Coalition for Employment through Exports
National Foreign Trade Council

July 26, 2010

Grace Hu
Trade Promotion Coordinating Committee
U.S. Department of Commerce, Room C102,
1401 Constitution Ave., NW.,
Washington, DC 20230
Attn.: NEI Comments.

Dear Ms. Hu:

The Coalition for Employment through Exports (CEE) and the National Foreign Trade Council are pleased to submit comments on strengthening the Administration's National Export Initiative (NEI) pursuant to the June 30 Federal Register Notice (75 Fed Register 37,756). CEE is an advocacy organization promoting competitive U.S. export finance and trade finance. The National Foreign Trade Council is a leading U.S. business organization advocating an open, rules-based global trading system.

While we care deeply about a range of issues important to the NEI, including the passage of pending Free Trade Agreements with Colombia, Korea and Panama and a swift and ambitious conclusion to the Doha Round of global trade talks, in these comments we will focus on several of the principal agencies involved in export promotion and export finance.

CEE and NFTC applaud the Administration's announcement of the National Export Initiative. We believe the NEI to be timely, its objective of doubling exports to be critically needed and a significant opportunity for job creation through the promotion of exports. Export based jobs have demonstrated to be more stable and of higher value for both the exporter and the employee.

FOCUS ON HIGH VALUE EXPORTS

A major focus of the Administration's export initiative has been an expansion of efforts to increase the number of small businesses which are exporting, and particularly, exporting to multiple countries. We fully support this emphasis since it can generate significant job growth, but underscore the need for increased administrative budgets for the agencies supporting small businesses to accommodate the increased expense of processing smaller transactions.

In addition, we encourage the Administration to support an emphasis within the NEI on promoting high value exports. These goods and services cut across the technology, engineering, industrial and manufacturing sectors and represent the backbone of the current and future U.S. industrial base. They comprise industries in which the United States has a comparative advantage, but which are so heavily contested that the Government needs to act aggressively to ensure a level playing field so that the private sector can compete to maintain that edge. The United States leads the world in a variety of industries – software, satellites, airplanes, renewable technologies, composite materials, high-tech processing – and there is strong demand for these items. However, our companies face increasingly aggressive competition and we urge the U.S. government to aggressively advocate for these sales.

An example of this issue is the lack of a level playing field in large commercial aircraft financing for the U.S. market. For nearly 30 years, the U.S. and EU abided by the principle of the Home Market Rule, whereby aircraft manufacturers agreed not to use government-backed export credit agencies to finance the purchase of aircraft into their own market and each other's home markets. But as new competitors have entered the large civil aircraft (LCA) market—most recently Canada's Bombardier with its 110-150 seat C-Series, supported by the Canadian export credit agency—the level playing field provided by the Home Market Rule has broken down. We strongly support the efforts of the Administration to resolve this issue, but this example reflects both the intense competition for market share of high value goods and how aggressively other countries are prepared to use financing from their respective export credit agency to provide their businesses with an advantage.

Providing a level playing field for the exporter of high value goods will require the U.S. export promotion agencies to be more proactive than at present. Since each agency has a different role in the promotion process, they need to support and reinforce one another by actively seeking out ways to combine efforts promoting U.S. technologies and products into markets, especially in the emerging markets where critical needs have been identified and U.S. technologies can play a vital role.

NEED FOR STRONG INTER-AGENCY COOPERATION

The Export-Import Bank (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (TDA), together with the export promotion efforts of the International Trade Agency and U.S. & FCS at the Commerce Department, form the core agencies involved in export promotion efforts. We believe that under the leadership of the Export Promotion Cabinet the Administration should review the roles of each of these agencies to ensure they are aligned with one another and able to provide complementary and mutual support in the context of a critical export opportunity.

Three examples illustrate the opportunities in a proactive export promotion strategy:

1. On June 30 Ex-Im Bank announced the signing of a framework agreement with BNDES, the Brazilian Development Bank, in which the parties will jointly promote investments and projects to benefit U.S. exporters and Brazilian companies. The Administration should consider a joint effort by ITA, TDA and OPIC in support of Ex-Im Bank and its framework agreement to establish a more far-reaching effort as the agencies will broaden the Ex-Im perspective on the opportunity presented by the agreement. We applaud the effort by the Bank's Chairman Hochberg to reach out to the Brazilian Government in this manner, but feel the effort could be even more promising if the export promotion agencies joined forces in maximizing the potential benefits.

2. The recent Reliant Power application to Ex-Im Bank for the financing of equipment to support coal fired power generation in India underscores the tension that can arise between support for exports and sensitivity regarding greenhouse gas emissions. Instead of leaving the Bank alone to deal with the conflict, we would urge the Administration to become more proactive and pursue a strategy of promoting U.S. clean coal technologies to the Indian Government, perhaps including the development of pilot facilities, that both further the advancement of the technologies and make inroads in reducing the GHG emissions likely to be emitted from this sector for years to come.

3. The Millennium Challenge Corporation (MCC) is an agency focused on sustainable development of countries demonstrating the attributes of good governance. At present, Congress has appropriated $7.67 billion to support projects in 39 MCC Compact and Threshold Program countries. The Export Promotion Cabinet could develop a program to promote exports to and investment and development in these 39 MCC countries. A proactive effort by the TPCC to support the MCC effort through a variety of steps, including Bilateral Investment Treaties and focused TDA study funding with follow-on activities supported by OPIC and EXIM financing, could significantly expand the beneficial impact of the MCC development funds, while increasing U.S. exports and strengthen the commercial relations between the U.S. and these countries.

TDA in FY2010 has a budget of $55.2 million, but has the staff and program flexibility to manage a budget several times its current size. Because of this flexibility, we would encourage the Administration to support an expanded TDA budget and utilize those funds to expand TDA's programs into areas where exporters need assistance.

OPIC is a highly skilled agency supporting U.S. investment overseas with financing and political risk insurance. Over the past decades, it has been influential in supporting U.S. investors seeking to break into highly competitive markets like private infrastructure and power generation. More recently, it has been sidelined because of restrictive environmental requirements as well as stringent pre-conditions on the countries with which it can do business. We encourage the Administration, and particularly OPIC's new President, to reconsider these constraints in light of both its development and export support mandate within the NEI. OPIC needs to be reauthorized; we believe the Administration needs to support a clean reauthorization rather than S. 705 which would sharply constrain OPIC's ability to support U.S. investment in the emerging markets as well as any growth in U.S. exports.

Contained within the Commerce Department, ITA is a tremendous export promotion resource. Through ITA, we would encourage the Administration to strengthen its outreach to small business exporters while also establishing a more proactive export promotion program in conjunction with TDA and OPIC to promote U.S. goods and services in sectors of emerging market economies identified by their governments as high priority.

Despite how critical export financing is for those who use it, few U.S. businesses are aware of the government support options available to them. The NEI must make an effort to increase awareness of the various government programs available and educate various "multipliers" such as local banks. For example, by educating local bankers on export financing programs and encouraging them to facilitate the application preparation and processing of Ex-Im's small business operations, they can ease the "retail" burden on the agency and engage a larger segment of the finance community in assisting small business to increase exports. The USEAC offices are one of the best mechanisms for such promotion.

HELP PROMOTE A STRONG, COMPETITIVE EX-IM BANK

We believe a strong, flexible and competitive Ex-Im Bank is the financing backbone to a successful export promotion strategy. The key to any growth of U.S. exports is to ensure that competitive financing is readily available, no matter the size or type of business. The Bank is critical for small businesses wary of selling overseas due to fear of not being paid and it is just as critical to high-value, multi-million dollar transactions. In many instances, winning a large international contract comes down to a competitive export credit finance package.

If the Administration wants to protect high value exports and high value jobs it needs to ensure the U.S. financing will be competitive with the financing provided by our competitors. Most export credit agencies (ECA)s, including Ex-Im Bank, operate under the rules and regulations as set up by the OECD. When the ECAs follow those rules regarding premia rates, financing terms, local cost, etc, Ex-Im Bank is quite competitive. However, many of the other OECD ECAs and their governments operate with a flexibility that the Bank is unable to replicate due to outside pressures as well as culture. The staff at the Bank does a good job of exploring all the ways they are able to finance a complicated deal with the tools available, but they often run into policies put in place by Congress and the Administration that hamstring them from successfully competing. The end result is lost opportunities and fewer U.S. jobs and exports.

For the NEI to be truly effective, it must help Ex-Im Bank address these policy issues – MARAD shipping requirements, content, economic impact, and Tied Aid. The timing is right, as the Bank's Charter is set to be reauthorized in 2011, but for the effort to be effective, the Administration needs to pursue these objectives aggressively. While these policies may have made sense when put into place, the economic reality is such that they hinder our economic growth. Presently, exporters are required to use U.S. flag carrying ships if they utilize Ex-Im Bank financing; however, there simply are not enough U.S. ships for the goods our companies are selling overseas. The result is delays in shipping, higher transportation costs for the buyer, and ultimately, the perception the U.S. exporter is an unreliable supplier, leading many buyers to turn to foreign competitors. We are aware of several companies that simply will not utilize EXIM because of the MARAD shipping requirement.

Foreign content is a complex issue that is rapidly becoming the biggest hindrance to Ex-Im Bank financing. The policy of requiring 85% content appears good in theory, but falls apart in the context of today's global supply chains. Compared to those of other ECAs, Ex-Im Bank's content rules are far and away the most stringent, as the next highest content rules are at the Austrian ECA at 50%. Under current rules at Ex-Im, if a potential export has 75% U.S. content, the Bank cannot finance the entire export, leaving the exporter to find third party financing for the 10% gap. This makes the exporter less appealing to a buyer who too often can resort to a foreign competitor with financial support from a more flexible, national-interest focused ECA. Understandably, content is a nuanced issue, but the Bank does not, or is unable, to take into consideration such things as value-added in the United States, R&D, project management, and overall benefit to the company. The Administration should not eliminate content rules, but should support granting more flexibility to the Bank to ensure that U.S. companies are able to compete on such projects where the other ECA is unhindered by content complexities.

Other issues that the NEI should look at are Tied Aid and Economic Impact. Tied Aid, which is concessional financing, has been increasing over the past few years and is primarily utilized by other governments to establish footholds in regions for certain national industries such as renewable energy. Ex-Im Bank has the ability to match such financing via its Tied Aid War Chest, but there is an interagency process for the Bank to access it. The result is that the War Chest is not used frequently enough to intimidate other countries into complying with the rules and the U.S. exporter is unable to compete in the specific transaction where it must contend with below market rates. The NEI should work to eliminate the complications to the process and assist the Bank in supporting U.S. companies. As for economic impact, the NEI should help the Bank address this issue as the sensitive industry list has effectively stopped transactions from ever coming to Ex-Im Bank.

The NEI is the centerpiece of the Administration's commitment to grow U.S. exports and meet the President's goal of doubling exports in five years. We believe that a proactive Administration targeting small business and high value exports and freeing Ex-Im to match the flexibility shown by competing ECAs can dramatically improve its export promotion programs and generate critically needed high value jobs.

Thank you for your consideration of these comments. We look forward to working with your Administration to ensure the success of the NEI and to help U.S. businesses and workers succeed internationally.

Sincerely,

John Hardy, Jr.
President, CEE

Bill Reinsch
President, NFTC