.S. CHAMBER OF COMMERCE

Mr. BARR. Thank you. I appreciate the invitation to come and testify today. I am a founder and part-owner of Anatech. We are a systems manufacturing company. We basically are making scientific and production equipment used for modifying surfaces at the molecular level. It is a little arcane, but I would also say that I agree with both the introductory testimonies of the committee and of the prior two speakers.

We started exporting in 1984. We were open about a month and an order came in from Kuwait. We have seen sporadic orders over the years that have helped us with revenues from time to time, but I do want to touch on the Boeing Bank issue because that is something that I have heard many times as well and we happen to be a supplier to not only Boeing, but to at least two known sub-

contractors of Boeing and probably several third tier subcontractors to Boeing. We have been selling systems for about 30 years, we have over 5000 of them in the field. That includes domestically and internationally. And these systems are in businesses in the U.S. and overseas that are some of the largest businesses that you will bump into. They are the Who's Who of practically any business that has a product as a part of its business, we are there. And so a lot of our domestic business does go to support exports.

The subject today in my mind could just as well be expansion of Ex-Im, how it could be made more competitive, rather than whether funding should be cut or it should be renewed. Ex-Im does a great job in a number of areas. I will not go into all of them, but one of them that has been particularly useful to Anatech was the city/state program in Virginia that helped us get started with exporting. That was almost exactly ten years ago.

The Ex-Im Bank also recognizes the needs of small businesses, that they are different than large business. And one example of that, for instance, is the contract is a lot simpler, but we do not have to get very expensive accounting help that would be at an audited level, as opposed to a reviewed level.

A few other things that may be important. My wife happens to be Hispanic. She shares in the risk of the business, but she shares in the rewards as well as I do believe that since we employ people from—we are faceless, colorless, we are looking for people who can get the job done and employ people from all different areas.

On a perspective a little broader than Ex-Im Bank, U.S. Government interagency coordination is an urgent requirement for positive results.

Congress passed in 1992 the Trade Promotion Coordinating Committee, legislation to create that committee. It requires the president to submit an annual export development plan to serve as a comprehensive blueprint for federal trade development activities, including strategy to coordinate federal programs and so on. And it has been partially successful. I think that there is room for improvement there to cross over OPIC, Trade Development Agency and Small Business Administration.

It is impossible for my small business to export more than minimally if I must fund exports internally with domestic cash flow. I need an Ex-Im Bank or SBA program to turn exports to domestic business so that our bank will fund that activity. We typically would export between $150,000 and maybe $450,000 worth of product a year. It may not sound like a lot, but we are a $2.5 million a year business, we employ anywhere from 10 to 15 people and we have somewhere on the order of one to three people per year engaged directly in building systems and supporting systems for export.

There literally have been times when we might not have been able to survive in a domestic downturn without the ability to export. I cannot say that strongly enough, so it is hard for me to imagine how Ex-Im can function effectively with a decrease in funding. I believe that it would be appropriate to see how much more Ex-Im can do and what level of funding it takes to support that effort.

Thank you.

[Mr. Barr's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

Our next witness is Sharon DeDoncker. Sharon is with Aqua-Aerobic Systems, Inc., whose home is Rockford, Illinois, in the midst of the great 16th Congressional District of Illinois.

Sharon, I look forward to your testimony.

TESTIMONY OF SHARON DeDONCKER, VICE PRESIDENT/INTERNATIONAL, AQUA-AEROBIC SYSTEMS, INC., ROCKFORD, IL

Ms. DEDONCKER. Thank you for allowing me to come here today. As mentioned, my name is Sharon DeDoncker and I am Vice President of Sales for Aqua-Aerobic Systems in Rockford, Illinois. Aqua is a small business which manufactures water and wastewater treatment equipment used for municipal sewage treatment plants and industrial wastewater treatment plants. The company employs 140 and has annual sales of about $40 million.

To achieve growth in the international market, we have participated in local trade shows, conducted regional rep training sessions, and held in-country engineering seminars. As a result, our company name is now more widely recognized; our representatives are trained to respond to the growing number of inquiries we are receiving; and the local engineers have confidence in our abilities. We feel we are in an excellent position for international growth.

Our primary market is municipal sewage treatment plants in developing countries. Developing countries are sorely lacking in wastewater treatment and want to improve their quality of life and reduce the health risks caused by poor sanitation. Most are establishing guidelines and deadlines for the treatment of their wastewater and setting up agencies to monitor and enforce compliance. For Aqua and the other wastewater equipment companies in the U.S., this represents a huge, immediate growth market.

The biggest obstacle being faced by these municipalities is funding. They have a pressing need to build sewage treatment plants and a desire to do so, but the funds are not there. U.S. companies may do an excellent job of selling the municipalities on the superiority of our systems and equipment, but if we cannot bring the project financing, these municipalities are forced to go to companies that can.

Aqua is still in the learning phase of how to put together funding packages for international projects and until we learn to do so, we will not be able to expand our international sales.

We have met with our bankers, private financing agencies and representatives of Export-Import Bank. We have learned that even if we elect to offer financing through our bankers or private sources, these organizations want the Export-Import Bank to guarantee the loan.

For example, we have been working on a project in a suburb of Shanghai. We began working this project many years ago when it was still in the early design stages and we have invested considerable time and money in providing design assistance to the engineers and the government officials. We have been careful to develop and maintain a relationship with all parties involved and feel we are in an excellent position to sell our system.

The remaining obstacle we have to overcome on this particular sale is offering an attractive funding package. We have taken this project to our U.S. bank and a private financing agency and both organizations have prepared quotes using Export-Import Bank guarantees. Without the Export-Import Bank guarantee, neither lender will be willing to take the risk and offer a financing package to the buyer. Without this financing package, our chances of being successful on this project are greatly reduced.

Other countries have agencies similar to the Export-Import Bank, and these agencies are aggressively pursuing projects that will benefit companies in their countries. Other countries rely more heavily on their export business than the U.S. does. As a result, they are more aware of customer needs and more aggressive in meeting those needs. The U.S. is frequently seen as a latecomer to this market and behind in having the tools needed to match our foreign competitors. A key tool U.S. companies need is the financing package, and the Ex-Im Bank is our primary source for this.

Ex-Im still has work to do to be as visible and active as some of the other foreign export credit agencies. We should be increasing, not cutting, their budget. They need additional funds in order to be able to expand their offerings to a level that gives U.S. companies the same advantage as our foreign competitors.

U.S. funding, requiring Export-Import Bank involvement, of overseas projects is not a luxury. It is a necessity if U.S. companies want to work abroad. If the U.S. is not funding these projects, another country is and companies from the funding country will receive the orders and U.S. companies will lose out.

The Export-Import Bank fills a need of U.S. companies, large and small, by providing export credit insurance, working capital guarantees, and loans and loan guarantees which help finance the sale of U.S. goods and services to foreign markets. Last year, Export-Import Bank financed nearly $15.5 billion of U.S. exports worldwide, which supported more than 1 million U.S. jobs. It is a fallacy to think that Ex-Im Bank works only with large companies, as nearly 86 percent of Ex-Im Bank's transactions in fiscal year 2000 were on behalf of small business.

The Ex-Im Bank offers real needed services to both large and small companies. If the proposed budget cuts do go into effect, it will be more difficult for Ex-Im to continue to support the efforts of companies like Aqua Aerobic Systems.

The export market cannot be ignored. It represents great growth potential and higher returns for U.S. businesses and more employment and higher quality, better paying jobs for U.S. employees. But without the availability of financing packages, which means Ex-Im Bank involvement, the participation of U.S. companies in this market will be restricted.

I urge you to reauthorize the programs of the Ex-Im Bank and vote against any proposed budget cuts. Small businesses need the support of the Export-Import Bank in order to survive in the international marketplace.

Thank you.

[Ms. DeDoncker's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

I have just instructed our staff to tell the people in the hall they do not have to make so much noise. They think that they are not going to get the money. [Laughter.]

You know, they show up around here and start circling the waters and we have to get them to—just tell them to cool it out there, that, you know, they will have an opportunity to get their money somehow.

Our next witness is Ken Petrilla, a senior vice president at the Wells Fargo Bank and Wells Fargo HSBC Trade Bank.

You came out from San Francisco?

Mr. PETRILLA. Yes, I did.

Chairman MANZULLO. I appreciate that very much. Welcome to Washington and I look forward to your testimony.

TESTIMONY OF KENNETH J. PETRILLA, SENIOR VICE PRESIDENT, WELLS FARGO BANK AND WELLS FARGO HSBC TRADE BANK

Mr. PETRILLA. Thank you very much. Good morning, Mr. Chairman and members of the committee. I have bested my panel members a bit, two of them said that they were wearing two hats, I am actually wearing three hats. I represent Wells Fargo Bank, Wells Fargo HSBC Trade Bank, as well as BAFT, the Bankers Association for Finance and Trade.

Wells Fargo, I think, is a reasonably well known name. We are headquartered in San Francisco and we are a diversified financial services company that since its inception has been focused on small to medium sized companies. The Trade Bank is a joint venture between Wells Fargo and the HSBC group and is the vehicle that Wells Fargo uses to deliver international trade finance and trade services. The Trade Bank is the only nationally chartered, FDIC insured bank in the U.S. that is devoted solely to international trade finance. As part of my responsibilities, I manage the Trade Bank's export finance activities which are focused on small and medium sized businesses in the United States. In addition, as I said, I am also representing the views of the Bankers Association for Finance and Trade.

Wells Fargo is one of the leading users of the Ex-Im Bank programs and particularly those of the small and medium sized businesses, and in particular, the Working Capital Guarantee Program.

Very briefly, the Working Capital Guarantee Program is a program that supports small businesses that cannot get enough working capital to build the widgets that they sell overseas. Ex-Im Bank adds their guarantee which entices us to lend the money to the small company to provide the financing to allow them to build their product to sell overseas. This is a fully collateralized loan, usually supported by foreign receivables and exportable inventory, but, again, it is Ex-Im Bank's guarantee that entices us to provide the working capital.

Last year, Wells Fargo Bank made more working capital loans guaranteed by Ex-Im Bank under this program than any other lender and we are proud of this fact. This accomplishment allows small exporters to do business they might not otherwise do.

The Trade Bank, our joint venture, is a little over five years old and, in those five years, we have made working capital loans sup-

ported by Ex-Im Bank totalling about $180 million. The significance of that number is that these were all not only to small and medium sized companies, but they were small loans. The typical size of a loan of this nature is usually between $500,000 and maybe $2 million, so you can see $180 million total supported a lot of small companies.

In addition, we do other things in the Trade Bank, of course. Our total of export loans supported by Ex-Im Bank, in addition to the Working Capital Guarantee Program, totaled about $500 million in our almost six years of existence. And, I can tell you that all of these transactions were on behalf of small or medium sized businesses. Not one financing arrangement supported a large multi-national corporation.

I also want to point out that Wells Fargo does not look first to Ex-Im Bank, only after we have exhausted our own in-house capabilities do look to Ex-Im Bank to help us mitigate the risk. Therefore, Ex-Im Bank is needed to make transactions happen that might not otherwise happen.

A couple of examples would be appropriate, but because I do not want to take too much time, let me just give one really good example. There is a San Diego-based company that is called Orgil International Greenhouses. It is 30 years old. Its total employment is 15 people. They have sales under $5 million. This year, we have financed three separate sales of greenhouses to Mexico. Each sale was under $1 million, each individual buyer in Mexico asked for five-year terms. We provided the financing and it was insured by Ex-Im Bank under a medium term insurance policy. Again, that is what motivated us to provide the financing. Without this coverage and the risk of non-payment, the sale would have been lost, most probably to an Israeli competitor.

We at Wells Fargo, HSBC Trade Bank, and BAFT question the administration's proposed 25 percent budget cut. We are fearful that if this cut goes through it would damage the bank's ability to support small business and support the kind of transactions that I have just explained. We do not think that they will be able to handle all the applications that will come in fiscal year 2002. Any reduction in support by Ex-Im negatively impacts small and medium sized businesses directly. Without the bank's support, they will have no alternative financing sources and thus will forfeit opportunities to non-U.S. companies.

Wells Fargo, the Wells Fargo HSBC Trade Bank and BAFT strongly support the programs of Ex-Im Bank, specifically those directed to small business. In order to be certain these programs are maintained and expanded, we would urge the restoration of the budget cuts to at least the level equal to this year. I am happy to hear my panel members ask for even more than that. That would be wonderful.

I am pleased to provide this testimony and I am happy to answer any questions. Thank you.

[Mr. Petrilla's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much for the excellent testimony of all the witnesses, especially the anecdotal testimony.

Mr. Shuster will have the first round.

Go ahead, please.

Mr. SHUSTER. Thank you, Mr. Chairman. My first committee meeting, the first time I ask questions. This is a big moment for me.

I also want to say the chairman mentioned when you were giving testimony when you mention somebody's district or something in the district, their ears perked up. Well, mine certainly perked up when I heard Shady Grove and those cranes. I want them to sell a lot of cranes to Guatemala because Shady Grove Manufacturing is based in the 9th Congressional District of Pennsylvania, so my ears did perk up.

My question is to Ms. Weaver.

When you are talking about small businesses, I guess typically it is based of size of employees or a sales figure, 500 employees or less constitutes a small business? Is that what you are talking about, under 500 employees?

Ms. WEAVER. Yes, Congressman. We use SBA's definition of small business.

Mr. SHUSTER. I would be interested to see under 500 the breakdown as to who is receiving what. In our district, 300, 400 is a large company, so I would like to see if I could under 500 sort of that breakdown and who is receiving what and how they are faring in this program.

Ms. WEAVER. We will get that right to you.

Mr. SHUSTER. Okay. A second question I have, if I understand your testimony, and I do not know how much you got into it, but you supported $15.5 billion in transactions so a decrease of 25 percent is going to be pretty much dollar for dollar, there will be 25 percent decrease in what you will be able to support going forward? I think I read in here 11.5 billion is what you will be able to support in transactions based on this new amount that they are going to budget for you.

Ms. WEAVER. Yes. The latter part definitely is correct. Because of the change in the risk premia being decreased, we will be able to use more of our program budget and we will be able to add to that $633 million requested from OMB, but, basically, you are right. Yes.

Mr. SHUSTER. And the final question is—and you mentioned you would be willing to go anywhere, what programs do you have out there that small businesses can tap into to find out about your programs? I do not know in my district if there is that much knowledge of it.

Ms. WEAVER. We will get you a full list. We have city/state partners. We work with the TAP, the Trade Association Partners Association. We are happy to come to your district. We have regional offices that will serve your area. We look for and participate in women-owned, minority owned businesses, rural conferences. Any opportunity that we believe will bring together anywhere from a handful to even upwards of 10 to 100 small businesses. We will create a seminar, a program or participate in any kind of thing that helps small businesses learn about Export-Import Bank.

Mr. SHUSTER. Would it be the best way to bring the banks together, local banks?

Ms. WEAVER. We also offer seminars and informational exchanges for banks and we are happy to work with any bank in your area.

Mr. SHUSTER. Okay. Thank you very much.

Ms. WEAVER. Thank you.

Mr. SHUSTER. I appreciate everybody coming here today to testify. It was very enlightening. Thank you.

Chairman MANZULLO. Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Ms. Weaver, it seems based on the testimony presented here by yourself and the rest of the witnesses here that it seems to me that there is a special disconnect between the White House budget and small businesses in America. On the one hand, you are saying that you could live with a budget cut of 25 percent and we have to also factor in the fact that the Small Business Administration is going to be cut by 43 percent and then most of the other witnesses are saying that that is not how we should proceed. If we are here committed to help small businesses, we need to provide every tool that we can to strengthen and to help those small businesses flourish in America.

So having said that, let me ask you the first question. The administration budget for the Small Business Administration has proposed to eliminate all direct funding for the SBA's 7(a) loan program, making up the difference through increased fees on small businesses. This is of particular concern to me because from my understanding the Ex-Im Bank can unilaterally raise fees without congressional action. Your written testimony is not clear on this subject.

At one point, you indicate that the president's budget suggests raising fees as a possible way to meet a budget shortfall, but you go on to say that you do not anticipate raising fees on small businesses.

Ms. Weaver, can you tell this committee definitively that the Ex-Im Bank will not raise user fees on small businesses next year to offset any budget cuts?

Ms. WEAVER. We will not raise fees on small business transactions.

Ms. VELAZQUEZ. You will not raise fees?

Ms. WEAVER. Will not.

Ms. VELAZQUEZ. Well——

Ms. WEAVER. On small business transactions. I think that the testimony that you alluded to references any kind of difference between the program budget and actual authorizations for the next fiscal year.

On non-small business transactions, if there is not enough program budget, our new chairman, Chairman John Robson, is considering various kinds of alternatives, but I do not anticipate any changes to small business fees. I would object to any changes. I do not see any kind of change to increase small business fees.

Ms. VELAZQUEZ. I am glad to hear that.

Ms. Weaver, I am also concerned about the level of assistance that the Ex-Im Bank provides to women-owned businesses. I understand that in fiscal year 2000 the bank provided $24 million in working capital guarantees to women-owned firms. That is a record

high for the bank. However, this is significantly less than the $47 million in working capital guarantees that went to minority-owned firms in the same year. Even more staggering is the fact that in fiscal year 1999 only $1 million went to women-owned businesses.

How can this possibly happen?

Ms. WEAVER. Well, we have aggressive means of reaching out to women-owned businesses and whatever we can do to reach out more, encourage more women-owned businesses to take advantage of the kinds of programs that we have, we will do.

We have gone to a number of different conferences. For example, this year, we are going to go——

Ms. VELAZQUEZ. Ma'am, let me interrupt you for a second. There are 9.1 million women-owned businesses in our country, so I want to understand how you are reaching out and only $1 million has been provided to help those women-owned businesses.

Ms. WEAVER. We want as many women as possible to come to us, to take advantage of our programs. It is not that this is just the amount that we are setting aside, this is the actual amount requested by women businesses. I would love to see that dollar figure increase substantially. So what we try to do is we hold seminars, conferences, we meet with as many people as possible to encourage them to take the risk of exporting to other countries. We will step in, we will talk to people, we will help them understand.

It is not that we are limiting it. We are trying to encourage more women businesses to take insurance policies and to apply for working capital guarantees.

Ms. VELAZQUEZ. What type of action plan will you have in place in order to reach out to those women? Because I do not understand, whatever plan you put in place to reach out to women-owned businesses, how could you achieve that when you are asking for 13 percent less in funding?

Ms. WEAVER. Well, the amount for reaching out to women-owned businesses actually comes out of our administrative budget and we are going to ask for more money this year. So the amount of money that we will spend reaching out to small businesses, the kind of resources that we are going to use to reach out to women-owned businesses will not decrease, it will increase.

We have regional offices. We try as much as possible to use our 225–entry exporter database which has prospective businesses who may be interested in exporting. We try to send them literature, we try to organize conferences, we call them up. Last year, our regional offices reached out to—let me give you some interesting figures. We actually called about 30,000 people. We paid 3000 office visits. We did a lot of direct mail.

Ms. VELAZQUEZ. Mr. Chairman, if you will allow me another—well, I will come back. I have not finished. I will come back with you, Ms. Weaver.

Ms. WEAVER. Okay.

Mr. SHUSTER [presiding]. Thank you, Ms. Velazquez. We have a number of other people lined up here.

Mr. Davis, I believe, is next.

Mr. DAVIS. Thank you very much, Mr. Chairman.

I see the chairman has left. I wanted to tell him the reason that the people were so noisy is they were afraid that the money was

going to run out before it got to them, but I will let him know when he returns.

Let me also welcome Mr. Shuster to this committee.

It is a pleasure to see you and to be with you on your maiden voyage.

Let me also appreciate all of the witnesses. I certainly listened rather intently to your testimony.

And I must confess, Ms. Weaver, that I was somewhat trying to reconcile your testimony with that of the other witnesses in terms of the recognition of need for resources.

Are you suggesting that the risk of doing business in the countries that we are exporting to has decreased and as a result of that risk the insurance premiums are not as high and therefore we are going to have more money to actually lend to businesses?

Ms. WEAVER. Sort of. OMB has determined that for this fiscal year the value or the calculation of those risk premia will decrease, so that means that our country portfolio, in their estimation, will decrease in terms of the value of the risk against the program budget. It does mean that we will be able to stretch those program budget dollars farther next fiscal year than this fiscal year.

Mr. DAVIS. I was just in Nigeria the week before last and I ran into a young woman from the Export-Import Bank who was there. Of course, I did not see how anything was decreasing in terms of risk. They were in rather difficult shape, no traffic signs, no traffic lights. I mean, how you can do anything in a city as big as Lagos and have no traffic signs and all—but that is kind of an aside. But, yes, I was pleased to see her and she was indeed engaged even with some of the people that we visited because we spend a great deal of time with the governor of the state and it was just good to see her there.

Ms. WEAVER. Great. Thank you.

Mr. DAVIS. The question that I have is really to other panel members. It seems to me that each one of you have sort of indicated—and I am a strong supporter of the Export-Import Bank. I mean, there are some people who suggest that it is a subsidy for big businesses and all kinds of other things, but it seems to me that in order to penetrate these markets and to be able to do business we need the assistance that the bank provides relative to absorbing risk that other institutions may not want to absorb all of without some guarantees.

Do you have any ideas of how your thoughts about this seem to be so different rather than that of the White House or that of the budget preparers or that of those who are recommending that we not have as much in the way of money and that is not the case with you?

Mr. PETRILLA. I will try to respond to that. In our business portfolio, only about one-third of all of our export finance business we do is supported by Ex-Im Bank in some way, shape or form. So that means two-thirds of our business of providing export finance is funded by ourselves with our taking the risk or working with private sector underwriters. There is a great deal of capacity in the private sector market, so therefore I think I am answering your question, I hope I am, there are plenty of techniques to provide assistance to support exports without Ex-Im Bank, but, indeed,

where we need Ex-Im Bank it is absolutely essential because the private market is closed, or our own internal appetite is such that we will not take that risk, and so the transaction will not happen without Ex-Im Bank, even though there are a great many transactions being done without Ex-Im Bank.

Mr. DAVIS. Anyone else?

Mr. WATTERS. I would just say this to you, sir, with respect to, I guess, the contradiction between Ms. Weaver and myself or our testimony, the four of us, relative to the reduction and what it means to Ex-Im Bank, to me, I think, and maybe perhaps I do not understand all of the nitty grit of the Ex-Im Bank budget, which is about a 10–page document with lots of different line items, but frankly speaking when I hear any organization where it is suggested that their operating budget would be reduced 25 percent, it seems to me that that is going to hurt the organization in some way, form or fashion. I mean, you just cannot work the same way when you are only receiving 75 percent of what you had the previous year.

I also think it is a very bad signal to the business community of America in terms of trying to encourage exporting, which is so important, I think, to today's economy and tomorrow's economy as well.

What does it mean to the future if you reduce the budget this year from 100 to 75? What happens next year? Are we going to be back at the table looking to increase in case OMB comes up with different numbers or different calculations? And is that going to be a problem?

And I guess, finally, I would say if there is some room in the Ex-Im budget because of this calculation of risk, how else could we use those funds to enhance or increase programs that Ex-Im has developed over the years?

You talked about Africa. I think Ex-Im has been a leader in opening sub-Saharan Africa marketplaces like Nigeria and Senegal and Gabon and Ghana and those areas that for a company like ours are very, very important. Totally new markets for us that I never, frankly, never thought that we would involve our company in those markets. And now we are there and there is enormous potential for us. Similarly in Russia, as I mentioned in our comments.

Chairman MANZULLO. Thank you very much.

Mr. DAVIS. I know that my time is up.

Chairman MANZULLO. Thank you.

Mr. DAVIS. I thank you very much.

I think you missed my comment while you were gone. I was just sharing that perhaps the reason there was so much consternation outside is because people were afraid that the money would run out before the appropriations got to them.

Chairman MANZULLO. That is a good thought.

Congressman Christian-Christensen?

Ms. CHRISTIAN-CHRISTENSEN. I did not realize I was going to get a chance to ask any questions.

I thank the panelists for being here.

Several of you have said in your testimony that the Ex-Im Bank is not aggressive enough and that the credit agencies in the foreign countries are more aggressive. Can you elaborate on that, anyone?

Ms. DEDONCKER. I will make a comment. A lot of the projects that we run when we are promoting our systems overseas, we find out that there are a lot of commerce department—the equivalent commerce departments of other countries that are there and they say when they come they bring funding from the French, from the Japanese, from the Germans or whatever, and we very rarely hear them say that the U.S. has been there offering a promotion with special funding. Or you will see that they are offering special projects that might have ten-year funding where it is difficult for us to get that.

I would like to see Ex-Im Bank have more programs that would be—where they are doing the marketing instead of our companies bringing the projects to Ex-Im Bank, you have Ex-Im there on site with people that are promoting to the municipalities or the industries there, the larger industries, saying, hey, the U.S. is also here and we can finance our companies. Or there are special projects like the environmental projects, special programs for them where they are funding ten years on environmental projects. There could be more programs like that for other industries.

Ms. CHRISTIAN-CHRISTENSEN. I definitely agree with you. I come from the Caribbean. I represent the Virgin Islands. We are not really considered a developing country, but we have a lot of wastewater treatment needs and I know the rest of the Caribbean does as well.

Ms. Weaver, when I came in, I think you were outlining how many staff you had who were dedicated to small businesses. Is that an adequate number of staff? And you said you were going to increase your administrative budget; would there be any increase in staffing to meet the needs of small businesses?

Ms. WEAVER. Well, you know, I would always like to see more staff and more resources being applied to small business. We have asked for $3 million more in our administrative budget to keep hiring the kinds of persons who are very aggressive and very interested in bringing women-owned, minority-owned, environmentally important small business opportunities to us so that we can help finance them.

A lot of the increase in our program budget this year will go to assessing and helping us automate programs to free up some time for people to spend more time marketing.

So, in short, we try to work with what we have. Obviously, a lot more would be great also, but I think spending the time that we have, again, we have regional offices, we have a staff who cares deeply about bringing in small business and making sure that we attend to them and that we provide them with the kind of financing solutions they need.

I think a lot of small businesses fear exporting, particularly to emerging markets. A lot of them do not know about us and we are trying very, very hard to let them know that we are here and we want to finance them.

Ms. CHRISTIAN-CHRISTENSEN. How does a business get on your database? Is that what you use to share information and do outreach? How does a business get on your database?

Ms. WEAVER. In large measure, we turn to a number of different sources to find out who is interested in exporting and who has been

exporting from the Department of Commerce and other government agencies to local sort of representatives, we call them city/state partners. A lot of them are on the ground in local areas so they know the markets, they know the businesses, they know how to get in touch with them and they let us know sort of who is out there.

Ms. CHRISTIAN-CHRISTENSEN. I think that would——

Ms. VELAZQUEZ. Ms. Christian-Christensen—she has some time—would you please yield to me?

Ms. CHRISTIAN-CHRISTENSEN. Certainly.

Ms. VELAZQUEZ. Ms. Weaver, you know, the budget negotiations are not over until it is over, right? So are you prepared to tell me in front of these small business people that a 25 percent cut is fine with you, that we, members of Congress and especially members of the Small Business Committee, today that we should fight to see that funding restored because it is fine?

Ms. WEAVER. Well, I do not see us as on different sides of this question. Internally, when I found out that there would be a 25 percent reduction, I was very, very concerned and I did not think personally that I could support a reduction. In fact, I would have preferred more. But, unfortunately, that is not what happened. So internally, I had to fight for small business to ensure that the program budget that we got would not impair in any way small business.

Ms. VELAZQUEZ. Please, Ms. Weaver, answer my questions. Tell me today if we, the members of this committee, should not fight to restore the 25 percent cut. Yes or no, should we fight or not.

Ms. WEAVER. I believe that you should continue to fight for small business in any areas——

Ms. VELAZQUEZ. No, I am talking about your budget, ma'am.

Ms. WEAVER. My belief is that our budget will be completely sufficient to handle any small business request. I am not saying that there are small businesses that will not be taken care of, I am saying that any small business that comes to us and asks us for money and it is an approved transaction, we will do it.

Ms. VELAZQUEZ. You answered my question. Thank you.

Ms. WEAVER. Thank you.

Chairman MANZULLO. Could I answer that?

Ms. VELAZQUEZ. Sure.

Chairman MANZULLO. I will join you in a fight.

Our next member is Congressman Acevedo-Villa.

Mr. ACEVEDO-VILLA. Good morning. I am also a little bit confused with the numbers. I just want to be clear. You are not saying that nobody is going to be hurt. The way I understand you, the way you responded to Congresswoman Velazquez's question is that the small business sector program is not going to be affected. Is that what you are saying?

Ms. WEAVER. That is correct.

Mr. ACEVEDO-VILLA. And, for example, to another question she made, in terms of fees to the small business, you are not going to raise fees to the small business.

Ms. WEAVER. That is correct.

Mr. ACEVEDO-VILLA. But the bank might raise fees to others.

Ms. WEAVER. Yes. My large concern is that in the event that we run out of program budget for larger transactions, in the event that

they turn to other small businesses as sub-suppliers, my concern is that they may be affected. So Congresswoman Velazquez's interest in this may affect an indirect kind of application to small businesses but if small businesses come to us and ask us for a working capital guarantee or an insurance program, we will evaluate that project and move forward with it and I anticipate that there will be no problem with approving and financing any authorization.

Mr. ACEVEDO-VILLA. In terms of small business, last year they represented 18 percent of your lending levels, way above the 10 percent.

Ms. WEAVER. Yes.

Mr. ACEVEDO-VILLA. What is your estimate based on this budget for next year?

Ms. WEAVER. Well, that is a good question. It is very hard for us to estimate. I think it is going to be approximately the same. Maybe little higher.

Mr. ACEVEDO-VILLA. Eighteen?

Ms. WEAVER. I hope higher. Yes.

Mr. ACEVEDO-VILLA. You said that you estimate you can support 11.4 billion in export credit authorizations for year 2002. What is that number for this year and for last year?

Ms. WEAVER. Well, we anticipate that this year the number will be—I will get you the exact number. I think it is going to be—in fact, I may have it here. Next year we anticipate the range will be between 11.9 and 14.4 with the mid range at about 12.5. So in the event that the projected authorizations, that range, meets the actual authorizations, then we may have a deficit, a reduction, a differential between the program budget and the amount that is actually requested.

Mr. ACEVEDO-VILLA. No, that was not my question, not what actually was requested. You said that the bank estimates based on the budget numbers for 2002, I am reading on page 6, that you can support about 11.4 billion in export credit authorizations.

Ms. WEAVER. Right.

Mr. ACEVEDO-VILLA. That is for year 2002.

Ms. WEAVER. That is right.

Mr. ACEVEDO-VILLA. What is the number for year 2001 and for year 2000? The actual numbers. So we can compare.

Ms. WEAVER. Let me see. The actual number for fiscal year 2001 is $10.9 billion in authorizations.

Mr. ACEVEDO-VILLA. So even with the 25 percent reduction, you still are projecting an increase in terms of export credit authorizations?

Ms. WEAVER. Right. And that is because of the decrease in the risk premia. I may not have explained this very well. OMB has decided that the way that we evaluate the use of that——

Mr. ACEVEDO-VILLA. So I have to conclude that the decrease is more in terms of—the risk is more than 25 percent. That is the only way it can add up.

Ms. WEAVER. What it means is that the——

Mr. ACEVEDO-VILLA. That is a number we do not have here. Because OMB calculated risk premia for fiscal year have substantially decreased.

Ms. WEAVER. Right.

Mr. ACEVEDO-VILLA. But for me then the only answer is that it has decreased for more than 25 percent. That is the only way you can——

Ms. WEAVER. In fact, it probably has. It probably means that in actual terms that that 25 percent is more in the teens, in the 15 or so percent. What it means is that our program budget dollars will go farther.

Mr. ACEVEDO-VILLA. Okay. Do you have any special program in terms of exports to the Caribbean?

Ms. WEAVER. We do. We have a special program to focus on both sub Saharan Africa and the Caribbean. We are very interested in promoting experts from the U.S. and certainly Puerto Rico. In fact, I am going to Puerto Rico.

Mr. ACEVEDO-VILLA. Yes, I know.

Ms. WEAVER. In about a week or so to try to encourage Puerto Rican businesses to export. A great market for them, obviously, is the Caribbean.

Mr. ACEVEDO-VILLA. Thank you.

Chairman MANZULLO. Thank you.

Mr. Pascrell?

Mr. PASCRELL. I have a few questions, Mr. Chairman.

The appropriations being slashed 25 percent down to $633 million, that represents the second highest budget cut in the entire federal government, only superseded by the 43 percent to the entire small business budget. I am sure I am not telling you something you do not already know.

I find that to be unacceptable, right, Mr. Chairman?

Chairman MANZULLO. Yes, I will fight with you. I agree. We may have to get in line out there and make noise, Bill.

Mr. PASCRELL. We will. We will.

The Export-Import Bank will provide $11.4 billion in lending for fiscal year 2002 and that represents a $2 billion cut in the amount of capital available.

Are my figures correct?

Ms. WEAVER. $2 billion from—the midpoint of our projections for fiscal year 2002?

Mr. PASCRELL. Yes. 2001.

Ms. WEAVER. You mean the amount that we expect to authorize in fiscal year 2002?

Mr. PASCRELL. I am talking about what we—yes.

Ms. WEAVER. We anticipate that the amount that we will authorize, the projected authorizations will be between 11.9 and 14.4.

Mr. PASCRELL. We are looking a pretty steep cut even though—I think we have been struck by your—I do not mean cavalier response, but your ho-hum response. That is a little less sharp. I did not mean it to be sharp. Because, you know, we are dealing here with people's lives. We are talking about jobs here, we are not simply talking about money being exchanged. You know, the 7(a) loan program which has been eliminated in the small business budget, that is the program where all export working capital guarantee programs are financed.

We are talking about a big amount of money here in terms of it being very productive within the marketplace, having a lot of success, a lot of success. And our concern—and I know that you are

trying to communicate to us that there are ways to compensate for that other than fee increases or new fees, and I take you at your word, but nonetheless we are very, very concerned and you should know that we feel that this has been a very, very productive program, as other small business programs, programs affecting small business, and we want—we would like to hear, I guess, more of an aggressive approach on your part so that no one in the administration minimizes the role of the Export-Import Bank.

This is not corporate welfare, this is helping folks. We want to get that 18, 19 percent figure up in terms of how much we assist small businesses rather than large corporations which have been mostly the beneficiary of the programs and yet we are moving in the right direction along those lines.

Let me ask you this question. What is the relationship of the Export-Import Bank with regard to the trade zones that exist in many of our states?

Mr. Watters.

Mr. WATTERS. Actually, sir, you know, there is a trade zone in New Jersey, up in Mount Olive, but I think the trade zones, frankly, are dealing with imports.

Mr. PASCRELL. Right.

Mr. WATTERS. In which products are imported to this country and then are able to be frozen in a free trade zone until they are either improved or prepared for sale within the United States market.

Mr. PASCRELL. Should there not be a connect between what you are doing and those zones in terms of a two-way street? What do you think?

Mr. WATTERS. Well, I suppose what you are suggesting, could there be trade zones for our products, U.S. made products, in foreign countries? Is that where you are leading with that?

Mr. PASCRELL. That was part B.

Mr. WATTERS. Okay. Well, I think that certainly would be an advantage for us, to be able to put USA made products in various foreign countries, pending sale to another customer. I mean, it would avoid the payment of customs and other formalities in foreign countries. How that could be affected, I am not sure.

Mr. PASCRELL. Should that not be part of our trade policy? I mean, you know, manufacturing jobs become less and less in America, we have exported those jobs, manufacturing jobs, to many countries throughout the world and it would seem to me if we lose any more of our manufacturing base we will not be able to sustain the present economy. And, therefore, I would think that we would look to the benefits and we would look to the positive aspects of the Export-Import Bank so that we can produce a greater market for our manufactured products. Why one hand does not watch what the other is doing is beyond me.

Mr. WATTERS. I could see where this, you know, the trade zone policy with respect to foreign countries as we have here in a limited way would be beneficial in the overall picture to U.S. trade. Whether or not it is the role of the Ex-Im Bank to involve itself in that issue is another question, sir.

Mr. PASCRELL. Well, I was suggesting a proactive part on the Export-Import Bank. I was suggesting that there is a two-way street

here and we are going to be dealing with trade issues, we are going to be dealing with trade issues in the near future and we want a two-way street. We want reciprocal trade agreements that impact positively on the marketplace right now. And I would just throw a suggestion, one quick final question.

We have two banks in New Jersey that are delegated as authority lenders. They are Summit Bank and First International Bank. Are the number of banks in the states that are part of the Export-Import Bank process, is that determined by population? How is that determined? I mean, why are there two banks in New Jersey and five zillion banks in New York?

Ms. WEAVER. I think it is a matter of their interest in becoming delegated lending authority lenders. We are happy to go there and encourage them to become delegated authority lenders. I am happy to reach out to them.

Mr. PASCRELL. So in other words, if there are more banks that communicate with you that are interested in becoming part of the Export-Import Bank they would be more than welcome.

Ms. WEAVER. We would look forward to it.

Mr. PASCRELL. Thank you, Mr. Chairman.

Mr. SHUSTER. Thank you.

The chair recognizes Ms. Tubbs Jones.

Ms. TUBBS JONES. Good afternoon. I have submitted a statement for the record.

[Ms. Tubbs Jones' statement may be found in appendix.]

Ms. TUBBS JONES. I apologize for my delay in getting here to all the witnesses. Thank you for hanging around for me to be the last—may I am not the last, but next to the last.

I am concerned. I sit on the Banking Committee as well as the Small Business Committee and it is important for small business to have access to the programs that are available through Ex-Im Bank. I suppose the question I would ask is with a 25 percent cut in the budget, how have you prioritized who or what will take the hit?

Ms. WEAVER. I am sorry.

Congresswoman, we do not expect any group to take a hit, which is to say that if a small business asks us to finance an export, we will evaluate it and if approved we will finance it.

Ms. TUBBS JONES. Okay. Let me ask my question in a different fashion, then. I have $100 to buy groceries last week. This week, I only have $75 to buy groceries. I have to decide what I am not going to buy in light of the fact that I have $25 less. Ex-Im has $100 to buy groceries. Under this budget you now have $75. What are you not going to buy?

Ms. WEAVER. For our small business budget, there is not that decrease. It is still $100.

Ms. TUBBS JONES. So you are saying that even though Ex-Im experienced a 25 percent budget cut, that the small business budget is not going to be cut by 25 percent?

Ms. WEAVER. That is correct.

Ms. TUBBS JONES. How much is it going to be cut by?

Ms. WEAVER. I am saying that it will not be. I am saying——

Ms. TUBBS JONES. So you are saying for the record that there will be no cut in the dollars available to small business in this upcoming year.

Ms. WEAVER. That is correct. And——

Ms. TUBBS JONES. And I can take that to the bank, right?

Ms. WEAVER. Yes. We argued internally that if there was going to be a cut to the bank as a whole that small business not suffer.

Ms. TUBBS JONES. Well, that is good to know.

My colleagues want to follow up. I will yield for a moment.

Yes, ma'am?

Ms. VELAZQUEZ. No, I just would like to hear their interpretation of her statement regarding that.

Mr. PETRILLA. May I respond to that?

Ms. TUBBS JONES. Yes, you may.

Mr. PETRILLA. From our point of view as a bank that is doing this kind of business, we would aggressively fight any cut in the existing budget of Ex-Im Bank. How we see it at the ground level is not that there is going to be a cut in this program or that program, but what happens is we have transactions that come in and we cannot get an authorization from Ex-Im Bank because they have no authorization left at the end of the fiscal year. That transaction is going to go away or more practically speaking on the administrative side transactions do not get handled in an efficient and timely manner, so they go away. They are lost to competition or the exporter gets frustrated and pretty soon he is not selling overseas or she is not selling overseas and that business goes away.

So without pinpointing program by program, we as a bank that funds international exports and uses Ex-Im Bank extensively, we would be extremely disappointed to see any budget cut. Overall, it is going to slow down the process and the business.

Ms. TUBBS JONES. My next question——

Go right ahead, Mr. Watters.

Mr. WATTERS. I will just echo my fellow panelist's comments. As I said before, I think it is a very bad signal to exporters of this country that you are reducing the Ex-Im Bank's budget by 25 percent. That is not a good signal or a good sign for us. If these funds could be used in a different way, increasing the staff to expedite the processing of export transactions through the bank would help enormously. I have a saying within my own company, time kills deals. And when you make applications in to the Ex-Im Bank, and they are working at full capacity now, but it takes a month or six weeks to get approvals, to get things done, that can kill a deal, particularly for a small business.

Ms. TUBBS JONES. Well, if I gave you $100 one week and the next week I gave you $75 to go to the grocery store, you would be in trouble, would you not?

Mr. PETRILLA. Yes, ma'am.

Ms. TUBBS JONES. Okay. Thanks.

Let me go ask another question of you, Ms. Weaver. What types of technical assistance does Ex-Im offer now will you continue to do this in the face of the budget cuts for technical assistance, working their way through the process, businesses working their way through the process?

Ms. WEAVER. We have actually asked for an increase in our administrative budget to ensure that any of the kinds of outreach programs and marketing programs are not affected in a serious detrimental way.

Ms. TUBBS JONES. You have asked for an increase in your administrative budget to compensate for the decrease in the dollars available otherwise?

Ms. WEAVER. Well, no. What we did is we asked for an increase in the administrative budget so that our staff could continue to reach out to businesses and let them know about Ex-Im Bank and to process their applications when they came in. We think we will have enough—we know we will have enough on the program budget side to support small businesses when they ask us for financing.

Ms. TUBBS JONES. I am going to give you my $75 to work with since you can work magic like that.

I yield the balance of my time, Mr. Chairman.

Mr. SHUSTER. Thank you, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Petrilla, some opponents of the Ex-Im Bank have argued that the proposed cuts in the budget will provide an opportunity for private insurers to play a larger role in the export market and they also argue that because private insurers do not have U.S. content requirements their policies are more flexible.

In your opinion, are there private insurers out there who are champing at the bit to make these deals for small businesses?

Mr. PETRILLA. In other words, that private insurers would like to see the 25 percent budget cut?

Ms. VELAZQUEZ. Sure.

Mr. PETRILLA. No, I do not believe that at all. I think that private insurers are aggressively underwriting cross-border risk and they see a significant role for themselves, but they also see a significant and important role for Ex-Im Bank. When private underwriters will not mitigate the risk because of the country, term or other considerations, this is the role of Ex-Im Bank. I do not think that they would be licking their lips saying, wow, this is going to give us more business. They are—there is a lot of capacity in the underwriting market, they are writing a lot of business. I think that the overall U.S. Exporters need to be supported by a vibrant consistent export credit agency and that is to their benefit as well.

Ms. VELAZQUEZ. So who in your opinion will fill the gap left by the 25 percent cut and provide the export credit insurance that will allow small businesses to compete in the international market?

Mr. PETRILLA. I do not know if the gap will be completely filled, if that happens, at all. Transactions will go unfinished. They will not get done. And more and more manufacturers may consider manufacturing overseas where they can get other export credit insurance support or they will simply lose to competition. I do not think the gap will be filled.

Ms. VELAZQUEZ. Mr. Watters, would you like to comment on that?

Mr. WATTERS. With respect to—I do not have that much experience with private insurance, although I have some, they generally follow the lead of the Ex-Im Bank. I mean, really, they are not participating in some of these, for example, these sub-Sahara areas.

We would not be able to do the deals that we are doing in some of the countries that I mentioned based on private insurance companies. So I would have to agree with my fellow witness here that the gap would probably not be filled and we would not be able to do the deal. The deal would be lost.

Ms. VELAZQUEZ. Ms. DeDoncker.

Ms. DEDONCKER. I really cannot comment on the private insurers but it seems like we are talking about keeping everything even and this is a time when we should be adding new programs, becoming more aggressive rather than keeping the status quo of what it has been in the past when maybe export has not been as important as it is now and will be in the future.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. SHUSTER. Thank you.

Mr. Davis, do you have any further questions?

Mr. DAVIS. For the Export-Import Bank, what is the cap for small businesses?

Ms. WEAVER. There is no cap.

Mr. DAVIS. So when you say small business, I mean, what is a small business? When do you stop being a small business?

Ms. WEAVER. We use the SBA definition.

Mr. DAVIS. All right.

Ms. WEAVER. With respect to the insurance programs, we expect no decrease or a gap in insurance because our insurance programs do not come out of the program budget, so the program budget can be cut or increased dramatically and it would not affect the insurance program, so we will continue to do the full scale insurance programs and provide policies to small businesses who request it.

Mr. SHUSTER. Thank you.

Further questions?

Ms. VELAZQUEZ. Seems like there is two different interpretations here, one from the small business bank and the Export-Import Bank.

Thank you, Mr. Chairman.

Mr. SHUSTER. Thank you.

I think it is pretty clear from the questioning today that many of the members of this committee will fight to see increased funding for this program.

Ms. VELAZQUEZ. I am not going to do anything. She is saying that it is fine.

Mr. SHUSTER. Well, again, we have the ability to weigh in on this.

Again, I want to thank all the witnesses for coming out today. We certainly appreciate you taking the time and sitting before us and giving us the information you have. Thank you very much.

The committee meeting is adjourned.

[Whereupon, at 12:00 noon, the committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
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REMARKS OF CHAIRMAN DONALD A. MANZULLO

"WHAT HAS EX-IM DONE FOR SMALL BUSINESS LATELY?"

June 13, 2001

This morning we launch the committee's trade agenda with an examination of how the Export-Import Bank of the United States helps small businesses. Later this year, Congress must act on Ex-Im's reauthorization. In addition, Congress must decide what it wants to do with the President's budget request to cut Ex-Im by 25 percent. With these upcoming policy debates, it is imperative that Members understand Ex-Im's programs.

The Bank has been derisively called "Boeing's Bank" for years. I don't mind that Ex-Im helps large business win export deals. Last year, Boeing purchased over $231 million worth of

products from 55 companies – many of them small businesses – in the district I am proud to represent. The 16th District is the largest supplier to Boeing in all of Illinois. Much of these products eventually wound up overseas.

However, we must make sure that Ex-Im does not lose sight of its mission to also help small business exporters. Nine years ago, after much resistance from Ex-Im, this Committee played a crucial role in moving the Bank to help more small business exporters. Thanks in part to the leadership of our dearly departed friend, Mr. Sisisky of Virginia, Congress required that Ex-Im allocate at least 10 percent of their resource dollars to help small business exporters. Ex-Im will be pleased to tell you today that they have more than met this goal. Eight-six percent of their transactions and 18 percent of the dollar volume is devoted to small business. With the change in Administration, I want to make sure that we do not return to the pre-1992 days when Ex-Im did not

realize the growing importance of small business exporters. We have to remember that the number of small business exporters has more than tripled over the past decade and they comprise 97 percent – I repeat – 97 percent of all U.S. exporters.

But this in only part of the story. Only 12 companies in the 16th District and 285 firms throughout the entire state of Illinois directed benefited from Ex-Im's programs since 1995. Yet, the 13 largest exporting companies in the U.S. who use Ex-Im programs more frequently have 186 suppliers, most of them small businesses, from the 16th District alone. These include the Scot Forge Company of Spring Grove; Prem Magnetics and Modine Manufacturing of McHenry; Chemtool of Crystal Lake; Cherry Valley Tool and Machine Company of Belvidere; Clinton Electronics Corporation of Loves Park; J. Rubin & Company and Bergstrom Manufacturing of Rockford; and Kysor/Westram Corporation of Byron. There are more than 35,000 suppliers to

these large companies nationwide. Thus, the benefit of Ex-Im goes way beyond big exporting companies to workers who may not even know what they produce eventually makes its way overseas.

Thus, at a time of zero economic growth and the largest trade deficit in U.S. history, it makes no sense to make cuts as dramatic as proposed for Ex-Im. Our foreign competitors are not making any cuts to their export credit agencies. A 25 percent cut in Ex-Im's program budget would be a gift to our foreign competitors. At a time when we are trying to encourage more small businesses to get into the global marketplace, we should not be cutting trade finance for small business exporters.

I look forward to the testimony of the witnesses before us today. I want to particularly thank those who have traveled a long distance to be with us, particularly my constituent, Sharon DeDoncker of Aqua-Aerobics in Rockford. I now yield for an

opening statement from my good friend, the ranking minority Member from New York, Ms. Velazquez.

Congresswoman Nydia M. Velázqeuz
Ranking Democratic Member
Small Business Committee
Full Committee Hearing on How the
Export-Import Bank Helps Small Business Exporters
June 13, 2001

Thank you, Mr. Chairman.

When discussions turn to accessing new markets, it is commonly thought that the major force in trade are large, multi-national corporations. Of course, this is a misnomer, because just as small businesses are setting the pace in the domestic economy, they are also trailblazers on the international front, leading the way by opening new markets every day. Today, small businesses make up one-third of our trade, and according to the Department of Commerce, 88 percent of all small businesses engage in exporting products.

A key mechanism in insuring that this country's small businesses have the support they need to succeed is the Export-Import bank. By providing loan guarantees and insurance credits to U.S. companies, they promote business growth. This hearing comes at a time when both the Financial Services and the International Relations Committees are preparing to move forward with the re-authorization of the agency.

Today we are going to look specifically at what Ex-Im is doing to help our nations small businesses. Although the vast majority of this nations small businesses export something, still relatively little of Ex-Im funding --- approximately 18 percent --- go to small businesses. While this is a slight increase, clearly with the dominate role that small businesses play in the economy, much more needs to be done. This is especially true in the areas of women and minority businesses. The face of business is changing. Currently, Latinas represent the fastest growing sector of the business community. With this reality, agencies like Ex-Im not only have to be sensitive, but their strategic planning must reflect this reality.

This being said, it is unrealistic to expect Ex-Im to do the job if they are not given the necessary resources. Unfortunately, the president's budget request will leave the agency woefully underfunded. Through the cuts to many of the critical programs, billions less in loans will be

provided this year. We all know what happens when funding is cut for these programs. First, we will withdraw from some of the markets that have less than secure economic foundations --- like the former Soviet Union republics, Africa and the Caribbean. These are countries who benefit not only economically from trade, but politically as well.

Also, lending will be denied to those riskier businesses --- many of which will be small businesses. This is the wrong approach, and coupled with the 43 percent cut to the SBA, small businesses will take it on the chin. This is not how we should be treating the driving force of this economy.

We must ensure that small business exporters are given the necessary tools to succeed in a competitive marketplace. To do this, Ex-Im must remain a viable source of capital and be able to provide the necessary protection for these firms, not just in an uncertain economy, but in an increasingly uncertain world.

I thank the witnesses for appearing before us today and look forward to hearing your suggestions on how this committee can help small businesses continue to lead the way in the international market.

Danny K. Davis

Committee on Small Business
Hearing on the Export-Import Bank

June 13, 2001

Statement by

Congressman Danny K. Davis

The Export-Import (Ex-Im) Bank is the chief U.S. government agency that helps finance American exports. With a budget of nearly $1 billion, the Bank finances around 2% of U.S. exports a year. Ex-Im Bank helps U.S. companies to grow and sustain jobs by assisting in financing their foreign sales and helping them to remain competitive in the ever-changing conditions of the developing world. President Bush's budget, however, proposed reducing the subsidy cost of the Bank's program to 25% below the amount appropriated in FY2000. We must continue to expect the Export-Import Bank to fulfill its mission by providing loan guarantees and insurance credits to U.S. companies in the export industry. Although, the Ex-Im Bank has increased financial support to small businesses by nearly 10%, we need to see more expanded services in loan guarantees and export credit insurance policies for women and minority-owned businesses who want to export goods and services to a worldwide marketplace.

"The Export-Import Bank of the United States and its Assistance to Small Business Exporters"
Statement of Congressman Mike Ferguson
Committee on Small Business
June 13, 2001

The Export-Import Bank of the United States has been a major supporter of small businesses, helping them fulfill their needs and allowing them to compete in the global economy. As an export credit agency that provides export credit insurance, working capital guarantees, loans and loan guarantees, the Export-Import Bank financed $15.5 billion of U.S. exports worldwide and supported thousands of U.S. jobs in the fiscal year 2000. Of these exports, 86 percent of the transactions in the fiscal year 2000 involved small U.S. businesses – not including the 30,000 small business suppliers and sub-suppliers that sell their goods and services to larger companies and take advantage of Ex-Im Bank's services.

I commend the Ex-Im Bank for recognizing how the needs and capabilities of small businesses are different than larger businesses and tailoring several programs to accommodate small businesses. The Small Business Insurance Program enhances the ability of small business exporters to attract foreign customers. The special program empowers over 1,100 U.S. small business exporters with the much-needed resources to offer the most competitive financing to their customers. In addition, the Working Capital Guarantee Program enables commercial lenders to make working capital loans to exporters by reducing the risks associated with these loans and allowing them to overcome the working capital barrier.

I have spoken with several businesses in New Jersey and have listened to the tremendous impact the Ex-Im Bank has had on their businesses and communities. In fact, in New Jersey the Ex-Im Bank has aided 115 communities and sustained 36,081 jobs while assisting small businesses in 65% of all transactions over the past half-decade. Without the Ex-Im Bank, these transactions would not have been possible for these businesses.

For example, the Davis-Standard Company of Somerville, New Jersey obtained a $2.5 million medium-term insurance policy that enabled them to expand its business to markets in South America and support 1,500 employees. Similarly, Tumi Luggage, Inc. of South Plainfield, N.J., obtained a $10 million Ex-Im Bank Working Guarantee to cover its costs of fulfilling various sales contracts to buyers in Germany, Japan and Singapore. The total export value for the sale is estimated at around $15 million and will be a tremendous boost for the company that employs 100 people. Moreover, even large companies, such as Lucent Technologies of Warren, New Jersey, have benefited from loans provided by the Ex-Im Bank, which supported several transactions in Brazil.

There is no doubt that the Ex-Im Bank provides vital services to businesses that have no other financial alternatives. The ability to export is essential to a sound economy and it is our responsibility to ensure that the Ex-Im Bank is aggressive, efficient and cost effective. Accordingly, we must fund the Ex-Im Bank at a level that will allow it obtain the necessary resources to provide all businesses – large and small – with the opportunity to benefit from exporting capabilities. I look forward to hearing your testimony today and working with you in the future to improve the Ex-Im Bank and allow our small businesses to prosper.

Statement of
Congresswoman Stephanie Tubbs Jones
Small Business Committee
Hearing on Export-Import Bank
June 13, 2001

Mr Chairman and Ranking Member Velazquez:

Thank you for holding this hearing on the importance of assistance to small business exporters. The United States has a vested interest in promoting peace, stability, and democratic principles in other countries. The rule of law, fair and open trade are the best way of ensuring this because peace cannot be separated from economic and social development. Moreover, export assistance is a win-win.

Expanding markets into international sectors can provide the growth and job opportunities that are essential to the success of small businesses in the United States. In many instances, small businesses are unable to access capital through traditional sources that would enable them to become exporters. Therefore, the Ex-Im Bank provides vital assistance in the development of small businesses in the United States.

A June 11th article from "Fortune Magazine Small Business" concerning small businesses states the frustration of small business owners at the Bush Administration's attention to the needs of entrepreneurs. A recent CEO panel cited in the article gave the Administration only a C+ for tackling the needs of the 24 million small businesses which contribute 45% of the nation's Gross Domestic Product. This grade was based partly on plans to cut key federal programs such as the Ex-Im Bank, that support small firms.[1] Overall, the Administration has planned to cut $361 million in appropriations for the Small Business Administration.

Clearly, Congress must work to protect these funding streams. Hearings such as this are a good first step. It is my hope that by bringing attention to

[1] Fortune Small Business, Internet Special Feature "Abandoning Small Business" by Lori Ioannou, June 11, 2001.

the Ex-Im Bank's work, the Administration will begin to pay attention to the needs and concerns of small business exporters.

T Tom Udall - New Mexico - 3rd

Statement by Congressman Tom Udall
House Small Business Committee

"Export-Import Bank of the United States and the Assistance It Provides To Small Business Exporters."
June 13, 2001

Chairman Manzullo and Ranking Member Velazquez:

Thank you for holding this hearing to examine the job that the Export-Import Bank of the United States is doing in providing assistance to small business exporters.

One of the Export-Import Bank's congressional mandates is to expand the number of U.S. small businesses that utilize the Bank's programs. Our hearing today will ascertain whether the Bank's existing programs are fulfilling this mandate. If they

are not then, this Committee will make specific recommendations on how the Bank can better fulfill their mandate. This hearing is being held at an appropriate time given that the Bank's authorization is set to expire September 30, 2001, and the Committee on Financial Services has scheduled a mark-up of the Export-Import Reauthorization for the week of June 18, 2001.

In addition, this hearing is particularly relevant in view of the fact that the Bush Administration budget cuts both the Export-Import Bank's budget and the 7(a) loan program which has supported the Export Working Capital Guarantee Program within the Export-Import Bank.

I am confident that the members of this Committee simply want to ensure that the small business exporters, in our respective districts, have the necessary tools to succeed in our global economy. As such, I look forward to today's testimony and working on this issue with my colleagues.

Again, thank you Mr. Chairman and Ranking Member Velazquez for holding today's hearing.

TESTIMONY OF DORIAN VANESSA WEAVER
BOARD OF DIRECTORS
EXPORT-IMPORT BANK OF THE UNITED STATES
HOUSE SMALL BUSINESS COMMITTEE

JUNE 13, 2001

Mr. Chairman, Representative Velazquez and Members of the Committee:

My name is Vanessa Weaver and I am a member of the Board of Directors of the Export-Import Bank. Thank you for allowing me the opportunity to testify about our efforts to support small business. Your advice and the advice of your staff have been enormously helpful to us over the years. You have guided us as we have reached out to more and more small businesses, providing them with services and programs that help them prosper and create jobs. We seek your ideas now on how we can do even more.

I have a long and special interest in small business. I was confirmed into the small business seat on Ex-Im Bank's Board to protect and advocate on behalf small business. I worked for and helped run a small business. My great grandmother and grandmother ran small businesses. And I am proud to say that my father, Vernon Weaver, was an Administrator of the Small Business Administration for four years. So it's a family tradition, one that I follow with pride and vigor.

Over the past decade, we have witnessed a remarkable period of economic prosperity. To sustain economic growth, we must not only exercise our fiduciary duty to the taxpayers by financing creditworthy transactions. We must continue to provide competitive financing solutions so small businesses can export and continue to push for open markets, including

encouraging emerging market governments to make transparent trade decisions. Emerging market trade, while risky, will provide the most significant opportunities for U.S. business in the next few decades and will help sustain our economic prosperity.

Ex-Im Bank exists to preserve and create jobs here in the United States by financing U.S. exports that would not go forward without our help. We finance exports only when the private sector cannot provide competitive financing or to meet financing from foreign competition. Last year we supported $15.5 billion of U.S. exports to markets worldwide. For every dollar of program budget, we return an average of eighteen dollars ($18) in exports. And the jobs we support pay four to six percent above the national average. We approved 2,176 small business transactions, which represent 86% of all of our transactions. Our financing for small business increased by 10%. Three hundred seventy-seven (377) of these were first-time users of Ex-Im Bank. Small business represents 18% of our lending levels, well above our congressionally mandated figure of 10%.

We recognize that small business provides the greatest source of job growth in the U.S. Since 1997, the last time we testified before this committee, we improved our small business programs and services. We were successful because we listened to you, to our customers and to our partners.

Today, I want to tell you of our success in improving existing programs, creating new programs, reaching out to small businesses, providing better customer service and using our budget wisely.

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The New and Small Business Group dedicates itself to providing programs and services to small businesses. In 1997 we centralized all of our small business efforts, creating an efficient organization geared to taking initiative rather than waiting for financing requests.

We have seen dramatic growth in one of our most important programs, the Working Capital Guarantee Program. This program is renowned in the export-financing arena for encouraging commercial lenders to make Ex-Im Bank guaranteed loans to small businesses. We recognize that small businesses, particularly those owned by minorities and women, are usually not favored customers of commercial banks. Small businesses typically lack capital, collateral and the financial history to persuade banks to issue a loan. And, often, when a small business begins to compete in the export market, it lacks productive capacity and finances to produce for export.

Last fiscal year, our working capital guarantees increased forty-one percent (41%) to $588 million--$517 million of which benefitted small business. Of the 361 authorized working capital guarantee transactions, 94 percent were for small businesses. Our loan guarantees--even those small in dollar amount--have enabled small businesses to hire new employees or buy equipment to produce an export, thus allowing them to complete multi-million dollar export sales. And, by increasing the coverage of working capital loan guarantees for minority- and women-owned firms from 90 to 100 percent, we have given them greater access to financing for pre-export costs. During the last fiscal year, working capital guarantees to women-owned businesses increased to $25 million; the amount for minority-owned businesses increased to $48 million.

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Small businesses have also benefitted from improvements to our insurance program, developed principally for short-term export sales. Our insurance policies protect against the commercial and political risks of a foreign buyer default. In 1999, we introduced short-term credit standards, which define the credit criteria required for short-term insurance. These standards have improved turnaround time because our staff can evaluate required information quickly. At the same time, we adjusted our short-term insurance fees to current market risks and lowered fees for small businesses. We recently expanded eligibility for the Bank's small business insurance policy by increasing the maximum annual export credit sales threshold to $5 million. And, we established a trade receivables facility with a major financial services company to support short-term purchases of U.S. goods and services by qualified Mexican buyers under revolving lines of credit. Most significantly, we made all these improvements without infringing on the private export credit insurance market.

Last fiscal year, we issued 1,762 export credit insurance policies to small businesses, or 93% of the total number of Ex-Im Bank's policies. Small business insurance authorizations totaled $1.5 billion, up twenty-seven percent (27%) from FY1999. Policies held by minority- and women-owned businesses increased by eighteen percent (18%).

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Our small business loan guarantees are fueled by our program budget. What is most relevant in assessing the Administration's fiscal year 2002 program budget request of $633 million and most important to the execution of its mission is an analysis of what dollar amount of export transactions will the Bank be able to authorize based on those and other program budget resources which may be available to us in fiscal year 2002.

In other words, how much export bang from our available program budget bucks can the Bank get. If Congress and the exporting community understand this analysis, they can make an informed judgment on the Administration's budget request.

Then, to make an honest appraisal of the real world impact of the level of the Bank's fiscal year 2002 program budget resources, we should compare the level of export credit authorization that those resources will support against the expected level of demand for export credit for the same period.

Before getting back to the numbers, I should address one critical point of budget methodology required under the Federal Credit Reform Act of 1990. I refer to the calculation by the Office of Management and Budget of the so-called "risk premia" cost that Ex-Im Bank must apply in using its program budget resources. The OMB calculation is reasonable, extremely complicated, and Ex-Im Bank does not challenge it. The risk premia, which are essentially a calculation of the level of credit risk in a particular country, region and/or type of transaction, change from period to period. When they rise, it means that Ex-Im Bank has to set aside a larger reserve for its export transactions and thus spend more of its program budget funds to support a smaller level of transactions than when the risk premia are lower. The contrary is the effect - - that is, a bigger bang for our buck - - when risk premia decrease.

Note that because we require a 15% cash payment for transactions, we finance only 85% of a transaction. Thus, numbers describing the total amount of exports supported will be higher than amounts authorized. Last fiscal year, for example, we authorized $12.6 billion of new authorizations, which supported a total export value (including the 15% cash payment) of $15.5 billion. The following discussion of the adequacy of the administration's requested program

budget will refer only to authorization amounts (rather than total export value supported).

With that backdrop, let me return to the fiscal year 2002 program budget numbers:

1. With an appropriation of $633 million as the Administration has proposed, plus an estimated $90 million in additional program budget funds that we estimate will be available due to cancellation of prior year commitments, Ex-Im Bank would have a total of $723 million in program budget funds available for fiscal year 2002.
2. While the $633 million appropriation request is a nominal 25% reduction from the $863 million appropriation for fiscal year 2001, the actual effect on the level of export credits the Bank can authorize is less because the OMB-calculated risk premia for fiscal year 2002 have substantially decreased.
3. The Bank estimates that its total fiscal year 2002 program budget resources of $723 million ($633 million in appropriation plus $90 million in prior year cancellations) can support about $11.4 billion in export credit authorizations. We make this "Bang for the Buck" calculation based on an historic average of about $15 in export credits authorized per $1 dollar of program budget used.
4. We have projected the level of demand for export transaction credit for fiscal year 2002. Let me concede that the projection of future transaction demand is to some degree more of an art than a science. But the Bank's staff has reviewed the transaction "pipeline" carefully and identified specific projects and transactions that make up the estimate. While some of these might not be consummated or could be delayed, I am reasonably satisfied with the range of demand levels we are projecting.

5. Because of some uncertainty, rather than projecting a single export credit demand dollar amount, we have calculated a range. The low end of the demand range is $11.9 billion in authorizations, which is the past four-year average. The mid-range is $12.5 billion and the high end is $14.5 billion. While, again, this is not a certainty, we would look at $11.9 billion to $12.5 billion as the most reasonable range. These figures include all types of projected authorizations, including small and big business authorizations.
6. We have said above that the $723 million in fiscal year 2002 program budget resources can support $11.4 billion in export credit authorizations. If actual export credit demand exceeds that level, then the Bank's available resources would not be adequate to support the higher increment of export credit demands.

The President's budget suggests the possibility of making up a gap between exporter credit demand and program budget resources by instituting changes in the way the Bank does business that would have the effect of reducing the cost, in terms of program budget usage, for export transactions. Examples of these changes would be to raise fees and/or lower the percentage of Ex-Im Bank's export credit coverage of a transaction from its current 85%.

Against the backdrop of Congress' mandate to administer our programs so that American exporters are competitive with their foreign export credit agency assisted competitors, and in the absence of any reliable data as to the competitive impacts and other possible consequences of such program changes, we would only consider an orderly and cautious approach to any program changes in order to determine their impact.

Short-term insurance authorizations, in general, require no program budget. Because some insurance transactions return money, OMB has determined that insurance authorizations require no scoring and are "zeroed" out. Fortunately, demand for insurance policies are not affected by even significant decreases in program budget. Thus, we will meet demand for insurance authorizations in FY2002.

Congress has mandated that ten percent (10%) of all Ex-Im Bank authorizations be set aside for small business transactions. Our staff concludes that the requested levels of program budget will be sufficient to cover all projected small business authorizations for FY2002. For small business, we do not anticipate raising fees, reducing the amount we will finance or otherwise increasing costs.

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Because small businesses are frequently unaware of the value of exporting and of Ex-Im Bank, our Business Development Group planned a marketing campaign to target our newly populated database of 225,000 U.S. exporters. We forged strategic alliances with the Department of Commerce and Small Business Administration, seeking their help to educate small businesses of how we complement the services of these two agencies. We enhanced the Trade Association Partners Program by offering the 50 member associations fees for referring their members to us. We asked our regional office staff to contact over 29,000 prospective customers and make 3,000 office visits to U.S. businesses. We held 250 seminars and helped 12,000 attendees learn about our financing. This fiscal year alone, we expect to hold 60 seminars throughout the U.S.

We are creating better, user-friendly programs. To this end, we established a City/State Program, consisting of strategic alliances with state and municipal organizations whose staff

receive training in Ex-Im Bank programs and can guide small business exporters through the application process. We currently have thirty-seven City/State partners in thirty-two states and Puerto Rico.

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We make a concerted effort to reach out to businesses under served by export financing, including minority- and women-owned businesses, and businesses in rural or economically depressed urban areas. We set goals for our staff to attract and serve these businesses. Last year, to encourage minority- and women-owned companies to export, we created partnerships with the National Minority Supplier Development Council and the National Bankers Association. We also work with the Department of Commerce's Global Diversity Initiative Group to give training to minority- and women-owned businesses. We have seen encouraging results. In February, we hosted a minority business seminar for 45 companies. Ten minority businesses now have Ex-Im Bank insurance policies and fifteen more are in our pipeline. In March, we awarded our first African American-owned bank delegated authority, which allows banks qualified by us to give customers quick approval on our working capital guarantees without prior Ex-Im Bank approval.

We set goals for our regional offices to develop a knowledge of local markets and made regional offices responsible to help small businesses in rural and economically depressed areas. Supplementing USDA's Commodity Credit Corporation export credit guarantee programs, last fiscal year we financed $75 million of agricultural commodities and livestock and financed $134 million of agricultural equipment, chemicals, supplies and related services.

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We have worked hard to become a first rate organization, especially as measured by quality of customer services. To improve, we solicit reactions to our performance, valuing even criticisms, for they keep us from becoming archaic. A survey was conducted recently by the American Customer Satisfaction Index to evaluate financial institutions, both public- and private sector banks. Ex-Im Bank received an 'excellent' rating.

We have done well, but we can always do better. We will work to provide even better customer service and programs that meet evolution in exporter products and services. Faster decisions that decrease case processing time are imperative. Increasing staff productivity is key to achieving these goals. We must attract and retain financial professionals that efficiently discharge our fiduciary duties. If implemented properly, automated tools can enhance financial analyses and feedback to customers.

Successful development of automated tools in our Asset Management and Working Capital Guarantee divisions provide our small business customers with fast and accurate answers. The Electronic Claim Filing System allows small businesses to file insurance claims over the Internet much more easily and quickly. This summer, we plan to introduce our Working Capital e-commerce product to allow Delegated Authority lenders to complete and pay for an application over the Internet. All transactions will be secure. We are evaluating an automated solution to help with the time-consuming financial analyses required for our insurance policies.

None of this would be possible without our administrative budget. We are requesting $65 million for our administrative budget, an increase of $3 million (5%) over the FY2001 amount of $62 million. This increase will be used to improve our staff's productivity, including upgrades to our information technology systems.

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In conclusion, while the global economy has changed significantly since our inception in the 1930s, we remain true to our mission: to support U.S. jobs through exports. With the results we have achieved and our continued efforts to serve small business, we have positioned ourselves to maximize our support for U.S. exporters and contribute to a strong economy. I want to thank Congress for your support and advice. Our progress would not have been possible without your understanding of our mission and our work. In past years, you and your congressional colleagues supported our program budget, which fuels exports, and our administrative budget, which allows us to retain and hire skilled, professional personnel and improve our technology to keep our programs competitive. We are very grateful. I am happy to answer any questions you may have.

Statement

on the

Impact of USA EX-IM Bank on Small Business

and

Proposed Year 2002 Budget for EX-IM Bank

before the

Committee on Small Business

U.S. House of Representatives

by

Joseph F. Watters, President Hoffman International, Inc.

Piscataway, NJ

and

Immediate Past Chairman

Small Business Exporters Association

June 13, 2001

Washington, DC

Good morning – I appreciate the opportunity to appear before this distinguished committee.

May I open by advising you that I am appearing here wearing two hats – the first hat involves my position as president of Hoffman International an 80 year old, 50 employee, private New Jersey company and a second hat as a director and the immediate past chairman of the Small Business Exporters Association. I don't wish to overstate the case but I want to assure all of the members of this committee that there exists no subject that is closer to the hearts, minds and, yes, even the pocketbooks of small business exporters than an adequate budget for the growing activities of USA EX-IM Bank.

All of our Association members small businesses, such as Air Tractor of Olney, Texas, Leawood Export of Kansas, Transcon Trading of Irmo, South Carolina, MD International, Miami, Systems Integrated, Orange, California, Princeton Medical, Marietta, Georgia, OMI, Versailles, Ohio and, yes, Hoffman International of Piscataway, New Jersey can and do become quite passionate about this subject. Let me be clear, practically every one of our members is substantially dependent upon a competitive … efficient and viable EX-IM Bank to provide the financing assistance which is so critical for all of us to compete and do business in the global marketplace – and that marketplace isn't the same as it existed 10, 15 or 20 years ago.

There was a time when the USA "mouse trap" was far and away the best on the market – today "mouse traps" from Japan, China, Europe, Canada and elsewhere can compete very well – and while we can enjoy enormous pride over the high value of the U S dollar and it may reduce the cost of our overseas holidays, it also creates a much more competitive pricing environment. Today's marketplace demands turnkey package pricing, including competitive financing arrangements, providing a customer with pay out terms that can match its cash flow requirements. Frankly speaking, without the EX-IM source for providing this kind of financing, a significant number of our members would have to fold their tents. It's just not possible to sell agricultural planes to Costa Rica … package hospitals to Mexico or, in my case, new and used construction-road building equipment and spare parts to Ghana without short and long term financing which is either guaranteed or insured by our EX-IM Bank.

My Company has been involved in exporting for the past 30 years and I have observed a continued slippage of traditional letter of credit sale terms to that of financed sales. For example, at this moment for Africa, we are working on 5 – 6 transactions involving approximately $8.0M of forestry, construction and road building equipment for clients in Cameroon, Senegal, Mali and Uganda. In Latin America, we just completed the sale of a used $270,000 crane, based on a 3 year loan, for Guatemala and have 3

transactions financed in Mexico. In Russia, where our Company delivered over $10M of road building equipment in 1995, we are in the midst of finalizing new sales of approximately $3.0M and see enormous potential in Russia for years and years to come. All of these activities are supported by one or more EX-IM Bank finance programs. Emerging markets, such as the countries mentioned, represent key opportunities for small business sales but financing by our U S commercial banks is simply not possible in those areas without EX-IM support.

Absent EX-IM's medium term insurance, the crane, built in Shady Grove, PA, doesn't move to Guatemala ... without EX-IM's working capital and medium term bank guarantee, the new Mack Trucks from Allentown, PA ... the kilns from Bartlett, Tennessee and the forestry equipment from Franklin, VA aren't moving to Ghana and without the new EX-IM program of accepting Russian bank guarantees, machine components from Madison, SD are not moving to Kransogorsk, Russia where they are assembled with other Russian made components for road patching machines that fix potholes. With this new program alone, we can foresee the manufacture of 100 – 150 of these machines every year versus the 10 – 15 we do now. The impact of all these increased sales on the economy of Madison, So. Dakota as well as the filter down effect across the national economy is enormous.

Government statistics indicate an explosive growth in the export sector by U S small businesses and, yet still, only 1% of all such small firms are involved. The untapped dimension of small businesses exporting is staggering and the potential contribution of fuel to our economic engine is quite dramatic and, with the economy softening today, these exports take on even added importance.

And yet, despite all of this tangible, undeniable evidence of a dire need for an EX-IM Bank that can handle greater volume more efficiently and more competitively, we are faced with an administration proposal that wants to reduce its budget. Frankly, all of our Association members whether Democrat, Republican or Independent are quite dismayed when we hear the administration tell us how importantly it values the role of small business ... and how vital it is for us to be in the global marketplace – and at the same time, proposes to reduce the budget of a critical organization that is already severely limited and working at full capacity. The contradiction of these positions is mind boggling to me and my peers.

As President of a small exporting business and Chairman of an Association of such firms, I not only encourage this committee to overwhelming reject the suggestion of reducing the EX-IM Budget but rather find a way to increase it.

Thank you.

Statement of the U.S. Chamber of Commerce

ON: THE EXPORT-IMPORT BANK OF THE U.S. and SMALL BUSINESS

TO: HOUSE COMMITTEE ON SMALL BUSINESS

DATE: JUNE 13, 2001

BY: GEORGE BARR

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- numbers more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 89 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

STATEMENT
on
THE EXPORT-IMPORT BANK OF THE U.S. and SMALL BUSINESS
before the
HOUSE COMMITTEE ON SMALL BUSINESS
for the
U.S. CHAMBER OF COMMERCE
By

George Barr
June 13, 2001

Mr. Chairman, thank you for an invitation to appear before the panel today. My name is George Barr, and I offer this testimony for Eximbank renewal on behalf of the U.S. Chamber of Commerce, on behalf of small business in the U.S., and on behalf of Anatech Ltd., of which I am a founder and an owner.

The subject today could just as well be Eximbank's expansion, and how its export programs can be made more competitive, rather than whether Eximbank should be renewed at all or renewed at a lower level of funding. I'd like to see Congress fund Eximbank to be as aggressive as are export credit agencies (ECAs) from other countries, countries that understand how important exporting is to the health of their economy. In order to compete on the same playing field with these foreign ECAs, Eximbank needs a mandate to be more flexible, more aggressive, less restrictive about U.S. content, and less expensive with respect to fees.

Eximbank does a great job promoting exports in the following ways:

- Delegated authority, whereby Eximbank encourages private sector banks to issue commitments on its behalf, is extremely helpful to those banks and to their

exporting customers. Eximbank delegated authority is a powerful tool that cuts valuable time and considerable cost from the approval process. I encourage Congress to fund Eximbank so that it has the resources to step up efforts to aggressively promote the use of delegated authority to banks and to potential exporters. I found Virginia's City-State program very helpful ten years ago when I first looked at financing exports externally. Eximbank can't realistically "retail" to small business. City-State programs and small business service providers, such as banks, accountants, attorneys and consultants could "retail". Banks with delegated authority can package loans for Eximbank and spread program overhead over many customers. Eximbank can concentrate on working with fewer outside entities to grade economic and political risk faster and at lower cost. Perhaps Ginnie Mae would be a good model, or even the Federal Reserve system of banking.

- Eximbank's program to support standby letters of credit for bid bonds and performance bonds needs to be continued. Foreign banks issue bank guarantees for bid bonds, as opposed to letters of credit for this purpose, and do not charge the exporter's credit line. Eximbank's standby letters of credit accomplish the same purpose.
- Eximbank recognizes that the needs of small business are different than big business. Eximbank has a small business working capital program to focus on those needs, and relieves small business of requirements that would be onerous

otherwise. An example is accountant reviewed level, instead of audited level, financials.

Eximbank can improve its value to small business exporters in a few areas:

- Eximbank is often slow to respond to a situation that requires its direct participation. I believe more staff and more delegated authority may be required to eliminate this problem. Response times need to be measured in a few hours or days, not in several days or weeks.
- Eximbank needs to reduce its exposure fees, which on a per transaction basis often appear unfavorable compared to foreign competition. Eximbank must not be a bank of first resort. Eximbank's political risk as bank of last resort should be slight if commercial banks are making solid economic loans.
- Eximbank 's traditional requirements for U.S. content have been more restrictive than those which other exporter credit agencies allow. Eximbank's objective is to create export related jobs. More jobs will be created at a lower content level as exports increase. Canada's Eximbank equivalent would say that a Caterpillar engine of U.S. manufacture, which is bought through a Canadian CAT dealer, is all Canadian content when the engine is exported, and that freight arranged through a Canadian freight forwarder is Canadian content even if the conveyance is not Canadian flagged. As commerce becomes more global, it becomes increasingly difficult to achieve Eximbank's local content requirements.

- Congressional mandates affect more than allowable local content. Unilateral trade sanctions, strict policy objectives with reference to credit decisions about foreign buyers, and exposure fees to generate income from export financing all prevent Eximbank from being as effective as it might otherwise be.
- Small business has special constraints with respect to exports as compared to big business. Small business production is likely to be located in one or two plants, and that production can't be moved 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 Eximbank 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. U.S. policy has typically been to match tied aid occasionally while trying to dissuade its use by other countries. The U.S. could accept tied aid as a legitimate export tool, just as do France, Germany, Japan and most of the rest of the world. A country as small as Holland can boast of $500 million of exports to China through a 10-year mutual collaboration, which is based on Dutch special financing (ORET program) and Chinese acknowledgement of the need to source from Dutch suppliers. Our current understanding is that the U.S. Treasury has restricted any further use of the Eximbank "war chest" to match tied aid loans.

Even in the era of matching, Eximbank was still oriented towards what some 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, or the "dead body". I should acknowledge that in the mid 1990's Eximbank 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.

From a perspective broader than Eximbank, U.S. government interagency coordination is an urgent requirement for better results. In 1992 the Congress passed, and the U.S. Chamber supported, legislation 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 to 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. However, setting common goals and priorities across agency lines has not been implemented consistently. I urge that this Congress examine this issue further, not only in the context of the reauthorization of the U.S. Eximbank, 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 impossible for my small business to export more than minimally if I must fund exports internally with domestic cash flow. I need an Eximbank or an SBA to turn exports to domestic business so that my bank will finance this portion of our business. My company exports between $150,000 and $450,000 in product per year representing some 10% to as much as 30% of our manufacturing revenue, and accounting for one to three jobs per year out of a total employment of 10 to 15 people.

It is hard to imagine how Eximbank can function effectively with a budget cut of the magnitude of the one proposed by the Administration. I'd like to see how much more Eximbank can do to promote exports, especially given this strong dollar era, and how much more money Eximbank needs to get the job done effectively.

Again, I thank you for the opportunity to testify. I look forward to answering the Committee's questions.

AQUA-AEROBIC SYSTEMS, INC.
Your Wastewater Specialists

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AQUA-AEROBIC SYSTEMS, INC.
Sharon K. DeDoncker

Testimony – Committee on Small Business
June 13, 2001

Products . . .

Aerator

Mixer

Filter

Cloth-media filter

Sequencing batch reactor

Aerator/mixer/decanter

Aspirating aerator

Lagoon nitrification system

Spray cooler

Services . . .

Process and Mechanical Engineering

Quality Manufacturing

Customer Service

International Expertise

My name is Sharon DeDoncker, and I am Vice President of International Sales for Aqua-Aerobic Systems, Inc. Aqua is a privately owned small business which manufactures and markets water and wastewater treatment equipment and systems used for municipal sewage treatment plants and industrial wastewater treatment plants. The company has been in business since 1969, has approximately 140 employees, and has annual sales of approximately $40M.

To achieve growth in the international market, we have restructured our internal organization, established regional sales managers for Asia Pacific and Latin America, and expanded our rep force. With assistance from NASDA, the USAEP, and the U.S. Department of Commerce – all of which provide excellent export support - we have participated in local trade shows, conducted regional rep training sessions, and held in-country engineering seminars. As a result, our company name is now more widely recognized internationally, our representatives are trained to respond to the growing number of inquiries we are receiving, and the local engineers have confidence in our abilities. We are in a good position to achieve international growth.

Aqua's primary international market is municipal sewage treatment plants in developing countries. Developing countries are sorely lacking in wastewater treatment. These countries want to improve their quality of life and reduce the health risks caused by poor sanitation. They are establishing guidelines and deadlines for the treatment of their wastewater and setting up agencies to monitor and enforce compliance. For Aqua and the other wastewater equipment companies in the U.S., this represents a huge, immediate market.

The biggest obstacle faced by these municipalities is funding. They have a pressing need to build sewage treatment plants and a desire to do so, but the funds are not there. U.S. companies may do an excellent job of selling the municipality on the superiority of our systems and equipment, but if we can't bring the project financing, these municipalities are forced to go with companies that can.

Aqua is still in the learning phase of how to put together funding packages for international projects and until we learn to do so, we will not be able to expand our international sales. We have met with our bankers, private financing agencies, and Export-Import Bank representatives. We have learned that even if we elect to offer financing through our banker or a private financing agency, those organizations want the Export-Import Bank involved as a guarantor. Ex-Im Bank does offer funding packages to qualified foreign buyers, but more frequently the funding package comes from private lenders using Ex-Im's Export Credit Insurance to minimize their credit risk.

For example, we have been working on a project in a suburb of Shanghai, China. We began working on this project when it was still in the early design stages, and our China rep has invested considerable time providing design assistance to the engineer and government officials. He has been successful in convincing them to select a design built around an Aqua system. We have been careful to develop and maintain a relationship with all parties involved and feel we are in an excellent position to sell our system. The remaining obstacle to overcome is offering an attractive funding package.

We have taken this project to our U.S. bank and a private finance agency. Both organizations have prepared quotes using Ex-Im Bank guarantees. Without the Export-Import Bank guarantee, neither lender would be willing to take the risk and offer a financing package to the buyer. And without this financing package, our chances of being successful on this project are greatly reduced.

Other countries have agencies similar to the Export Import Bank, and those agencies are aggressively pursuing projects that will benefit companies in their countries. Other countries rely more heavily on their export business than the U.S. does. As a result, they are more aware of customer needs and more aggressive in meeting them. The U.S. is frequently seen as late comer to this market and behind on having the tools needed to match our foreign competitors. The key tool U.S. companies need is the financing package, and the Ex-Im Bank is our primary source for this. Ex-Im Bank still has work to do to be as visible and active as some of the other Foreign Export Credit Agencies. We should be increasing, not cutting, their budget. They need the additional funds in order to be able to expand their offerings to a level that gives U.S. companies the same advantage as our foreign competitors.

Ex-Im Bank has a special program that supports environmental projects. This Program has allowed them to increase the number of environmental transactions supported by Ex-Im Bank from 13 in 1994 to 62 in 2000, with a total portfolio well in excess of $2B. With additional funds, Ex-Im could have more programs like this. creating more international projects with U.S. participation and U.S. jobs. These special programs would feature longer-term loans and capitalization of interest expense.

With additional funds, Ex-Im Bank could expand their marketing and promotion efforts. Ex-Im Bank personnel should have representatives on site in every major international market, and Ex-Im Bank should be an active and visible participant on U.S. Department of Commerce trips overseas.

U.S. funding, requiring Export Import Bank involvement, of overseas projects is not a luxury. It is a necessity if U.S. companies want to work abroad. If the U.S. isn't funding these projects, another country is and companies from the funding country will receive the orders, and U.S. companies will lose out.

The Export-Import Bank fills a need of U.S. companies, large and small, by providing export credit insurance, working capital guarantees, loans and loan guarantees which help finance the sale of U.S. goods and services to foreign markets. Last year, Ex-Im Bank financed nearly $15.5B of U.S. exports worldwide, which supported more than one million US jobs. It is a fallacy to think Ex-Im Bank works only with large companies, as nearly 86% of Ex-Im Bank's transactions in fiscal year 2000 were on behalf of small businesses.

The Export-Import Bank supports U.S. business in three ways. First, Ex-Im Bank's Working Capital Guarantee Program makes it easier for companies to get loans against their foreign account receivables. The Working Capital Guarantee Program provides a 90% guarantee on the principal and interest on working capital loans extended by commercial lenders. This may not be that important to a large company, but it is important to small companies without the resources to purchase the inventories and labor needed for their international orders.

The second service offered by Ex-Im is their export credit insurance. This credit insurance protects the commercial lender and/or U.S. exporter against non-payment due to both political and commercial risk. This allows the commercial lender to extend competitive credit terms and mitigates the credit risk. Without this guarantee of payment, the number of funding agencies willing to finance export projects would be greatly reduced and the

premiums would increase to reflect the additional risk, making the funding package uncompetitive.

The third service offered by Ex-Im is loan guarantees and direct loans made to foreign buyers of US goods and services.

In conclusion, Ex-Im Bank offers real, needed services to both large and small companies. If the proposed budget cuts go into effect, it will be more difficult for Ex-Im to continue to support the efforts of companies like Aqua-Aerobic Systems.

The export market cannot be ignored. It represents great growth potential and higher returns for U.S. businesses and more employment and higher quality, better paying jobs for U.S. employees. But without the availability of financing packages, which requires Ex-Im Bank involvement, the participation of U.S. companies in this market will be restricted.

I urge you to re-authorize the programs of the Export-Import Bank and vote against any proposed budget cuts. Companies like Aqua-Aerobic Systems need the support of the Export-Import Bank in order to survive in the international marketplace.

Statement of

Kenneth J. Petrilla

Senior Vice President

Wells Fargo Bank and

Wells Fargo HSBC Trade Bank

Before the

Committee on Small Business

United States House of Representatives

Washington, D.C.

June 13, 2001

Hearing on the Impact of the Programs of the Export-Import Bank of the U.S. on Small Business

Mr. Chairman and Members of the Committee:

My name is Ken Petrilla and I am a Senior Vice President of Wells Fargo Bank and Wells Fargo HSBC Trade Bank.

Wells Fargo is a diversified financial services company – providing banking, insurance, wealth management and estate planning, investments, mortgage and consumer finance from more than 5,400 stores, the world's leading Internet banking site and other distribution channels across North America and elsewhere internationally. Headquartered in San Francisco, Wells Fargo has $280 billion in assets and 120,000 team members. Among our peers, we ranked fourth in assets and fourth in the market value of our stock at March 31, 2001. In February 2001, *Fortune* magazine ranked Wells Fargo the nation's most admired super-regional bank for the second consecutive year and one of the top 40 "most admired" companies in all industries. *Smart Money* recently named Wells Fargo the nation's best bank. *Global Finance* magazine ranked Wells Fargo the best and safest bank in the United States.

The Wells Fargo HSBC Trade Bank, the Trade Bank, a joint venture between Wells Fargo & Company and the HSBC Group, is the vehicle that Wells Fargo uses to deliver international trade finance and trade services to its customers. The Trade Bank is the only nationally chartered, FDIC insured bank in the U.S. that is devoted solely to international trade finance. HSBC has been in the business of international trade since 1865 and has over 6,000 offices in 81 countries. Both Wells Fargo and HSBC have a long history of serving small and middle market companies.

As part of my responsibilities, I manage the Trade Bank's export finance activities, which are focused on small and medium-size businesses in the United States.

In addition, I am also representing the views of the Bankers' Association for Finance and Trade (BAFT), the leading association of U.S. banks actively promoting international trade. BAFT works to provide its members the best regulatory and legislative environment in which to conduct their international activities. The Chairman of the Trade Bank is also a Vice President of BAFT, and officers of the Trade Bank, including myself, are active in BAFT's trade committee work.

Wells Fargo HSBC Trade Bank is one of the leading users of the Export-Import Bank of the United States (Ex-Im Bank) programs that support small and medium size companies. We are especially active in the use of Ex-Im Bank's Working Capital Guarantee Program. This program provides needed working capital that often exceeds the amount of working capital that a company may be able to obtain in a more traditional way. Loans of this nature are typically secured by foreign accounts receivable and/or exportable inventory and are only made to qualified exporters. Under the program, Ex-Im Bank provides a 90% guarantee of principal and interest. Ex-Im Bank's guarantee is the enhancement that motivates us to provide financing which, in turn, provides the working capital that allows companies to complete export orders that might otherwise go unfulfilled.

In the past year, the Wells Fargo HSBC Trade Bank has made more working capital loans guaranteed by Ex-Im Bank than any other lender. We are pleased with this accomplishment because we know that this and other Ex-Im Bank programs assist small exporters in conducting business that, without this assistance, they would not be able to complete.

The Trade Bank has been in business a little over five years and in that time we have provided working capital loans guaranteed by Ex-Im Bank in the amount of $180 million. Since our inception, including these loans, all transactions supported by Ex-Im amount to almost $500 million. All of these transactions were on behalf of small to medium-size businesses - not one financing arrangement supported a multinational corporation.

Ex-Im Bank has long encouraged and supported the U.S. small business community. During fiscal year 2000, the Bank supported directly 2,176 small business transactions, aggregating $2.333 billion U.S. dollars. This support amounted to 86 percent of the completed transactions by Ex-Im Bank in that fiscal year, and 18 percent of the dollar volume of total authorizations. These figures do not include the vast number of small business suppliers and sub-suppliers that sell their goods and services to larger companies who take advantage of Ex-Im's guarantee and direct loan programs. Thirteen major U.S. companies have identified 35,000 small business suppliers and sub-suppliers for their products, many of whom are not even aware that their products are ultimately being exported.

We at Wells Fargo HSBC Trade Bank and the other members of BAFT question the Administration's proposed 25 percent budget cut for Ex-Im Bank in fiscal year 2002. We are fearful that this cut, if approved by the Congress, would damage the Bank's ability to support small business. We estimate that with the budget cut, Ex-Im Bank will not be able to provide support for all the applications it is expected to receive in fiscal year 2002. Any reduction in support by Ex-Im Bank negatively impacts small and medium-size businesses directly. Without the Bank's support they will have no alternative financing sources and will thus forfeit export opportunities to non-U.S. companies. Any cutback in Ex-Im Bank programs for small business will serve as a major disincentive to the small business community, and lead to a retraction by that business segment from the export market.

Wells Fargo does not look at Ex-Im Bank as the first financing option. We first do an analysis of the transaction and potential buyer to determine what financing structure would best fit the situation. If possible, we finance the transaction without Ex-Im's involvement. In fact, over the last five years we financed, in total dollar amount, three times as many transactions without Ex-Im's help as compared to Ex-Im supported transactions. However, often the transaction does not meet the safety and soundness criteria of The Trade Bank. In those instances and when the transaction exceeds our country or other limits, we look at other financing techniques, such as private export credit insurance and/or public support through Ex-Im Bank. Only after we have exhausted our in-house financing alternatives do we turn to Ex-Im Bank for support. Thus, the Bank is needed only for those transactions that we cannot do ourselves or place in the private market. When Ex-Im Bank is needed for financing support, it is for transactions that would not be done without such support.

I would like to provide a couple of examples where Ex-Im Bank's role led to completion of a sale for a U.S. small business that would not have happened without the support of Ex-Im.

In 1997 we were approached by a small design and engineering firm in Arvada, Colorado to provide the company with working capital to allow them to complete the design of the expansion of a canning plant in Russia. After a thorough investigation of the exporter as well as the underlying transaction, we provided a $1 million working capital loan guaranteed by Ex-Im Bank under Ex-Im's Working Capital Guarantee Program. This loan was handled satisfactorily and soon after it was paid-off, we were asked by the exporter and the Russian partners in the canning company to provide a loan to the Russians to allow them to import the equipment necessary to expand capacity as designed and engineered by the Colorado company. This credit, done in 1998 is a five-year $10.1 term loan, 100% guaranteed by a local Russian bank and Ex-Im Bank

under its Medium Term Guarantee Program. Loan proceeds were used to assist the Russian company in financing equipment purchases, all from the U.S., for the expansion of their beverage can manufacturing facility located in Russia. Because we were committed and because we had Ex-Im's guarantee, we funded this loan in the middle of the economic meltdown in Russia. I am pleased to report, the loan has been handled completely satisfactorily. To date, all payments have been received on time. Clearly, this loan as well as the working capital loan would never have been made without the support of Ex-Im Bank.

Another example of Ex-Im's help leading to an export sale and increased business for a small company is Orgil International Greenhouses Corporation. Orgil is located in San Diego, California and has been in business for 30 years. The company manufactures different models of greenhouses made in the United States with U.S. products. Annual sales are under $10 million. The company employs four people in administration, eight in production and three supervisors.

This year we have financed three separate exports to Mexico, each in the $650,000 to $1 million range. Each purchase has been financed by a five-year loan insured by Ex-Im Bank under an Ex-Im Medium Term Insurance Policy. Ex-Im's insurance protects us against the risk of non-payment for political and commercial reasons by the Mexican importer. Without this coverage, we would not take the risk of non-payment and the sales would have been lost, most probably, to an Israeli competitor.

Competition for export orders from non-U.S. companies, operating with the backing of their export credit agencies, is the most severe we have seen in some time. In order to help offset that competition, it is important that potential buyers and competitors see Ex-Im Bank, as vibrant, competitive, reliable and consistent in its programs and policies.

Ex-Im Bank does not provide subsidies to users of their programs. Most financing is done by the private sector at market rates, without guarantee or insurance protection from Ex-Im. When Ex-Im Bank assistance is required by the private sector, the Bank is fully compensated for the protection it provides by exposure fees and/or insurance premiums. Ex-Im Bank's loss ratio over its existence has been excellent. Ex-Im is a well-managed institution that provides focused, well thought out programs for all levels of U.S. exporters, especially small businesses.

As a way of doing business, I heartily support fiscal responsibility and look forward to many positive changes that the Administration will likely implement. However, at the risk of sounding self-serving, I must point out that the budget reduction under consideration for Ex-Im Bank may likely cost more than it will save. Consider…

- The economy is slowing – exports provide a market for U.S. produced products – the production of which keeps Americans working.
- The U.S. is headed for yet another record trade deficit – exports need to expand to counterbalance the current demand for foreign goods and services.
- Export financing is critical to expansion in emerging markets where the U.S. has a vested interest, such as China, Sub-Sahara Africa and much of Latin America, and
- The nations with whom the U.S. competes the most fiercely are far more aggressive in assisting their exporters, thereby placing U.S. exporters at a major disadvantage. While the U.S. is considering cutting back on its export credit programs, our foreign competitor countries are expanding their official programs, both by size of budget and with innovative financing packages.

On behalf of BAFT, Wells Fargo Bank and the Wells Fargo Trade Bank, I would also like to urge the Committee to support a five-year extension of Ex-Im's charter, which expires on September 30, 2001. A five-year extension would move the next charter renewal from a transition year, as we have now, and would give the then Chairman sufficient time to understand the important issues facing the Bank. This would allow the new Chairman to be better prepared to answer any questions Members of Congress or the Administration may have regarding the Bank, its programs and policies.

Wells Fargo Bank, Wells Fargo HSBC Trade Bank and BAFT strongly support the programs of Ex-Im Bank, specifically those directed to small business. In order to be certain these programs are maintained and expanded, we would urge the restoration of the budget cuts to a level at least equal to that appropriated in fiscal year 2001, and a five-year renewal of the Bank's charter.

Mr. Chairman and Members of the Committee, I appreciate the opportunity to provide this testimony and would welcome any questions the Committee might have.

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