

EXPORT-IMPORT BANK OF THE UNITED STATES

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ADVISORY COMMITTEE

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MEETING

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TUESDAY
JANUARY 21, 2020

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The Advisory Committee convened in Room 1126, 811 Vermont Avenue, N.W., Washington, DC, at 9:00 a.m., Stevan Pearce, Chair, presiding.

BOARD MEMBERS:

KIMBERLY A. REED, Chairman
SPENCER BACHUS, III, Director
JUDITH DELZOPPO PRYOR, Director

ADVISORY COMMITTEE MEMBERS:

STEVAN PEARCE, Chairman
MARIA CINO
RODNEY FERGUSON
LAWRENCE GOODMAN
KATHIE LEONARD
THOMAS RAGUSO
RICHARD ROGOVIN
ALEJANDRO SANCHEZ*
CHRISTOPHER SMITH
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JOANNE YOUNG

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STAFF PRESENT:

ROSS BRANSON, SVP of Congressional and
Intergovernmental Affairs

JIM CRUSE, SVP, Office of Policy and
International Relations

DAVID FOGEL, SVP and Chief of Staff

ALSO PRESENT:

TOD BURWELL, President and CEO, The Bankers
Association for Finance and Trade

MARTIN GONZALES, CEO, Kukulkan S&C and
International Business Manager, Phoenix Oil
Services

VERONIQUE DE RUGY, Senior Research Fellow,
Mercatus Center

*present by teleconference

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P-R-O-C-E-E-D-I-N-G-S

9:05 a.m.

AC CHAIR PEARCE: Thank you, all for being here. We'll go ahead and call this meeting of the EXIM Advisory Committee to order, and appreciate the attendance for all the members, but also for those in the audience. Appreciate you all being here today. Since the last time we met, we have had the reauthorization of the Bank. That gives us a more stable footing.

But my encouragement to our full-time staff, the long time staff, is that too often reauthorizations are so problematic, and they occur with so much political discussions back and forth, that it's easy to focus on that and saying that's the objective.

So my encouragement is that the reauthorization is a checkmark on a very long and arduous task load. That is securing the U.S. economy and the world economy for decades to come. That's what we're trying to build on.

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So my encouragement to the staff is to look through this reauthorization into the tasks at hand, and I think that we as the U.S. are well positioned to be the global leader in trade. The world economy, I was visiting in Germany back as a Congressman and the Germans said when the Americans sneeze, the world economically catches flu. And so understand that when we talk about American prosperity, we're talking about prosperity around the globe.

So that's the purpose of the EXIM Bank and of this Advisory Committee. We are to be the communicating link to the U.S. Congress. So again, the reauthorization, bravo, good.

Now let's get on to the real work. And so with that, I would introduce Chair Reed for comments and thank you for having us here today.

CHAIRMAN REED: Good morning and Happy 2020. Thank you Chairman Pearce for that very welcome, kind welcome for all of us, because

we are here today to say EXIM is back.

I am pleased to have the opportunity to bring together this Advisory Committee, our Board of Directors, Judith Pryor and Spencer Bachus, our senior leadership, and representatives from Kukulkan S&C and Phoenix Oil Services, the Bankers Association for Finance and Trade and the Mercatus Center.

Today we will discuss the global outlook.

(Off-mic comment.)

CHAIRMAN REED: Yeah, I did say Judith Pryor, yes, yes. Today we will discuss the global outlook in Latin American markets, as well as EXIM's additionality and economic impact procedures. But before we get to that, I would like to focus on EXIM's priorities for the coming year.

EXIM is keeping America strong by empowering U.S. businesses and workers to compete globally.

This is our new vision, and we have worked hard to deliver on these goals. I announced on my first day at EXIM to fully reopen, reform and reauthorize the agency, to provide results for U.S. workers and businesses while protecting the taxpayer.

With the great support of nearly 400 EXIM staff, we are accomplishing these goals. As you know, Congress passed and President Trump signed a historic seven year reauthorization of EXIM. Thank you to those of you in the room who helped make this possible.

I'm especially grateful for President Trump's leadership. He recognizes the critical role of a stable, reliable EXIM and our role in providing American, supporting American exports. He understands the value EXIM brings to the table in our efforts to combat China in his Belt and Road Initiative.

The bipartisan legislation approved by Congress achieves two important goals. It

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provides certainty to American business and workers that EXIM is open for business for a long time, and gives clear direction to EXIM to meet economic and national security challenges from China.

Between 2008 and 2018, Chinese official medium and long-term export credit activity quadrupled, going from approximately one-tenth of G7 activity to roughly equal. In 2018, China's official ECAs provided more medium and long-term export credit financing than the ECAs of the United States, the United Kingdom, France, Japan, Canada, Italy and Germany combined.

We are still in the process of evaluating the new language on China in EXIM's reauthorization legislation, but I am pleased Congress reinforces the Trump administration's view that we should play a critical role in keeping America strong and combating China's aggressive behavior in the export credit sector.

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The important legislation would not have been possible without reforms implemented at EXIM, and that is what we are here to discuss today. When we last met in October, I outlined the six promises I made in my June 2019 testimony to the Senate Banking Committee.

Those promises ensure EXIM protects the American taxpayer while supporting American jobs by facilitating U.S. exports. The topic of this meeting today reflects my commitment to ensure reauthorization does not mean a return to business as usual. EXIM will continue to implement reforms and work to ensure we do not compete with private financing.

As a Committee, you provide important and diverse feedback on the policies and programs of EXIM, and we thank you for your support in improving this agency. I'd now like to turn the discussion over to Ross Branson, EXIM's SVP for Congressional and Intergovernmental Affairs, who will provide a Reauthorization Update.

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MR. BRANSON: All right, thank you. Pull that a little bit. Good morning. Thank you again. I also want to say thank you to Chairman Pearce, this Committee, for everything you all did during our reauthorization to help secure our seven year reauthorization, as well as specifically Chairman Reed and Directors Bachus and Pryor for all of your hard work, leadership throughout this process. I can definitely say that without that, we wouldn't be where we are. So thank you for that.

Into the implementation, we have established internally an implementation team that is designed and segmented based upon the various provisions that are in our bill.

As it relates to different divisions within EXIM, whether it be Small Business, Board Authorized Financing or other divisions, we've tasked out reviewing the language, reviewing potential processes, procedures, resource needs, et cetera that would be centered around each of

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these provisions that have been given to us by Congress.

Into that, we've been given our seven year reauthorization. Our exposure cap has remained at 135 billion. Our small business mandate was increased from 25 percent to 30 percent, and that's a hard mandate for us to reach. Then into renewable energies, we've been given a no less than five percent goal of achieving for renewable energies and efficiency in storage.

And then two provisions of particular note are those that are dealing with China. We have the China and Transformational Exports Program, where Congress has given us an aspirational goal of 20 percent to set aside of our exposure cap, dedicated to competing with China globally.

I think an important thing to note is that this mandate to compete is across all industries. In the bill itself though it calls

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out specific industries that they would like for us to focus in. Those are in artificial intelligence, biotechnology, biomedical sciences, emerging financial technologies, high performance computing, quantum computing, renewable energy as mentioned, semiconductor and semiconductor machinery and manufacturing, water treatment and sanitation as well as wireless communications specifically within 5G.

The next provision that's dealing with China is how we review our transactions as it relates to China. We've been called to set up an interagency process where we consult with the Department of State, and then they are called on to consult with other agencies as related into any involvement with any of our transactions where China's involved.

We're currently assessing that language right now, as well as the rest of the provisions, analyzing what that means and what's needed for us internally as well as across the

interagency to achieve that goal.

A part of that within the implementation process, one component we've asked divisions to look at is potentially external engagement, external stakeholder engagement into our implementation.

So now I'd like to pose to you all any high level comments, suggestions that you may have as it relates to our implementation or as it relates to our bill that's been given to us from Congress.

We want to take input from everyone that we can, so I don't know if anyone has any high level comments that they'd like to give or any suggestions.

AC CHAIR PEARCE: I would. I would lead that off and say, if I can emphasize even more strongly than I did in the opening statement, that the voices of discord on EXIM have not gone away, even with the seven year reauthorization. So what happens politically is

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they begin to build towards the next reauthorization and even to your operation.

So those voices of discord should be valuable road maps to us to solve problems that are out there. The discord is not against the people in the bank, it's not against any particular operation. It's against the process or whatever they've seen in the past.

So the long term commitment should be to the reforms that were testified to by the Chair in her, in her confirmation, but also in part of the discussion today is to keep those voices here among us, that we might know where the challenges do lie politically, because they're very valuable.

So that's just not business as usual. We can't just say okay, reauthorized and we're going to start where we left off four and half years ago.

MR. BRANSON: Right.

AC CHAIR PEARCE: So again, other

comments from Board members?

MR. BRANSON: And then I'd like to just further underscore that. You're exactly right. Our reauthorization, even though we've been given a historic seven years, it can't be out of sight out of mind, where we don't talk about reauthorization until Year 6.

We need to be doing things here internally and working with our external stakeholders to make sure that the road map come seven years is a much easier road map.

AC CHAIR PEARCE: Yeah, and I appreciate that reassurance there. Other comments from Board members? Yes.

MEMBER FERGUSON: I have a question Ross, and that is in the language, you said where China is involved. What is the definition of involved?

MR. BRANSON: That's exactly what we're assessing at this point. We've tasked our General Counsel division as well as other

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relevant divisions to be digging into that language, assessing what it means and going from there, figuring out that interpretation.

AC CHAIR PEARCE: Other comments?

Yes, Mr. Bachus.

DIRECTOR BACHUS: Thank you. First of all, I'd like to commend Ross. I'd like to commend you and Luke, Sierra, Kevin for the work you did, and I'd like to second what Congressman Pearce said, that -- and I think really if you look at our agenda today, you'll find that we are addressing those economic impact and additionality.

That's really what the main subject is going to be. How do we comply with some of the concerns of the Congress?

One thing that I noticed when we went to the Hill, and I think the Chairman found out the same things is the Congress sometimes wasn't aware that some of these projects of the countries that are doing the projects insist on

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the participation of an export credit agency. So if we don't participate, the United States doesn't participate.

So it's not a matter of competition. They make the decision that they will only do a project if an export credit agency participates, and products from those countries are the goods will only come from our country, in many cases if EXIM participates.

One of the things that I'll ask later when we're -- I don't think today, but you see this list of under, and on page 34, I don't know if you all have reviewed this, there's an excellent summary of the reauthorization highlights, and under China and transformational export program, there's some things like wireless communications.

At some point, I'd like to note in the coming days what that includes and doesn't include. In other words, does it -- a lot of countries now are going from analog to digital,

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and I suppose that would be a part of wireless communications. But just things like that that will have to fether out.

MR. BRANSON: Right.

DIRECTOR BACHUS: I will say this. From reading it, some the compliance on economic impact and some of the compliance on additionality are going to be rather tedious, and if you read this, we -- some of our export agencies, those in Asia, don't have any of these requirements.

I think Director Pryor, it's going to be invaluable your experience with OPIC, because they have some of the same requirements that we do. I think we'll all need to rely heavily on her experience at OPIC.

AC CHAIR PEARCE: Other comments.

MEMBER YOUNG: Yeah. In addition to the staff, I'd like to take a moment to recognize president and Chairman Kimberly Reed, who worked tirelessly to make this reauthorization happen,

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and to make it happen in a bipartisan way, and to cover not only the economic but the national security parts of the EXIM Bank.

I think that without her steadfast and tireless efforts, it just wouldn't have happened. So if I may, lead everyone in recognition.

(Applause.)

CHAIRMAN REED: It was the 400 staff and this great Committee that really helped us get this done. Thank you.

MR. BRANSON: And I think you just touched on something too that I think is worth noting. I think there's been a clear callout in our legislation on the national security side. We've clearly been given this mandate to compete with China and to take in account our national security interests. So I think that's definitely worth noting.

AC CHAIR PEARCE: Mr. Raguso.

MEMBER RAGUSO: Ross, I might add as you're thinking about the external engagement,

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during this next seven year period I think it's really important to keep pushing on the supply chain engagement, and I guess to continue to educate everyone how important those indirect beneficiaries of EXIM Bank financing are.

As a mid-size bank, we primarily are supporting these small and medium-size businesses, many of whom also win their contracts because one of the large engineering firms, one of our large exporters has won a billion dollar contract or a \$500 million contract. They wouldn't get their \$10 million contract had they not been in position to win that one.

So I think continuing to penetrate the supply chain, you know, and communicate the importance and how those two things are inseparable, and that you cannot divide big companies from the small company beneficiaries of EXIM Bank.

AC CHAIR PEARCE: Thank you.

DIRECTOR PRYOR: I just wanted to just

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add very quickly congratulations and thank you to the OCIA team, who really I mean just 24/7 until this got done, led by Chairman Reed, which it wouldn't have happened without her support and her tenacity. So thank you Kimberly.

But also, you know, this is EXIM Bank. I think when people were asking me if were on the road, so what happens? I said I'm confident we're going to get reauthorized, and after that we'll have a little bit of breathing room so that we can really take a look at all of the policies and procedures here in the Bank, and see how we can modernize the agency to make it even more effective for American business and to compete fairly on the global stage.

One thing I think we just have to remember is that, you know, we're not business, we're government, and we're government that's here to help support American business, so that they can succeed in the global arena. That includes looking at things like national security

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and foreign policy objectives, and those are all part of our mission here at EXIM and should not be taken separately one from the next. Thank you.

MEMBER ROGOVIN: Mr. Chairman.

AC CHAIR PEARCE: Yes.

MEMBER ROGOVIN: I'm Dick Rogovin, U.S. Bridge, Cambridge. We are in the category of small business. We are a manufacturer of steel bridges, an 80 year history.

We have recently modernized our facility in anticipation of what we hope will be major contracts, which we find challenging to compete on the international market against some larger companies and particularly against the Chinese and other foreign countries.

What can we do to help small business? Well fortunately I'm on the Small Business Committee of this advisory board, and I have a number of ideas what small business could use, particularly small manufacturers. But I want to

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refer everybody to an excellent leaflet that was included in our packet today, "G12 ECA Mission: Strategies and Values."

In particular, the description of what Canada is doing, which I think would be a good model for us in many respects. I won't go over it because it's pretty comprehensive. I would note that Canada has always taken a very strong interest in developing their industry. They have had since 1947 an organization called the Canadian Commercial Corporation, which actually acts as a wholesaler of Canadian manufactured products for a very low margin.

They do billions of dollars' worth of sales for Canadian industry and support thousands and thousands of manufacturing jobs in the work they do. So Canada has a, has a history of more direct involvement in Canadian manufacturers, and there really is nobody, no organization in the United States government on the federal side that is equipped to do the same sort of thing they do.

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And I think that the EEC mission of Canada described in this brochure will be something to which we could aspire. So I just want to direct everybody's attention to this very good publication that we have before us. Thank you.

AC CHAIR PEARCE: Thank you sir, I appreciate that. Other comments? Yes Chris.

MEMBER SMITH: I just want to echo the comment that was made about the reauthorization. It's sort of rare for Congress to be actually clear, and here you have a case where if we compare the statute before the reauthorization and, as Spencer pointed out, the summary of the statute after the reauthorization, there's one thing that's different. It's China.

It wasn't there in the statute before, and now it's there in a very significant way. All these other issues had been touched on before by Congress in some way, shape or form, and there's adjustments on the margin on small

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business and environmental issues, etcetera.

But the China program is new, it's different, it's big, and just to me it just sort of jumps out that if there's anything that's going to require a sea change in this agency, it's going to be this.

I view it not so much as a challenge but an opportunity because, as has been said, you know, how does EXIM focus its attention for the next seven years? I think there's a very clear road map here on what needs to be done. So you know, I just would offer that up as, you know, a rare case of clarity and a road map that's been provided.

AC CHAIR PEARCE: I wish you would not have pointed that out, because there will be following legislation that will muddy that out. Okay, so thanks for bringing that to the attention, what needs to be focused on next. But Ross, I appreciate your update and seeing no other comments from the Committee -- oh yeah, I

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see Maria. Go ahead.

MEMBER CINO: So sorry. I'll pile on and also congratulate and thank you for your hard work. But with regards to China and the China and Transformational Exports Program, if I might point out, which is the obvious, which is usually what I do, is when looking at this list, and I know there's been reach out, I would encourage you to continue to reach out.

Half of, all of these are indirectly to related to tech, but more than half are directly. With regards to China, just to give you an example, in high performance compute out of the Top 200 supercomputers in the world, China has the top five. We kind of like -- the U.S. bounces up and down a little bit, but they're usually the Top 5.

I think we've got an excellent opportunity, whether it's small business or big business, to look into the tech industry as we look to the future, where we are going to have to

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invest more, help more, support more with regards to tech, so that we can continue to compete with China. And again if you look at the list, it's pretty obvious. So thank you very much.

AC CHAIR PEARCE: Thanks, appreciate that.

MEMBER TETTLEBAUM: Mr. Chairman?

AC CHAIR PEARCE: Yes.

MEMBER TETTLEBAUM: If I may, in looking at that list on page 37, the question that I wrote out was not the what but the where. What I mean by that is what we've seen over the past several decades is that in all those areas, the manufacturing that has gone into our technology sector has been in China. So the question I have is whether the Bank is going to look at those that come to it for some type of guarantees, to see where they're actually going to be doing their manufacturing.

Where are they going to actually be doing business, because we've built the Chinese

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economy with our companies that have actually gone to China to manufacture their goods. That seems to me to be the backbone of the Chinese economy. If the manufacturing actually begins to shift to other countries, where they can produce the same kind of quality, that will certainly send a message to China.

AC CHAIR PEARCE: I'll ask the Chair to address that then in just a second. But first, understand that the tax policies that were implemented have greatly reversed the need to outsource, the need to move the manufacturing. But also the regulatory changes that are being made inside the agencies right now are lessening that push out of the country.

So we're actually seeing manufacturers return here after a very long absence. But I'd like the Chair to address that if you would.

CHAIRMAN REED: So we'll be hearing from Jim Cruse in a few moments. But as we look

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at this China program and how we set it up and what we do, we're very mindful of deals that come to us and how we can support and compete. We're going to be out there sharing this message in a very loud way.

It's pretty awesome to be able to now go out and say please buy more Made in USA. As applications come into us, we make it be known the importance for us to compete with China. We will be hosting our G12 in conjunction with this next advisory board meeting April 2 and 3, and China is a member of that G12.

We'll be having discussions if they come and participate, which we hope that they do, directly with them as well. We want to see our supply chain come back to the United States, and EXIM is a key tool to make that happen.

AC CHAIR PEARCE: And then also we've got a Christmas ball manufacturer in the 2nd District of New Mexico that I represented for 14 years. They were the last ones in the world.

India couldn't compete. Pakistan lost out. It was just China and this one manufacturer of Christmas balls, the little glass things you hang on the Christmas tree.

And they routinely reported that okay, that the Chinese allowed their currency to float today, and because of that we're going to make a profit. So I think that's part of this Phase 1 with China, the watching and the ordering of the currency valuation in China is another kind of important piece in exactly what you're addressing.

So leveling the playing field has been occurring, I think is going to continue to occur under this President. With the reauthorization, absolutely. I think your point is well made. I would like to go ahead and wrap this piece of the program up. Ross, thanks for your presentation. Thanks for your diligence, and again reassure all the permanent staff that we're totally, totally on their side in this move into the new EXIM.

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Yes Chair.

CHAIRMAN REED: If I could just ask for the Committee's support. As Maria Cino mentioned, when you look at the legislation there are specific callouts for us to focus on certain topics, and when we leave this meeting, I hope that if you plug into this you will offer your expertise to us.

I'm just going to read this list briefly for our audience as well, is that this is an open press meeting. So artificial intelligence, biotechnology, and my coming from the food and agriculture world, I know Secretary Black probably is at the Farm Bureau meeting that the President spoke at on Sunday in biotechnology. I believe also speaks to the world of food and agriculture.

Biomedical sciences, wireless communications equipment including 5G or subsequent wireless technologies; quantum computing; renewable energy; energy efficiency

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and energy storage. I would like to thank Director Pryor for taking that on and really be, help us be successful on that front. Semiconductor and semiconductor machinery manufacturing, emerging financial technologies including technologies that facilitate financial inclusion through increased access to capital; financial services; data security and privacy; payments in the transfer of funds and associated message services, and efforts to combat money laundering and the financing of terrorism.

Water treatment and sanitation, including technologies and infrastructure to reduce contaminants and improve water quality; high performance computing; associated services necessary for the use of any of the foregoing experts.

I want to thank our wonderful person over here who is transcribing this meeting. I'm just stating these items to have a complete transcript for the record, because we will be

posting this transcript on our EXIM website.

Thank you.

AC CHAIR PEARCE: I would like to call the next panelist up. Martin Gonzales is the CEO of Kukulkan S&C, an international business manager of Phoenix Oil Services. Martin, and to the -- and first of all, Alex, are you out there? Alejandro, are you with us on the phone?

MR. GONZALES: That's correct.

AC CHAIR PEARCE: All right. This part of the program is for you and you have travel plans, we understand that and we're sympathetic to it. But we did want you to be in on the call today. Is Richard Powell also on the conference line today?

(No response.)

AC CHAIR PEARCE: Okay. So Alex, you had continually mentioned to me after previous meetings that you didn't want us to ignore or forget Latin America. And so Martin's expertise is there. Martin, you can -- I want you to really

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amend your comments and pare them back, because you see the discussion is already where it needs to go.

So what I want you to concentrate on is the shift from U.S. markets, and again Martin's background is in oil and gas and energy. But since he was in that field, he began to expand and be knowledgeable. But I want to concentrate on the shrinkage of the U.S. presence in the Latin America market, and how many people. You're there to facilitate people coming and doing business; is that correct? That's your function; correct?

MR. GONZALES: That's correct. I'm -

-

AC CHAIR PEARCE: And so 20, 15 years ago, how many people like you were there facilitating U.S. manufacturers? Because if I'm a manufacturer in Hobbs, New Mexico and go to Latin America, my chances of success by myself are what?

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MR. GONZALES: Yes. Actually, you're absolutely right there. 20 years ago I mean I started traveling in Latin America since '97, and nowadays you actually see more Chinese businessmen traveling within the region than you do American sales personnel.

AC CHAIR PEARCE: So what are the main -- what are the main obstructions that I would face as a small manufacturing going into the Latin America market?

MR. GONZALES: Well, first of all you have to compete first of all with the majors like Halliburton and Schlumberger, which are the larger service providers in the region. But second of course, the Chinese are getting stronger and stronger. Now they're bringing in services as well as actually buying fields, oil fields in the region as well. So --

AC CHAIR PEARCE: So they're buying the entire field and then they would control all of the output?

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MR. GONZALES: Exactly, and then they bring -- they actually bring in Chinese service companies as well to actually do their services. I think that's probably one of the biggest things that I've noticed, that they're taking over literally to bring in their own services from China, which eventually again will affect major companies like Schlumberger and Halliburton at the end of the day.

AC CHAIR PEARCE: Yeah. What -- go ahead and make -- you were supposed to make 20 minutes of comments and we're on a very tight schedule today. Can you shrink down your opening comments to four minutes. I really do want to engage in this conversation, because he's on the ground there. Many times, we have representatives.

But it's the people who are on the front lines who know what's happening back and forth. So shrink it down and if we don't get conversation from the Advisory Committee members,

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then we'll go ahead and open it up and you can just filibuster or whatever you want to do. But I really would rather transition into a discussion here.

MR. GONZALES: Yes, and mostly again my main -- what I've noticed in the region specifically, like Chairman Pearce said, thank you first of all for inviting me. I have noticed a lot of change in the region, specifically since I was literally living in Venezuela for a couple of years and then Argentina for an additional year.

Back in '97 through 2000, I mean everything was still standard procedure, where Canada and the U.S. were the main service providers for the oil industry in Latin America. After 2000, of course, I actually was in Venezuela when Hugo Chavez was elected into government, and then I think from that point onward is where things actually started changing in the region.

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We had a succeeding populism growth in the region, which of course involved Bolivia, Ecuador, even Argentina to a certain point. But all of these issues actually basically opened up the doors for the Chinese markets. Again, a lot of it had to do with anti-U.S. sentiment, but these governments were actually just trying to prove their point, I guess, at that particular time.

With that said, the Chinese since then, since 2000 going up to now, they're just getting stronger and stronger. I've actually seen, for an example, in Argentina they've actually opened a major bank building in the commercial area. Of course, they're getting to be one of the largest lenders in the region as well. So this has a lot, a lot of influence on the local governments.

One of the other countries that has majorly affected by this is Ecuador, where they're just -- they actually are involved in

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field operations with their own leases. They're bringing in Chinese service companies as well as Chinese technology, and of course the major benefit for them there is that Ecuador being a dollarized country, you know, they're actually, they actually have access to U.S. dollars from Ecuador.

So they're definitely getting bigger. They're actually, on hand experience there. They're actually manufacturing copies literally of U.S. product within country that would, that are actually competing with U.S. product. If there's anything out of the competition with China that I see at least on my end of the business side, is that there -- that the U.S. still has the advantage because of the quality control involved in the process.

Chinese are still way behind in quality control, but they're getting better as they go forward. I heard somebody comment about the actual manufacturing in China. I personally

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think that that's actually helped them get more and more savvy as to how to manufacture their products with U.S. technologies.

So again, these are the kind of scenarios where I just see it getting worse and worse as time goes. Several of my colleagues in the region have -- are actually thinking that we're already so far behind it's going to be hard to catch up. But again, I still think that we have the advantage because of the technology side of it and the QA/QC. That's very, very important.

In the region, Latin America in general, they still want U.S. product. They know that the quality is behind the product. So I see that as one of the major advantages there. One of the things also that the Chinese are pushing very hard now is for an example at least on the technology me living down there, I was actually still a consumer and of course I've always looked for U.S. product while living abroad.

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In this case, you know, they're definitely competing now on the electronics side of the business, with specific items like phones. The phones, their operating systems, I mean their Android operating systems. Their processors are at the level or even could be even a little bit better than U.S. manufacturing now, because again they're just taking all the advantages of doing joint ventures.

I actually brought an example of a Huawei phone, which actually I dropped my phone while working abroad and I got this phone for half the price that I could for an American phone in the region. So with that said, this phone actually has a German camera, Leica camera in it, which again supersedes anything that's made in the U.S. market. Also the processor itself is a very, very fast processor.

So they basically went from selling stuff like this made in China to actually going to where they're selling high tech electronics.

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So that's definitely a major influence there.

As far as in the oil industry, you know, we're actually since the latest boom, there's actually been a whole, a whole bunch of requests for U.S. steel. When I actually visited a customer when pushing U.S. product, they usually right off the bat they ask is it Chinese or is it American?

Of course if you're selling anything Chinese, you have less of an opportunity to sell the product. But at the end of the day when there is a lack of U.S. product, actually that's where they would go to because they're probably the largest manufacturers besides the U.S. in the oil industry.

One of the major things again like I mentioned Ecuador. They have actually three companies that are running as service companies for Andrews Petroleum, which used to be a Canadian company. It was eventually bought out by China. There's actually some, even some

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Russian service companies in there as well.

Of course all of this fell under the leadership of the socialist governments or the populist governments that were in power at the time, and I definitely noticed that. When even trying to push American product, they were just more lenient to try and open up the Chinese into coming in.

This is one of the things that I personally am concerned about, because at the end of the day if you start getting the Chinese product more and more into the system, they just have to -- they're forced to actually better their quality, and at the same time that's going to even make it more difficult for U.S. product to be purchased in the region.

So I personally still think that we're in time to catch up, so let's -- what I've seen now with what you guys are doing, the services that you will be helping assist American companies to move U.S. product, I think that's

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the best way to go about it.

AC CHAIR PEARCE: Well, thank you. I appreciate that abbreviated version. If we go now to comments or questions, I want to ask --

(Off-mic comment.)

MR. SANCHEZ: Thank for your comments. I apologize for not being there. Thank you for your excellent summary. You know, some of us, I think all of us at EXIM, it's just as Americans, we have a concern, you know.

We obviously are in a global competition with the Chinese and as our Chairman just said, we are concerned that while the Chinese are trying to further infiltrate and penetrate the markets in Africa and elsewhere, you know, we're also concerned that they're trying to penetrate right here in our own backyard, which is Latin America.

Your experience down there is telling as to what the opportunities are, but also what the threats are if our country doesn't respond.

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What do you think EXIM Bank can do and what policy recommendations would you recommend, other than making sure that we as a country, you know, pay attention down there to the region that's in our backyard? Any comments on that that you can tell us?

MR. GONZALES: Yes, yes, actually I do have some. I think first of all one of the things that's very, very critical is as mentioned, you know, these populist governments are -- some of them are on the way out. There's actually elections that are coming in for an example, Argentina. I think personally they took a step backwards with the new government that was elected.

But again, it's a matter of time before I think we're going to go back to what it was like six years ago, when that particular government was in power, where again they definitely have -- they definitely have Chinese influence underneath their belt there.

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But what's critical to me, at least in this side, one of the points that I was looking at, like for an example the allies of the U.S., our major allies like Colombia and Mexico, that have really good trade agreements with the U.S. I mean even for an example Colombia right now. I'm seeing ten major Chinese car manufacturers that are bringing in cars into Colombia.

Even before, all you would see European and American cars. Now, I mean the Chinese are actually taking that market over. So allies like Colombia in particular, you know, I just don't see how that would be happening if there was a constant relationship with them, because at the end of the day it's just promoting Chinese product at a higher rate.

Eventually, since their cars are actually manufactured in China, they're brought in and the withholding, the tariffs that are put on the vehicles, you know. They're still acceptable enough where they're still cheaper

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than the U.S. or the European counterparts. So that definitely has to be something that I think in my point of view needs to be looked at, just to maintain a good relationship with the allies that are 100 percent behind U.S. policy.

MR. SANCHEZ: Right. Thank you Mr. Gonzales.

MR. GONZALES: Yes, yes.

CHAIRMAN REED: We're working really hard to be very thoughtful about how we set up this program. So how do we get to deals as China's getting the deal? Before, we've always just read about it in the paper. How can we get there and actually compete with them? Do you have any recommendations?

MR. GONZALES: Well, my particular point of view is that again, I think the relationship has to be done between -- at the government level, where again there has to be that influence. I just read on the way over here from El Paso that basically Mexico looking

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forward to finalizing this new trade agreement with the U.S. and Canada, but they already say well, we're also interested in talking to the Chinese.

I mean at the end of the day, you know, if that's happening right next door, basically I mean there's no control over it. I think there just needs to be more influence on the American side of dealing, negotiating with these allies. That again, it just seems impossible that, for an example, there's some Chinese vehicles that actually have U.S. engines in them.

There's something going on to where, the joint ventures are I guess all these companies are always looking for their bottom line, bottom dollar on trying to get their products moved. But at the end of the day, it's just giving the Chinese more and more advantages over U.S. product.

When you see a Chinese truck with a Cummins diesel engine, you know that makes you

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wonder well, I wonder what's going on here? So those are the kinds of things that I think need to be pushed, especially with the allies that are actually on board with U.S. trade policies.

AC CHAIR PEARCE: Now in the past, you have mentioned to me that corruption is a very big obstacle to overcome. Your average U.S. company, how successful can they be facing the obstacle of corruption? If you could go into that very shortly. Other comments? I'm looking for other questions also from -- yeah, I've got several here -- to address that.

Larry, we'll come to you and then Joanne to you.

MR. GONZALES: Yes. The main thing is like the major, you know. Like at least that I've seen, especially like in places like Mexico, Brazil, majors like Schlumberger, Halliburton, Weatherford at the time before they actually, excuse me, filed for bankruptcy.

They were actually pretty much in

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control over their operations or the service side of the business there, because again they were just so big that they could actually tolerate anything that would come their way. The smaller companies it's more difficult, because first of all you have to get inside the door, whether it be the national oil company or IOC that's actually operating within the country.

But for sure, there is definitely a lot of corruption still going on, even after Petrobras went through the Odebrecht deal there. They're still, they're still trying to reduce their corruption within.

AC CHAIR PEARCE: Mr. Goodman. Mr. Goodman.

MEMBER GOODMAN: Thank you very much for an outstanding presentation. To what extent does finance play a role? In other words, you spoke earlier about the number of Chinese companies on the ground displacing American companies. To what extent does the provision of

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financial resources that's been documented, whether it's to Petroecuador or PDVSA.

Has that played a role and at what cost? Are these resources being pledged, which creates a problem in the future? So to what extent is finance leading to this proliferation of business activity in Latin America?

MR. GONZALES: I personally think, for an example, like as an example Ecuador again. It's not necessarily the financial part of it. It's all the governmental part of it, because first of all if you're not in the door with the government, I mean there's no way you can actually go in and set up a project, a major project for an example. The influence is there from the Chinese, so they're actually dealing with them. They have people that are actually there on a daily basis talking to them.

So I think again it's basically getting in the door before you actually are able to promote the potential financial of whatever

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project is coming up or is available at the time. Right before we came into this session, I actually got a call from Mexico. They were telling me that the Chinese are actually -- they're investing the majority of their money into the manufacturing of a refinery in Dos Bocas. This is in southern Mexico.

So I mean that's -- a major project like that was typically done by U.S. companies. Now, I mean when, if we're actually seeing Chinese actually get to that level, where they're taking over these major projects, then there's a lapse in between the communication between governments, because a refinery is not -- it's not a small matter. It has to be done through government approvals.

And so in this case, I just don't see how that could have happened unless the U.S., if it is all as stated, the U.S. should have been involved in that particular scenario. So again, you have to be in the door to be able to get the

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financial part of it, at least in my point of view.

AC CHAIR PEARCE: Ms. Young.

MEMBER YOUNG: My understanding is that in these countries, as well as in Africa, there's a lot of resentment about the fact that China does bring into their own workers into these projects, and even to running these companies. My question is if the bank is financing something, for example, you gave the example of a car manufacturer in Colombia, where the engines are U.S. manufactured.

What is the possibility that EXIM financing could be conditioned on workers in the end user being local citizens of the home country?

MR. GONZALES: Well, I don't know if I misrepresented that, but the vehicles are coming in from China. They're actually manufacturing the vehicles in China. The issue there is of course they buy probably the U.S.

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engine, they buy several engines for their requirements and then export them into places like Colombia in this case.

But you still, you're absolutely right about the Chinese bringing in their own people, personnel, et cetera. I saw that a lot in Ecuador. They actually had, when they were barely coming in back in early 2000, they actually had a lot of Chinese nationals working for them directly.

MEMBER YOUNG: I guess my thought was that whether it's a refinery that's needed or an auto manufacturer in these countries that's threatened, that if EXIM financing comes in to help the threatened company, the threatened industry and also has the incentive of jobs for the local economy, would that be helpful or even enough to stave off the Chinese cost advantage?

MR. GONZALES: I think at the end of the day, it all has to do with the actual value of the product, of the final product. Most of

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the vehicles, for an example, in South America, all the U.S. manufacturers, they're all either made in Mexico or Brazil. I think they also have some manufacturing in Argentina.

The reason that they were manufactured down there is sort of to keep the cost down as far as all the tariffs and so forth that they would apply from bringing vehicles in from the U.S.

So I think at the end of the day, the Chinese just have found a way to actually manufacture their vehicles to a point where even paying high tariffs they would still be way below the U.S. brand. So to me, that's the main reason in the vehicle side of it.

As far as still the Chinese nationals working in the region, they're actually phasing out of that section now because now they're actually, since they're established, a lot of these countries actually require local labor, then they're actually going out of that phase

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now. They're actually starting to come in and they're using local employees.

So that's phasing out, but in -- once they're established in that particular country is when that process commences.

AC CHAIR PEARCE: I will get to you. Let me make a comment to the Committee, that you see we're supposed to go on break, and I think you know by now that we're going to work through the break. If you want a break, it's back there. Feel free to get up and move. But we're going to continue this discussion for ten more minutes.

We're just trying to get every minute that we can, and so all of you who want to go ahead back there, at 10:10 we've got to move into the next part of the agenda. So yes, Katie go ahead.

MEMBER LEONARD: Kathie.

AC CHAIR PEARCE: Kathie, go ahead.

MEMBER LEONARD: I'll be brief. One thought comes to mind as we talk about external

engagement and how to better understand how EXIM can help exporters. I'm active on ITAC Committee, Industry Trade Advisory Committee, part of the Department of Commerce and, you know, we've been involved in free trade agreements up to now and either, you know, on one side or the other of those free trade agreements.

I'm wondering if EXIM could network or be part of our meetings. We have quarterly meetings for the most part to -- around those tables is every industry you can imagine, and to better understand just what industry needs to export and to hear the negatives that might be pertinent to that. Because as someone else mentioned, multinationals are making products in China. How does that -- how are they going to push back on, you know, EXIM's movement forward. So it's just a suggestion.

AC CHAIR PEARCE: So Martin, as we move toward the wrap-up. Other questions for Martin, other observations?

MR. SANCHEZ: Yes, Alex here again.
Can I ask Mr. Gonzales one last question?

AC CHAIR PEARCE: Sure.

MR. SANCHEZ: Mr. Gonzales, a comment I want to make and then please react to my comment. I believe that change will be coming to what was one of our greatest trading partners before Mr. Chavez and that whole scene happened down in Venezuela.

I believe change will eventually come to Venezuela. It may not be tomorrow, but I think it will come. When it comes, that country's going to have to be rebuilt, and hopefully Mr. Guaido and the new government will bring back Venezuela to the, you know, the level as well as economically before, and it's going to be an incredible opportunity for the United States.

I'm sure that many of our exporters will be, you know, trying to enter that market again to help that great country rebuild. What's

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your comments on that, on Venezuela? I know that won't happen tomorrow, but I know it's something that the EXIM Bank will have to be ready for when that change comes. What's your comment to that?

MR. GONZALES: Yeah, absolutely. That's a great comment there because again everybody, at least in the oil sector, they're just basically waiting for something to happen in Venezuela. Like I mentioned, I actually started my international, my first international assignment in Venezuela. I lived there for two years, and the one thing that Venezuela is very reliant on expatriate services.

In other words, even though the national oil company, which is PDVSA, is again one of the largest oil producers when it's actually working in an efficient scenario, right now they're inefficiency which is also caused by a lack of U.S. influence, Canadian influence that was very heavy at the time when I was there, also

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is lacking because of the quality again that they're getting from the Chinese products, because they're definitely only buying Chinese product at this time.

I do see it as a major, major area, not just in basically getting Venezuela to where it was 20 years ago, 30 years ago, but also as a big potential as to future investment from U.S. companies, because it's definitely going to need a lot of rebuilding. I was there the last time about two and a half years ago, and it was in very sad shape.

Everything I saw was definitely deteriorated to the point where it just didn't, I definitely couldn't even get around anymore as to where I, when I was actually living there. So yeah, that's definitely a place that's going to require a lot of assistance getting out of the hole.

But again, I think we need to be there before the Chinese actually suck it up because

basically they're already there and the more influence they actually generate within right now, it's just going to make it a lot easier for them if we're not there at that particular point in time when the change does occur.

AC CHAIR PEARCE: Yeah, and I would --

(Off mic comment.)

AC CHAIR PEARCE: Thanks Alex, and I would again just point out that we're talking specific oil and gas, but understand oil and gas is probably a major user of U.S. steel. U.S. steel itself, the quality control is the reason that the concentration is on U.S. products.

But eventually the Chinese will solve that and so our competitive advantage in the past decades has been quality control, and I've seen products coming out of China in every area where the technology is extraordinarily good and the quality control is improving.

And so for us to sit on our laurels and believe that our quality is always going to

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be the driving factor to bring us, we're going to have to be much more proactive. When I say we, EXIM has got to play a key role in that.

So you talked about the instability of Venezuela, but that's the extreme case. You have Bolivia, who six or eight years ago had been constantly conservative back and forth between the two parties, both conservative and all of the sudden they came and it drifted very far left. So that would then facilitate that. What about the countries that are not as extreme politically as Venezuela, that are somewhere on the political spectrum moving away from the U.S.

Is that still valid? Do the U.S. products still have presence? I mean even no matter where the government exists, businesses still face the competitive pressures. You've got to be better at a lower price. So talk just a bit about that, and then we're going to have to wrap this session up.

MR. GONZALES: Yeah. Basically, I

agree with you. Bolivia is now actually in a transition, where they of course -- where Evo Morales was trying to get reelected again, and of course he ended up leaving the country. But Bolivia itself I think is a great opportunity, because they're actually -- again, they are very pro-American and before Evo Morales, you know, even when I got there the first time, the DEA was very strong in Bolivia.

Eventually when Evo got in power, they disappeared the day after he got into power. So again, there was a lot of U.S. influence there before he got there, and afterwards it just completely disappeared. With that said, eventually I think Bolivia, Ecuador, which again is a country that's also changed governments recently, is another place where we're -- again I think the U.S. actually needs to be more involved in the trade agreements with Ecuador.

But also Argentina to me is one of the critical ones, because Argentina, I believe

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they're the fourth largest economy in Latin America. And of course, them being actually influenced by Chinese is definitely not a good scenario for U.S. trade.

AC CHAIR PEARCE: So Chair, as I look toward the following Martin's presentation and questions, it seems like if according to the mandate of dealing with China that -- and we're using Latin America as -- we've kind of tuned in the microscope and we're taking an indepth look at Latin America. But the truth is it's the same everywhere.

So the political connections need to be made. Otherwise, U.S. businesses are not -- they can't navigate the instability of politics. That should not be in their job. Corruption again is something that a U.S. firm can't figure out corruption going into those systems. So somewhere, there needs to be an oversight Committee saying watch this, don't -- be careful over there in that area.

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Financial, obviously we need to deal with that, and we need to deal with it in the proper way. The regulatory impacts of changes in governments, that should be a clearing, maybe not should be. That could be kind of a clearinghouse thing for EXIM to say okay, the new government is in power. Here are the things that you as U.S. manufacturers in this region are going to have to adapt to and deal with, so that could be very strong.

This idea of the joint ventures, just the cellphone. The cellphone there is just a critical view. But I think that as we look at the role of EXIM moving forward, if we want to facilitate the U.S. presence in these markets that right now are moving away from the U.S. and toward others and especially toward China, then you're going to have to deal with that.

Then finally, you had asked -- the question had come up, I think from Ms. Young, how do U.S. manufacturers know the breadth of

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projects that are out there that are coming up, and specifically the refinery question in Mexico came up. That to me is a function of the State Department. They have business elements. They have economic development teams in every country that we have a relationship with, and for them to not be or maybe that's a coordination effort that EXIM should take on between our State Department economic development teams in every nation, so that we are -- we're not coming in late to the game I think is probably something we should do.

Mr. Gonzales, I've run you out of time. You have one minute to wrap it up and you need to really be dynamic and good, because the U.S. trade hangs on your shoulders, sir. So if you would wrap up your presentation, and thank you very much. We need to give him a round of applause. He's coming here from -- thank you very much.

(Applause.)

AC CHAIR PEARCE: All right.

MR. GONZALES: Well, thank you again for inviting me. I really appreciate the invitation, and again I just overall see that all your observations, I think, were right on the money. I think there definitely needs to be a process. It just can't be like yeah, well we have the finance part of it, so let's go ahead and take care of it. No, there has to be the whole circle involved, where again if there's --

If none of that is coordinated within the government branches, I don't think it's going to happen. So there definitely needs to be better coordination within the branches.

AC CHAIR PEARCE: Well thank you very much, and so just -- I mean you know me well. You're not excused to go. We've got a panel coming up, Veronique is -- we're going to continue a discussion we had last time, and so probably I'm going to call you up and kind of sit you over there in case members want to bounce questions between that group.

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MR. GONZALES: That's fine.

AC CHAIR PEARCE: Because I think keeping these divergent views on EXIM and its process and its role, especially after reauthorization I think it's very key for us to keep that kind of tension in the discussion, whether we arrive at the best possible answers for us. So thanks, and if you'll hang around I may call you up on that group too. So thanks again.

MR. GONZALES: Thank you, thank you.

AC CHAIR PEARCE: We're going to transition right now into Jim Cruse and David Fogel. David, I see you're here and Jim, okay, there we -- oh, I see Jim now. Okay. I will turn it over to whichever one wants to take the lead here on updating us about the --
Update on Economic Impact/Additionality

MR. FOGEL: Okay. Well, good morning everyone and thank you for this opportunity. Jim Cruse and I are pleased to be here today to

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discuss for a second time with this Committee two of EXIM's most important policies and procedures, economic impact and additionality.

The Chairman announced early in her tenure that one of her signature reforms at EXIM would be to review and update these provisions. As a result, at her direction we initiated a public review process which was then extended to provide more time for comment.

This resulted in an equal number of letters from EXIM critics and supporters. The split is not surprising, as this is a controversial topic. Some stakeholders believe our current requirements are already overly restrictive, while others believe we don't go far enough in restricting when EXIM can participate in a transaction.

Nevertheless, the Chairman is committed to taking on this tough challenge, and coming up with solutions that strike the proper balance between agency responsiveness and meeting

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our statutory obligations. We are still in the process of developing final proposals for our interagency partners to consider, and then for the EXIM Board to vote on.

However, since our last meeting with you, the EXIM staff has come up with some ideas that we want to discuss with you and seek your input on. These ideas came from the public comments, our interagency partners' suggestions, and our own internal analysis. To be clear, our current thinking goes well beyond the checklist and guidelines that were included in your packet.

We welcome your feedback on these ideas and other ideas you might have, and these topics generally. Thank you for your time. I am handing this over to my colleague Jim Cruse.

MR. CRUSE: Thank you David, Chairman, Chairman, everybody. I think we're all excited about getting to these subjects again. As I said last time, both of these topics provide a classic illustration of the job of the EXIM

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Bank as being not so much making decisions as is having to make judgments.

On both of these topics, what we're talking about today is moving the balance of concern for being competitive and helping the exporters with the many public policy objectives we have, and moving the balance of effort a little bit along the spectrum. And I'm going to lay out some of the moves that we're talking about, and the real question that we have for you today is whether in your opinion we have maintained a reasonable balance between those objectives and mandates, or whether we have not moved far enough or too much.

But it all is a matter of judgment, and I'll lay out some of the ideas that we're thinking about, and then see if you think we've moved too far or not far enough.

Let me start with additionality, and I'm going to focus for the first part on the medium and long-term, which is where most of the

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controversy arises with additionality. There have been here additionality has been with the Bank for over 40 years. It started with an effort by Treasury to quantify and come up with probabilities, and for that period through both administrations of Republican and Democrats, roughly 20 years of both, it has been discussed, it has been debated.

But up until now it has basically been left to an ad hoc approach done mostly at the -- just before the Board meeting, and mostly on oral comments. So one of the areas that we wish to change, I think it should be changed without fundamentally imbalancing the approach, is to change the nature and the culture.

That is that we're going to try to have there be a standard format and the criteria sheet that you all have is an important part of that. We're going to change it so that you start working from the beginning of an application, which could be years before it gets to the Board,

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so that all the information relevant to that is there in front of them.

And we're going to try to change it from being mostly oral, so that the auditors had actually nothing to check. That might be handy, but it's not very good for auditing, and move it to written, all right.

So the first big change is in the nature and the culture of the effort. Move it from ad hoc to specific criteria. Move it from last minute to throughout the process, and move it from oral to written. Those are major, major changes in the approach of the Bank to this issue.

On top of that, we're going to add three specific procedural changes. The first is that criteria that you have. That lays out specific reasons that can be used to justify the Bank's existence. It contains criteria for those reasons. So therefore you can't make up what you want to.

It can provide the consistency that

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the Board will have a similar approach, similar reasons, and similar considerations case to case. It will also help the Board in the fact that that is not a checklist that will be just appended to the Board memo. That is an outline for a section of the Board memo that will be written with nuance and detail.

All right. So the first thing is that there's now a specific outline to follow. Then within that outline, we were talking to exporters and buyers, we're now going to add three dimensions of our relationships with the banks, because when you think about it, additionality is fundamentally about why is the private sector not doing this transaction.

And so we have reached out to the banks and we're going to put in place three different mechanisms to try to engage and get as much information as possible from them. The first two are generic. In our competitiveness report, we have an exporter and banker survey.

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In that survey each year we're going to add a question that simply says to the banker respondents at any time during the past year has EXIM Bank competed with you, taken away business from you, so that every year we will have an up to date response to the fundamental question have we competed with the banks in a generic way.

We add to that another generic issue, that each year we go out and talk to the major banks about what is their basic interest appetite for medium and long-term transactions. What term, what risk, what amounts? And from that, we form what you might call an outline or a curve that gives a sense of where they will most likely want to do it on their own book and where they wouldn't.

With that added to the information that the loan officers have, they would now have the beginnings of a sense of where they should look more closely if we have an application, where they should look for the reasons. Then the

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third part that will come up is that in each case, the loan officer will ask the bank specifically what is it about this transaction that led you in here rather than to do it yourself?

Now we're not going to be asking them did you reject a case? We're not going to be asking for three banks that rejected the case. We're not going to go that far, but we are going to ask the bank to say why are you here? Is it the term, is it the risk, is it the amount, is it the competition? What is it that brings you here?

We bring those three factors to generic and one specific, as well as the criteria. We think we'll improve the amount of information available to the Board, to make the judgment as to whether the case is additional. Now that will require participants to make the judgment as to whether the case is additional. Now that will require participants, exporters, bankers, borrowers to answer more questions.

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Hopefully we can do that in a way that is unnoticeable.

Hopefully we can do that in a way that is unnoticeable, but we recognize that it can be intrusive, and that's why the balance is important. We want to maintain the fact that we have a mandate to be competitive in financing. We have a mandate to find out about additionality.

And so we're trying to balance those mandates in a way that improves our knowledge of the latter without in any way detracting from our ability to do the former. That is the fundamental question before the house, can we do that in a way that is effective and efficient?

Now besides medium term, we're not going to ignore the short term. We're also going to look at this and we have seen the fact that in the short term insurance, the point has been made how do we know we're not competing with private insurance foundations? Usually, we have -- we

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have tried to price in general above what we felt the private market was, and we're going to continue that. But we're going to add to the fact that we're going to do in the short term insurance every other year a survey, where we'll go out and ask the major brokers and insurance companies what size and transaction do you stop wanting to offer at because it can't cover your administrative expenses?

From that level, say \$10,000 premium or whatever, we will then say okay, above that level a transaction will need to have a bit of answering specific questions about why did you come in here? That will be added to those types of memos. So we're going to add a procedure and a survey to the short term.

And above all, at the end of the day, we're going to have -- we're going to request that our internal auditors look at this practice every two years. So you're going to change the nature, you're going to change procedures and

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you're going to have checkups.

With those changes, we believe that we will have an improved flow of information without unduly harming our competitiveness. Now I can go on to economic impact, or do you want to stop there and ask questions or what would you like to do?

AC CHAIR PEARCE: Well thank you, Mr. Cruse. You've left me in quite a quandary here. You've asked a question of the Board that requires probably two weeks' worth of conversation, and we frankly don't have the time on the agenda to do that. I do not want to short the next panel. I think it's extremely important, and I would ask that members of the Advisory Committee save those, the comments and address to your question what do we think about the changes.

We covered that more informally during our lunch break. Otherwise, we're going to take all the time for the next panel and I really think the next panel, I can't short that time at all.

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So with the permission of the Advisory Committee, if you've got something you really want to -- go ahead, yes.

MEMBER LEONARD: One quick question. What about timeliness in this? I'm getting asked already, just because I'm on this Committee, you know, they wonder why things take so long with EXIM for approval or --

MR. CRUSE: Right. That's one of the parameters with all of this. We hope to live within the natural time frame of the case. We don't want additionality issues or later economic impact issues to slow down the transaction. So we try to design them so that the issues and questions are addressed within the framework of the natural credit issues that they address.

So it's another question you asked, but you ask at the same time and hopefully you get the answer at the same time. Hopefully. It's designed to do that.

AC CHAIR PEARCE: Other quick

observations, comments? We will hold them and broaden that discussion then during that lunch period and before we go into the subcommittee meeting. With that, thank you very much, Mr. Fogel, Mr. Cruse. Appreciate that. I'm going to call our next panel up, Tod Burwell, Veronique de Rugy. If you can make your way up to the table.

CHAIRMAN REED: So Jim has to talk briefly about economic impact as well.

AC CHAIR PEARCE: Okay, excuse. Y'all take your seats. Yeah, you take your seats at table. We'll -- okay. Go ahead.

MR. CRUSE: All right, recognizing the short leash here. I'll make the point that economic impact has been around for even longer, going on 50 plus years now, where the Bank has been paying attention to this. And we're not going to be doing, once again, a fundamental change in what we're providing and what we're exercising, but we are going to go into three

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fundamental changes.

The first relates to the fact that people complain that they don't have enough opportunity to make their case, their interest known. So we're going to increase transparency in two ways, in the front end and the back end.

In the front end, we are going to not only notify the Federal Register when we do one of these cases, we're going to send out to sort of an email list to anybody that wants to beyond that these notifications, so that you don't have to go looking in the Federal Register to find out what we're doing.

Similarly on the back end, while we currently have an offer outstanding, that anybody who wants to get a redacted, unclassified summary of what we did and why, we're going to move that to something we do every time voluntarily, and submitted it to this same list. So both before the case and after the case, there's going to be much more access to people who want to make their

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views known.

Same time, we're going to make two process changes that hope to improve the speed and accuracy. The first is that though many people over the years have complained that one of the standards for economic impact is there should not be an oversupply and they didn't understand how we defined that. We used the term structural.

So now we're going to give an objective criteria. We propose to use the fact that if in the first three years of production the demand supply estimates indicate oversupply, we'll say it's an oversupply and therefore wouldn't be eligible for support. So we're moving from subjective to objective.

The second one is on the aircraft, where in the two years that we had these procedures, we did like 40 transactions and only one of them qualified for a detailed analysis. We consider that to be insufficient. And so

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we're going to simplify the process and move some of the screens, and in that way we feel that more aircraft transactions will get more detailed treatment.

At the end, like with additionality, we're going to request that the IG do a regular audit. So we're going to be more transparent in several ways; we're going to add simplification procedures which will add more detail, and have a regular checkup again. Once again, we're moving the balance for a little bit more information. We think that we still maintain the competitiveness, but it's still a judgment. Thank you.

MR. FOGEL: Mr. Chairman, may I jump in for one second quickly --

AC CHAIR PEARCE: Go ahead. Yeah, sure.

MR. FOGEL: Just because in the interest of making sure I'm hearing the feedback correctly, it sounded like your comment and

others over here were saying that when we're coming up with our final proposals, we should be concerned about the fact that there's already feedback that our application process takes too long and is too cumbersome. So we need to take that into account when we're finalizing it.

MEMBER LEONARD: That's the impression I got.

AC CHAIR PEARCE: I don't want any standing cheers, but yeah. I'm just joking.

MEMBER LEONARD: What?

AC CHAIR PEARCE: I said I don't want any standing cheers. I see it just --

MEMBER LEONARD: Yeah.

AC CHAIR PEARCE: We affirm that yes, that is --

MEMBER LEONARD: Absolutely.

(Simultaneous speaking.)

AC CHAIR PEARCE: Okay, so yeah. So you've got to keep your seat. You cannot stand on the table and say okay. Is that clear enough?

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We're good, okay. I just was -- I know make light in any government function. I was trying to --

MEMBER LEONARD: But it's important the transaction drive the timing, so you don't lose the deal in the process.

AC CHAIR PEARCE: Absolutely.

MEMBER LEONARD: And just one question. Given the opposition in Congress, I find it curious that you got so few comments in these, on these proposals.

MR. CRUSE: It's not irregular that a lot of oral objections don't yield many written, thoughtful suggestions. That's not irregular. Over the years, we have found that a lot of noise yields relatively little input.

AC CHAIR PEARCE: I would caution that the lack of input doesn't -- keep in mind that the audience usage is very small in the U.S. The representatives who are bringing those questions up, I don't think you can discount because of the

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lack of input, because when you get down to usage, it's a very, very small group of people. So be careful, be careful making those assumptions.

I say that on the side of -- on the side that would make that assumption if we're not very careful. All right. Other comments? We really need to jump back on schedule, because this conversation, the next conversation is the one that frankly I think is going to put us on the track that we need to be on for EXIM, that it's a very valuable function.

I think Mr. Gonzales gave us many examples of how it could and should be. But then there need to be reforms, which that's just discussion I think is one of the things that was very important in the last meeting and the reason I wanted to continue that discussion today.

Mr. Gonzales, why don't you come up and just take this third chair? It's empty and so if you can, and again our comments are directed mostly to Veronique and to Tod, but I believe

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with your on-the-ground experience, I think just put that over the -- yeah, okay.

So kind of informal addition to the panel here. So why don't each of you kind of reiterate, and reason we're using the same ones is because too often in these discussions, we get to a magnificent point in the discussion and then the next time we have different presenters and they've got to, they've got to cover the same ground over again.

So my preference is always when we get a discussion going and it's valuable, let's continue with the same participants. That's the reason you all are back here. If it goes the way that I think it might, then you're probably going to be asked to be back again, because this is the discussion. This is what we are here about in my opinion, this observation between differing viewpoints on the role and the function of EXIM.

So it's tremendously important. Mr. Burwell, why don't you lead out with just a couple

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of opening statements if you want, or if you don't have any Veronique follow. You've already done yours, Mr. Gonzales, so you just hold. Okay.

Perspectives on Economic Impact and Additionality

MR. BURWELL: Okay, good morning everyone. Can you hear me okay? My voice is a little soft today. But thank you to the Chair, to the Advisory Board and the Committee for welcoming me back. Let me offer my congratulations on the reauthorization. We certainly celebrate that.

The second, wanted to just reiterate before we got into some of the specifics, just some of the views from our members who represent about 300 institutions in over 60 countries, as to why the U.S. Export-Import Bank is critical from their perspective.

Number one, the financial institutions need help in addressing a \$1.5 trillion financing gap that continues to exist. The second is really one of market capacity,

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specifically here within the U.S. I noted last time that less than five percent of banks in the U.S. are actively involved in trade finance, and if you were to count the ones that are truly active, it's less than 100.

Third dealt with the risk question, and the cumulative combination of capital requirements, financial requirements and other regulatory matters have caused the banks that are involved in trade to become very focused on certain client segments, and doing more within a smaller segment with which they serve. So the byproduct of that often means that country limits or individual company limits may get reached more quickly than they have over time.

So when we've asked our members for their views specifically on the proposed procedures around additionality and economic impact, we could generalize the feedback we received in three words: keep it simple.

The first comment that we received was

really referencing the 2018 OIG report, which noted that EXIM Bank already meets the additionality requirements required by the charter. The comment was let's not over-solve for a problem that does not practically exist.

The second, we talked about in the second sort of collection of comments we received was about changes, to keeping the changes simple and not adding too much complexity to the process. From a banker's perspective, and they would extend this to their corporate clients, there's already a specific expertise that is required within the bank to be authorized to do EXIM Bank transactions.

So if you take already a smaller pool of banks that are in the trade finance business. There's an even smaller pool of individuals within the bank that are authorized to do EXIM transactions. So if we can keep the additionality requirements simpler, we would not have an adverse effect on the number of

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individuals who could actively do this within the Bank.

We did get some comments specifically about the checklist and the guidance specifically. Our members thought that generally they reflected the circumstances of when EXIM Bank support is needed. There were a couple of comments that we got. One is that more specificity may be needed in instances where U.S. exporters are selling to foreign governments or to foreign state-owned enterprises.

There was also a comment we received around the question of national security, and given the level of interest in the role that U.S. Export-Import Bank can play with regards to national security, that that may be a factor that gets weighted into the process as well.

So those were the sort of general and categorized comments that we received about the proposed procedures. A couple of comments that I may have as we get into the question and answer

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a little bit later. But for that, I thank you for your time.

AC CHAIR PEARCE: Welcome and thank you.

MS. DE RUGY: Thank you for having me. Happy New Year. It's still in January, so we can do this. It's a pleasure to be here. When I was here last time, we talked about mostly additionality. I mean my written testimony and obviously it's still --

AC CHAIR PEARCE: Pull you mic just a little bit closer. I can see people in the back straining to -- you've got a very soft voice.

MS. DE RUGY: Oh sorry. We, I talked mostly about additionality and I am -- you can find my comments online. I'm going to touch on some of these issues. But today, I'd like to actually talk about some of the, as it echoes with those previous comments, some of the developments since last time we talked, and in part it's been the EXIM reauthorization, and also

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the EXIM revised strategic plan, as well as some troubling news regarding EXIM's most favored exporters.

So let's start. So the EXIM revised strategic plan, and of course we can go into all this in details more during the Q and A that was really --, suggests that EXIM's new strategy unfortunately is not that much different from the old one. To summarize it, it's basically it's going to emphasize once again global ECA competition, meaning that it will continue to compete with western ECAs in markets that are well-served by privately, by private sources of financing.

You know, it pains me because this continued exception with other ECAs has just basically continued to signal that EXIM believes that economic growth and jobs result from victory in hand to hand combat between government banks. I've said it before. I mean the academic literature proves it and that it bears repeating,

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this notion is misguided.

I have actually passed a table to put some of the numbers, EXIM's number and perspective in terms of how relevant EXIM is, EXIM and ECAs around the world are in the world of exporting. But there are much deeper and profound arguments than just this table, which I hope we're going to be able to -- and goes to the core of what EXIM actually does and how it works, how the economics works.

And the bottom line is that ECA financing actually doesn't improve the overall health of the export market or move the needle forward on job growth. And I will be happy to explain, to explain what I mean.

Another, an important element of the strategies in the new strategic plan is to increase partnership with private financial sectors, service sectors. This means continuing relationship like EXIM has with PEFCO, which I talked about last time, in which EXIM has created

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an entity owned by large banks, and EXIM's largest goal is to profit from trading in full back to U.S. taxpayer, back guarantee.

Then EXIM really does not have a credible road map to achieving additionality. As I noted previously with PEFCO set to expire at the end of this year, EXIM can show that it is serious about additionality and reform, and reform more generally by having PEFCO sunset.

Now I'd like to put this in perspective with the reauthorization. The EXIM revised strategic plan, China was a big topic as it was during the reauthorization, and EXIM will have the opportunity to actually take action in this space. While old client may be celebrating their successful lobbying to get EXIM a new seven year lease on life, I would like to hear from EXIM leadership how they will intend to meet Congressional direction for EXIM to one -- I mean there were seven different type, but I'm going to focus on two.

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Establish a program on China and transformational export to focus on export in sectors including quantum computing and emergency financing technology, in which the goal setting legislation to allocate 20 percent of its exposure to transaction that target Chinese competition. Second, report on financing offer to the Chinese government or entity effectively controlled by the Chinese government.

So unfortunately, it's going to be hard to achieve these goals if EXIM continues like has been laid in the strategy document, looking back at the past and the bulk of the EXIM continues to be at the service of large company operating and hiring combinations with plenty of access to capital. I think these goals actually conflict.

It's worth noting in that table that, you know, that China financing, the ECA, right, it's less than two percent? It doesn't mean as a bulk it's not important. But I think things

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need to be put in perspective.

Finally, I'd like to turn to the Boeing revelations as it relates to EXIM. So last night, last time I may have come off as a little hard on Boeing. I think I was a little too easy actually. Boeing's internal text messages express contempt for regulators and lack of seriousness for safety issues.

So here we have it for all to see, a company that preferred spending massive resources on lobbying the government to avoid the need to meet minimum safety standards and securing EXIM reauthorization, rather than invest in actually making planes safer. At least that's what these emails reveal.

Boeing's well-documented cozy relationship with government has been made possible by spreading economic misconception. One of the biggest one of course, visible through the pages of every EXIM report is the claim that EXIM's support for large firm with easy access to

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capital is justified by the firm's use of small manufacturer in their supply chain.

But during the EXIM's lapse, Boeing's lack of access to EXIM financing had no negative impact on the company and on its extensive supply chains. Boeing's recent failure however, and the revelation that followed, have had an impact on its supply chains.

In the last few weeks, Spirit AeroSystems, one of Boeing's largest suppliers of 737 Max, sent pink slips to roughly 2,800 employees of its Wichita plant, citing ongoing uncertainty involving Boeing's jet. Companies like Spirit AeroSystems, which suffered no impact from EXIM's four year lapse, are being done in by corporate lobbying practices that divert resources into, you know, getting political influence and away from building a safer plane.

There is a lesson in the Boeing experience for EXIM specifically. Boeing not only hurt its own reputation but has perhaps

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irreparably undermined the reputation and credibility of its regulator or the FAA. Just as Boeing's excessive political influences hobble its own regulator, EXIM will continue having its own mission challenged so long as it remains the Bank of Boeing, the Bank of GE, the bank of every other conglomerate that competes through political capture instead of through market-tested innovation.

So EXIM has claimed a reformist mantle, and Congress has charged EXIM with a challenging mandate. I have, you know, I have hopes because there is absolutely a spirit of reform within this group. It's unquestionable, but I'm worried that some of the misconception you operate under and you're not the only unfortunately, is going to be an impediment in achieving these goals. Thank you.

AC CHAIR PEARCE: Thank you very much. Now Veronique if I can right there in the discussion on Boeing, and Boeing should be the

conversation of a lot of kind of -- just looking at the corporate structure and looking at their corporate goals, but you seem to be making the correlation that EXIM should be responsible for the coziness with regulators.

MS. DE RUGY: No, no.

AC CHAIR PEARCE: I mean I'm on your side in many of the discussions, and yet it came across to my ears that --

MS. DE RUGY: So let me, let me --

AC CHAIR PEARCE: So clarify that.

MS. DE RUGY: Yeah, I'll clarify.

AC CHAIR PEARCE: So what, the coziness with regulators may be a problem, but I don't see it as a problem that EXIM can solve. So give me, show me the relationship between that particular observation, which I don't disagree with; it's the case in a lot of oversight, a lot of agencies become very, very cozy with the people they're overseeing.

But EXIM, I'm not sure how they play

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a role in that positively or negatively. So if you could get into that.

MS. DE RUGY: So in the -- if you notice when I talked about EXIM, I talked about how EXIM's goal, to the extent, you know, whatever mission you set for yourself, is going to continue being challenged, as long as you are seen as carrying the flame for large corporations like Boeing. There's a reason why critics of EXIM called you, call you the Bank of Boeing, is when your number one client is -- what?

AC CHAIR PEARCE: Yes, that's you Alex.

MS. DE RUGY: So there's a reason your number one exporter, who -- I mean it's the number one exporter in the U.S. It's a company that has prospered over the years. It's a company that has been supported by EXIM, whether it needed it or not for decades. It is a company that done very well while EXIM lapsed.

I mean these -- I mean basically, EXIM

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and the crony aspect label that you've been receiving is in part due to your association and extreme commitment to a very large company. It certainly does not help when it is found out that these companies have a hyper focus on lobbying at the detriment or not that certainly that other part in making play safer has lacked, you know, in the process.

They haven't been very forward about it, and part of it became up because they felt they had no fear to be had with the FAA. That's, it is, it is a problem. By the way, I will say this, since I have the mic, I'm so sorry. The truth of the matter is I have heard a lot of people on the Hill saying this is the moment where we have to actually stand behind Boeing, because people are not going to want to buy these planes and we need cheap financing.

People don't care about cheap planes. They want safe planes. So I think there is --

AC CHAIR PEARCE: Okay.

MS. DE RUGY: --undeniable that there is.

AC CHAIR PEARCE: Fine. Again, go ahead.

MEMBER YOUNG: I've spent four decades in the aviation industry, and Boeing airplanes have the reputation in that period as the safest and the best planes across the world. McDonnell Douglas, who Boeing acquired before that, had the same reputation. The FAA has been an outstanding regulatory oversight agency during that period.

It's not an accident that airlines around the world have bought Boeing aircraft.

MS. DE RUGY: Yes.

MEMBER YOUNG: Other manufacturers like Airbus have had accidents, many accidents as well for defective problems. Before these accidents, before these recent accidents, the safety record of these commercial airlines was unparalyzed, much safer than the auto industry.

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To say that Boeing's lobbying effort undermined its safety is outrageous, and I'm sorry. I have to call you on that. It is just not true.

The FAA and Boeing are working very closely right now to get to the bottom of what happened, to make sure it never happens again. But I'm sorry, but I have to call you on that.

AC CHAIR PEARCE: Other comments. I really don't want this to become a debate about Boeing plus or minus.

MS. DE RUGY: I know, but I -- if I can just respond to this. There's no question that Boeing is an extremely, produce extremely great planes. There is no question about what transpired in the process since the accident with the MAX does not reflect highly on it. The fact that China grounded the MAX before the FAA even moved, whether, whatever the motives is not reflecting highly on the FAA.

And unfortunately, perception is a big problem. And so it's going to take a long time

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for Boeing to restore the trust. I have --

AC CHAIR PEARCE: Okay, if I could interrupt please, because there's a fascinating article that came out just in the February 2020 issue of Forbes, and it deals with Boeing. Actually, what it says is that it's the rate of return for investors that really is a function of the private market that drives much of what they're doing.

They even talk about when Boeing acquired Lockheed, Lockheed had transitioned over to rate of return for investors, and they were giving -- they were giving dividends rather than R&D money. That's a choice in the free market that -- and so the discussion is quite complex.

What I would like to stay on is the relationship between EXIM and the finance of Boeing. That's a fair question; I think you drifted into a lane that is going to carry us quite a bit off track here. So log in that there are disagreements with your observations about

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Boeing and regulatory, those things. I really don't see how it affects us. Let's try to stay on the focus of the future.

I mean if we discount the 737 MAX and say okay, it's a very bad problem that a major company is having, the discussion should be is, does EXIM have a place in helping move the 737 non-MAX, the previous versions, the 787, whatever it is? Shouldn't that be a fair discussion and so let's restrain our comments to that.

Mr. Bachus, if you're going to address the Boeing questions that have already been addressed, then I'm not going to recognize you. If you're going to move the question on into the other discussion. Okay.

DIRECTOR BACHUS: Congressman.

AC CHAIR PEARCE: Yeah.

DIRECTOR BACHUS: I think we're going down the rabbit hole.

AC CHAIR PEARCE: Yeah, and I've made that comment. So I don't want to track on that.

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So if you're going to make new comments, make them. But if you're not, we really have got to keep the discussion going, with all respect. Yeah, she -- I saw her head shake. Yes, okay.

MS. DE RUGY: I did talk about the lapse and Boeing and the impact it had on Boeing. I mean we have a lot of data on this.

AC CHAIR PEARCE: Okay, that's fine. But that's a different issue than-- and I would like to keep our comments here to the relationship of EXIM. Chris, jump in here if you can.

MEMBER SMITH: I've got two questions for Tod. In your comments, you talked about this notion of a financing gap. Could you elaborate on that and we're talking about additionality here at a certain level, and how those two concepts might go together?

MR. BURWELL: Sure. So when I refer to a financing gap, for the past I would say five years or so, one of the organization, two of the

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organizations that we've worked with are the International Chamber of Commerce and the Asian Development Bank. They both conduct surveys. We participate with the ICC on their annual survey of trade.

There are about 20 organizations that jointly survey their members. We get a broad representation to that. And the Asian Development Bank has published a study each year looking specifically at the underserved market. One of the conclusions that the ADB study has pointed to is that the demand for financing exceeds the supply of financing, specifically for trade. Not broadly speaking but specifically for trade, by about 1.5 or 1.6 trillion each year.

And what the ICC survey that we participate in does is it drills down further into why do banks reject requests for financing. What's happened over the last three years is we have seen those reasons for why banks reject financing tilt from more creditworthiness-driven

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reasons to more reasons that have to do with risk management associated with higher capital requirements, higher costs associated with on boarding, particularly for small clients, financial compliance requirements, and so forth.

So what that has led to ultimately is the tendency for larger banks to bank medium and larger companies, smaller banks to bank smaller companies, where the most acute need for financing is with smaller and medium-size companies. So the banks that are perhaps least able or have the least capacity to lend are the ones where the ones that need it the most are. That's what's really beneath that financing, yeah.

AC CHAIR PEARCE: So how much capital, if you consider all the small and medium banks, all the banking system in the U.S., how much capital is available? I'm following the shortfall, the \$1.5 trillion shortfall. But how much capital is out there available for lending

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any given day in the U.S. roughly?

MR. BURWELL: I don't have the statistics.

AC CHAIR PEARCE: It's in the trillions though. Yeah, it's a huge number, much higher than 1.5 T.

MR. BURWELL: Yes. It certainly would be in the trillions and again, the 1.5 number that I referenced was not general financing. It was very specific to a need --

AC CHAIR PEARCE: Okay. So here, I kind of got into this at the last meeting and I'm going to ask it again, because I really don't think that we chased it very far. But what if all these medium size banks across the country had a list of all the projects out there, a list that by the way maybe EXIM has worked out the political connections, dealt with the possibility of corruption, then the regulatory aspects.

The banks can be sure that the companies that are wanting these opportunities

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are lined up on the regulatory, and what if that then is posted out there, that here are projects that area available.

If you want to lend money, and many, many banks are -- in my opinion are struggling for good quality projects, and especially in the scale of where they can lend significant amounts of money, what if the EXIM provided that database saying here are projects that need to be funded desperately, and could we use that sort of a process to address this shortfall?

I'd like Veronique if you could weigh in and Martin, I'm going to ask you about the starvation of projects due to capital. But I want to -- we're going to feed off of it here. So Tod, if you could address it, Veronique and then over to you.

MR. SANCHEZ: Steve, this is Alex. Can I say something?

AC CHAIR PEARCE: Yeah, jump in here.

MR. SANCHEZ: Steve and to the members

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of the Committee and our last two speakers, look, you know, I hear your points about the larger companies and, you know, obviously larger companies employ thousands of Americans, have a lot of subcontract companies that are affiliated with those larger companies.

So everyone's important in the economy. But as far as who uses EXIM Bank, I'll say the state of Florida is very honored that Chairman Reed is coming to our state next week. I will tell our last two speakers that we have over 100 bankers attending a luncheon that Chairman Reed will be the keynote speaker at, and most of those banks attending are community bankers.

Who are those community bankers? As the FDIC noted in a study a few years ago, over 50 percent of the small business loans in our economy come from community bankers. So the community bankers attending in Florida to meet and listen to Chairman Reed are primary lenders

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to small businesses in Florida that use the EXIM Bank.

I just want to make it clear to everyone there, especially our last two speakers, that that is not our experience here in Florida. The majority of Florida businesses that use EXIM in Florida are small to medium-size businesses. Thank you Steve.

AC CHAIR PEARCE: Okay. All right, thank you. Thank you, Alex. So Veronique, can you address maybe the shortfall and the way that we can get a broader segment of the banking population involved, I think, and Alex making his comments there? Anything that you can add to this particular part of the discussion?

MS. DE RUGY: So I guess there are two things. Like, I know, like, small businesses are definitely something that everyone talks about as needing financing the most, and having the hardest access to financing. And yet when you look at prior to the gaps, where most of EXIM

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capital was going was the big businesses.

I mean it is worth -- I mean repeating, because small businesses are always used as an argument for EXIM, when in fact most of the money goes to the big guys. I mean how much, it's like ten companies, domestic company getting 65 percent of business -- of EXIM activity. This is a big deal. This is not a big -- this is not a small business agency.

As for the financing gap, there are different issues and there are different reasons why, when I've looked at the Small Business Administration, when there are gaps, they're often said to be information problems. It's like, you know, somehow there's a market failure, that the banks doesn't see the profitability of something.

I mean I think banks have actually developed quite -- I mean quite a system to actually like be able to get as much business as they can, and not suffer from these information

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problems. But also what often the government fails to do is to actually -- if this is really the reason why these loans are not extended, the government fails to actually say how it overcomes that problems.

So, often government agencies in the business of lending to small businesses, whether the need is real or the gap is simply a product of people who want capital but can't get it because they don't have a good business model, I mean not all businesses who want a business should -- who want a loan should be getting it, right?

I mean the capital market, the fact that not everyone is getting it, it's a feature of the capital market. And the problem that you have to face as a government agency is, what is it that you know that those banks don't know? And I still haven't figured it out. And If you really want to allocate taxpayers' money well, or if you want to direct capital in a way that's

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efficient, you're going to have to address that question and it's a really, really, really hard question. Which so far I have not seen -- I have not seen actually government agency, you know, address it well.

I mean, so the SBA has the criteria that if you've been rejected twice, you know, you'll get a loan. So yes, they actually do lend more money to high risk people, but it doesn't actually mean that those returns are going to be any good -- are going to be good, because they were a reason in the first place. You see, it's a hard question and I don't have the answer.

AC CHAIR PEARCE: We're totally on board, and I think you can tell from the comments of the Chair that the idea of moving forward into a new operating culture, a new process, and in broadening out the mission, the reforms, that she has constantly brought up, I think that you're not hearing a lot of disagreement with any of that from us, the Advisory Committee.

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MS. DE RUGY: Yeah.

AC CHAIR PEARCE: I can't speak for the directors. I'm not on there. I would like Ms. Pryor, if she would, to address the viewpoint among directors, because a lot of what you are saying is accurate to an extent. I think you got us off on a discussion that really wasn't the place for this group, as accurate or not accurate as it might be.

But if the Advisory Committee is saying that hey, I mean we're inviting you back. We want this discussion going on, and we agree with the reforms, so I mean at some point you have to update, kind of, the way you're approaching it in front of the Committee. Now I'll let the directors -- Ms. Pryor, address from the directors' point of view.

I mean it's very critical. This whole reform process is very critical, and again I appreciate your voice on that. But I think sometimes you make the assumption that we, this

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Advisory Committee, are stuck in the past and I don't think that's true. If I've inaccurately conveyed, that was -- okay, I'll say okay, it was inaccurate. Ms. Pryor.

DIRECTOR PRYOR: Let's see if I can do a better job then. Just a couple of comments. First of all, as you commented, Chairman Reed in her nomination hearing talked about a number of reforms, and I can assure you that Director Bachus and myself are very supportive of those reforms, and we're working with the senior leadership of the Bank to make sure that they're enforced.

That doesn't necessarily have to tie directly back to what our strategic plan is. The strategic plan can be implemented; reforms can be layered on top of those businesses that we're supporting or whatever the strategic plan is. I think that these are two processes that can work in parallel, not necessarily one needing to be changed to beget the other.

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I can assure you that in some of my travels with the Bank, some of the very first things that we've done is go to community banks, where some of the staff we have in the region is training their staff to better engage on the trade side for small business lenders. That's something that's ongoing.

I'm sure that's something we will lean in even more so now that we do have re-authorization out of our way and we can focus. At the end of the day, we're a bank of 400 people and there are 50 states and numerous territories all that need our support. So we'll make every effort that we can, but it's going to take some time.

And I think, just one other thing that I would note is, I know we talk about small businesses and dollar amounts and, you know, the Bank of Boeing, the Bank of GE. Just a couple of things. When the Bank did not have a quorum, 90 percent of the transactions were with small

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businesses. Okay, now that might change. It might be 70 percent this year, or 75.

But the majority of our transactions are with small businesses, and in many instances, small or large, \$10 or 10 million, you're still doing the same due diligence on that project. So I think it's an unfair comparison, and this is Judith Pryor speaking.

I think it's an unfair comparison to say well, if you're spending 900 million or if you're lending 900 million, financing Ethiopian Airlines, or some airline around the world, to buy Boeing aircraft, you're never going to hit that with 4,000 small businesses perhaps.

So we have to -- I just think we need to keep that and take that into consideration. It's one thing that we forget. It's not a fair, balanced, statement to compare number of projects and the dollar amount that's supported by it. Because if you just look at the pure number, 90 percent of our transactions are with small

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businesses and I know that we're continuing to pursue that.

But it doesn't mean that large U.S. businesses don't need our help when they're trying to sell their products to foreign buyers, who require an ECA to be involved, or who can't get financing because they can't go back to the same commercial entity four times for, you know, four mortgages. I mean the cost of doing business with those banks will increase over time.

MS. DE RUGY: If I can add something, I think we're talking about additionality here. So I would agree with you that it's not a matter of looking at just simply small business versus big businesses. It's actually to look at who the big businesses are and what their access to capital are -- is.

And additionality, if I'm not mistaken, is a concept that actually measures the value added of having the government provide in

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that sphere, assuming that there wasn't any activity before.

And My issue with the big businesses is actually you end up having zero additionality, and sometimes actually a negative, because there is a cost to all of this, to shift in capital towards particular kinds, precisely because these are companies --- we're not talking -- the majority of deals are not going to Ethiopian Air -- or, Air Ethiopia.

They're going RyanAir, Air Emirate, all companies with plenty of access to capital and hence additionality likely very low if not zero. And that's really -- it's not. You're right. In a way, it's not big versus small, but it is additionality versus not. I have not studied the small business market. Everyone knows what my preferences would be about EXIM.

That said, I will say that as it comes from difficulty of financing on export, and export financing for small business, I'm quite

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ignorant. But as a concept, I have looked very -- I mean I've looked at lot at the big firm, and that's where I question the financing. It's when we talk about additionality for these companies.

DIRECTOR PRYOR: All right thank you, and just to conclude, you heard Mr. Cruse's comments and our chief of staff David Fogel's earlier about the process that we are putting in place that will codify, or just make a little bit more stronger, those discussions about additionality early on in the process, so that that will be considered moving throughout.

And I think that, you know, since it will be public, it will be something we should talk about once it's implemented again.

AC CHAIR PEARCE: Ms. Reed.

CHAIRMAN REED: I want to thank you for your voice. You have the guts to say what lots of people may be thinking in our country. I want to note that we did a very thoughtful

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process with the revision of our strategic plan. Strategic plans require OMB clearance and approval. It's a long process, and I came here 8-1/2 months ago to reopen this Bank.

And so we sought the input of our staff on that plan, but I read the law, that I and my fellow Board members are responsible for implementing. And so you will see that our goals increased, and I pushed back several times to send additional comments to OMB, probably much to their -- I don't know regret, but just bureaucracy, okay?

But I specifically, for you and for me, put in footnote 2 into the report, and that said that we'll come back and revise this plan if Congress re-authorizes us. You will see layered throughout the strategic plan what we're required to do by law. We are required by law to compete. The assignment under law of this Board is to tell us how we are competing.

So that is there, and that's in goal

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1 dealing with long and medium-term business, as well as our small business. But you will also see that I really care about our national security. I want to call out someone who's just arrived, Kevin Harrington from our National Security Council. Kevin, thank you for being here.

So as we look at China now, we will go back to footnote 2 and we are hard at work looking at how we set up this special Chinese mandate that we have. And it's going to be important that we do this correctly, and so at the beginning of this meeting we said that we would come back to this Board with where we get over the next few weeks. We're talking to a lot of experts, and your expertise also is appreciated.

I know that Spencer and Judith join me in saying when you are presented from the staff with an application, we ask hard questions at these Board meetings, and some of them are not

public. But I want to reform and transform this bank, and so that is the purpose of us looking at the key reforms of additionality and economic impact.

So I hear you, and we're working diligently. There's a lot to do all at once.

MS. DE RUGY: I appreciate it, and I want to tell you, the more I look into it, the more I actually feel your pain, as I think that you were given a lot of very conflicted mandates. This is why I ask at the end, when I was talking about China, how can you do this while all your other mandates say this? I think it's a real problem that someone needs to present to Congress.

AC CHAIR PEARCE: Surely you're not suggesting that Congress would have conflicting mandates?

MS. DE RUGY: No.

(Laughter.)

AC CHAIR PEARCE: Okay, all right. I

just wanted to get that cleared up before it got any more root here, and I don't want that in the press or anything.

MS. DE RUGY: I am more than suggesting this.

AC CHAIR PEARCE: Mr. Gonzales, so you heard the 1.5 trillion shortfall. Can you -- just off the top of your head, can you think that projects that starved out due to lack of funding for drill pipe or American steel or whatever? Again, we want these hypotheticals to be brought all the way back down to actual things on the ground that are happening right now. So tell us a little bit.

MR. GONZALES: Just by hearing the conversation here, I actually -- first of all, I don't know if I've been under a rock or not, but since I started talking to you about it, EXIM Bank, actually that's the first time I ever heard of EXIM Bank as a small business loan bank.

So in this case, I've been gone mostly

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to Latin America, so it must be that I'm not here in the U.S. enough to actually find out about these things. But that would have definitely changed my strategy in opening up a company in Colombia if I would have had access to this type of information.

I think it's a great opportunity. I mean honestly there is a lot of companies that are actually looking to introduce U.S. product into the region. But at the end of the day, may not have the same information that I have now. With these type of scenarios, I mean it's just a better scenario to increment, again, U.S. product abroad.

In the case of drill pipe, it's one of the things that, again, drill pipe casing, whether it be chrome, whether it be standard steel, I mean it all comes back to basically U.S. manufacturing. Like I commented earlier, whenever you go and try and push these type of products, the first thing they ask you whether

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it's U.S. or Chinese made.

At the end of the day, that's what makes it basically outstanding, that again the people or the companies, et cetera, they still rely on U.S. quality to be able to finish or finalize their projects. But at the end of the day, when there's a lack of, probably, investment and in most cases, again, a lot of it has to do with at this particular point not being enough manufactured product in the U.S. to be able to cover all of the operations that are going around the world.

So again, this opens up the door for the Chinese market, and again, I just think that it has -- there has to be definitely more investment, more research towards ongoing projects around the world to be able to have enough product to meet those expectations from the operators.

AC CHAIR PEARCE: So I mean it just seems like that, that if we have a shortage of

product, that's a shortage of capability, that's a shortage of manufacturing capability.

MR. GONZALES: Manufacturing, that's right.

AC CHAIR PEARCE: And those require longer-term investments. I don't know, it may be that EXIM starts asking some of those questions. Why do we have such long delays in American production stream, so that it opens the door to our competitors with inferior products?

Now one other question I really do want to broaden out here, but you said in a private conversation with me a month ago that there were multiples of people like you, going around trying to create opportunities for U.S. businesses in Latin America, and there were multiples of those, in the tens of hundreds. How many Americans or U.S. residents do you see now going around in Latin America, trying to push American products?

MR. GONZALES: Well again, most of

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the -- most of the, I guess, companies are sending their people out to ongoing projects. In other words, I see a lot of Americans going into Latin America once they've already established a certain project. But in general, within the region, what typically you would have the same people going in all over the region and doing the type of sales or finalizing whatever it is that they're involved in.

It's now -- again it's now either the Chinese that are going into this type of movement. It's definitely changed since I've been around, and again I've been in Latin America since '97, and it's an ongoing change. I just see the current Chinese, the way they're actually pushing their product in Latin America, you can tell by the numbers, just by the amount of people you see on the flights.

AC CHAIR PEARCE: Larry, you've got a question here.

MEMBER GOODMAN: Yeah. The table

that was distributed is extremely interesting. Thank you for doing that. I'm sympathetic with many of your views. The industrial policy really makes no sense in a country like this. But when I look at this table in particular, it's suggestive that the Chinese data, for instance, and Chinese data are very difficult to manage and understand.

For instance, the International Monetary Fund in their reports on China often have long segments about the deficit, fiscal deficit. It's officially reported at under two percent of GDP. The IMF extends it to well over ten percent of GDP. So when I look at the table, there's a \$39 billion export finance facility that China is offering the world.

But my recollection of the competitiveness report is that when you add varying different agencies in, that it's pushed to 160 to 170 billion, which then would take the figure, and I agree. You know, 95 percent of all

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nation's exports are not guaranteed, which is fantastic. In other words, only five percent are.

But if you look at the all-in China figure, you're getting to a number north of six percent. So clearly, something is happening where the authorities are using finance and official finance to gain access, to gain that political access in Latin America and elsewhere. So what are your thoughts about how finance is being used, especially when it's often hidden?

MS. DE RUGY: Yeah. It's a good, it's a good point. I mean no one ever takes Chinese numbers very seriously, that's for sure. Incidentally, I'd like to note that U.S. number is also -- I mean it's unusually low because it was during the lapse. But if you add all these, you know, different export subsidies that the Chinese have, you can do the same in the U.S., you can do the same everywhere else. So that's another point.

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I will say this, and it may not satisfy you, but in all the conversations I've heard this morning, all the conversations I hear as of China over-investing abroad or actively and aggressively investing in the U.S. The fact that it's government driven is going to be not great, a lot of malinvestment.

There's a lot of assumptions in the -- oh look at how much they're investing, and that assumption is "and it's going to succeed." But the truth of the matter as when we know with industrial policy and so it's government-driven capital investment, government-driven R&D, government-driven lots of things. There's a ton of malinvestment because of the way the decisions are made.

Somehow in the U.S., when we talk about there are a lot of national security reason to be worried about China. There are geopolitical reason to be worried about China. There are all sorts of things. But when we talk

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about economics, I wish for once we didn't talk as if everything China does is going to actually be profitable.

I remember a time where everyone was freaking out about Japan. I mean at the time I was in France and the conversation about Japanese investment in France, Japanese investment around the world was exactly the same. It hasn't panned out. Again, I'm not comparing the two country exactly. That said, the economics remains the same.

We need to temper down the fear of China on this front and realize that because they're over-invested right now, because they're superactively invested, if these projects don't work those countries are not going to be winners. I think that ultimately because the US. is a more capitalist system, ultimately it will come out ahead. If China changes its way, competition's going to be real in terms of better quality products and all sorts of things.

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AC CHAIR PEARCE: Yeah, so I'm going to recognize T.J. here in just a second. But just in response now, I'm hearing you say that we can be over-concerned about the Chinese preference. Now I ran a small business and we were competing with -- in the oil and gas sector. So you had these spikes in the price of oil. It goes to \$100 and it invites everybody in because they can get -- they can get financing.

So basically you could get stupid people into the market when the price is high enough. When the price fell, they began to give away their product. So us legitimate businesses would be starved out because they're giving away what we couldn't give away. And so, so that's the first element, that good businesses will be starved out here while we're waiting for the shoe to fall on the Chinese, and that's an assumption that I think that in the real world that you're making that doesn't stand up, and again I value many, many things you're saying.

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The second element of that is, and you did make the comparison between Japan and here. Chinese products are nothing like them. I've seen them on Block pens. I've bought them for \$2 in China and they screw right into the \$150 Mont Blanc pens here. The perfection is very good.

I've brought the \$8 jackets on the streets here that have the label, whatever NorthFace or whatever that is. The zippers, everything it's not like it used to be. The quality is very high and so -- and then that potential for them to starve out the U.S. manufacturers is real, and it has to be addressed in these classroom questions here. T.J., go ahead.

MS. DE RUGY: Can I just very quickly answer this? Yeah, yeah.

AC CHAIR PEARCE: We're bouncing a little bit too much.

MEMBER RAGUSO: Sure. Just an

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observation. I think maybe you mentioned perhaps a little bit less experience with small businesses, but that is primarily who we support with our EXIM financing. I think it is important to try to bridge sort of an aspirational future state the academic and more economic arguments with what really small businesses and really businesses of any size face in the real world today version of if we're asked to provide ECA financing or we don't get to bid, that company doesn't get to bid and doesn't win a project.

That doesn't allow U.S. workers to be hired or those small businesses that make up a supply chain to actually make contributions. So I think that's a very real thing I mean to bridge because again, when I talk to my customers it's about all right, here's my opportunity. I've got to be competitive. What can you the bank do to help me do that, and all capital is not created equally.

Some companies that, you know, are

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good enough to get capital. Most of our customers, if they win a big export contract and they have to have competitive financing to be able to execute and compete against a competitor, they would try to come to the bank, the cheapest source you could say of outside capital that most companies would come to.

If we're not able to make that loan to them because we're highly regulated and unless we're able to kind of do something to help mitigate some of the cross border exposure we face, we can't make the loan to them. Most of those small businesses aren't going to bring in a partner, sell part of the business to actually execute on that export contract. They're going to try to get bank financing.

There's a lot of comparative numbers, and this is helpful, by the way comparative numbers as percentages of exports or of ECA support. But again, I have to think about the customers that we support live in absolute terms.

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Are we going to get this contract, which produces this much revenue, not how it is relative to total U.S. exports. So I just want to, maybe a little bit of perspective there.

MS. DE RUGY: Yeah, no. So again on this, I know --

AC CHAIR PEARCE: Sorry, we have a comment.

MR. BURWELL: Yeah, oh I'm sorry.

MS. DE RUGY: Go ahead Tod.

MR. BURWELL: Actually I wanted to go back and address a couple of things that Mr. Gonzales brought up, that Ms. Pryor brought up and then connect it back to some of the opening comments around some of the proposed changes. So there's two things that I want to point to.

There was a reference to some survey questions that I think you were intending to add around additionality, one specifically relating to does EXIM compete with the banks. I think that's a reasonable and a good way to approach

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this issue and that question.

The second, I think I heard that there was an intention to speak to some of the banks regarding their appetite for long- and medium-term financing. I don't know if the intention was to do this through a survey, but I would encourage you to do this across the board with banks, not just focused on the larger banks.

Because again, I think this comes back to the question of who are the -- who are the users of EXIM Bank financing, what are some of the limitations on larger banks versus smaller banks, and I think this question around appetite for long- and medium-term financing would be very relevant for smaller and medium-sized banks as well as community banks, which was something that came up on the phone.

The last comment that I had on this was really around the theme of education, which is what I think I also heard. So we had the opportunity to serve on the Trade Finance

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Advisory Council, which was run under Commerce, and one of the recommendations coming out of the first iteration of the TFAC was to do more education specifically around trade, what's involved, what resources are available.

I think what I'm hearing is that there is also an intention of the EXIM Bank to do more education with the public around the availability of what EXIM Bank would support. I would encourage that we also are looking to develop certain education programs specifically for bankers, to help increase the knowledge base.

I think this is primarily going to be targeted towards medium and smaller-sized banks, of what is involved with international transaction banking, international trade finance, and then specifically we're developing a program around risk management. We'll address the questions of why trade finance lending is actually different than working capital lending to small businesses.

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AC CHAIR PEARCE: Sure, and I've got a question on the phone. But just both Martin's comments a minute ago and Tod, your comments here, are indirectly bouncing into those that Ms. de Rugy has made, that the concentration of the Bank in the past pretty limited in scope, and typically toward the large. Director Pryor has really laid out, I mean the cost of doing the small one is just the same as doing the large one.

So at some point if you're going to get the scale, you really have to be looking at the large. So we're finding this complexity here, but you both have been kind of accentuating the point that not many people out there know what's going on. Martin's out in the field every day and never heard the word EXIM.

I've got to go to a question on the phone right now, Alex. I'll come across to you Joanne after this. Alex, go ahead.

MR. SANCHEZ: Yes, Mr. Chairman.

Thank you. To the speaker who made comments on the China policy and where we are as far as our trade with China. You know, I thought you made good points. But my comment to you is this. I don't believe our country has a China phobia or China assertion of really major concern.

What you're seeing is we have a \$500 billion annual trade deficit with a country, and of course, you know, banks of the leadership of EXIM Bank, the President and others, you know, that is being finally addressed. Then as far as comparing China to Japan, let me just -- if you said this and I missed it, I apologize to you.

But let me remind you that Japan is an ally and while we may have economic competition with an ally like Japan, like Germany and others, that's one thing. But with China, it's not only economic competition but military competition and national security competition. That's a whole different ball game.

So yes, our country needs to be very

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involved and engaged on the China policy, and to amend that and change that because it's totally unfair to our economic interests.

AC CHAIR PEARCE: Thank you.

MEMBER YOUNG: Can I -- oh.

AC CHAIR PEARCE: Joanne, did you have a question? Oh, I thought you had a question a moment ago.

MR. SANCHEZ: You want to address what I just stated Ms. Young?

MS. DE RUGY: I mean I have stated that the national security with China issues is -- I mean is a real one. I don't think it's one that is to be dealt with with economic weapons, but maybe some time it would be in, and people wouldn't have any objection. The question is I'd make sure that we don't label national security issues that are just actually kind of protectionism issue.

So I mean I always stand behind, you know, if there is a national security issue,

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which there definitely is with China, we should, we should address it. But it remains that we have to be careful. It really remains that we have to be careful to your point that yes, unfair competition from others can have a short term cost.

But the truth of the matter is like we have to be careful that the way we respond to these are not detrimental to our way of living. Unfortunately, a lot of the ways we offer to respond to this -- first, I mean -- I mean it's been proven. Like I mean businesses are harder to knock out, especially the efficient ones and even when they're small, than we think.

But we have to be very careful that the practice we put in place don't go mimicking the way of doing of the Chinese government in its intervention into a free market, and there's a lot of this as to the use of export subsidies even to help small businesses.

By the way I think most people, I am

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an exception and I've stated it; my views are public. But even I, I guess, you know if that was the option between what we have now at EXIM that's focused on small businesses, I mean like most people would not have an issue with this.

But I would like to point out again that, you know, export subsidies, even when they take the form of capital and it doesn't fall from the sky. Its resources are shifted from other companies in the U.S., and many of them are exporters, right.

So we should not just look at the benefits to your clients. Yes, it is a real benefit, but there is very often an unseen cost that even because we don't take it under consideration, it doesn't exist.

It is been documented many times with respect to the national impact of export subsidy, and counterfeit should absolutely be the role of the government to try to prevent it. The Chinese again, the Chinese --

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AC CHAIR PEARCE: Have you ever been downtown New York City and be on the streets there? I'm just telling you --

(Laughter.)

MS. DE RUGY: You know, I just --

AC CHAIR PEARCE: Yeah. The amount of products coming in counterfeit compared to the resources that we're able to put into fighting the counterfeits are again --

MS. DE RUGY: But that's, yeah. That's a choice.

AC CHAIR PEARCE: That may be a choice, but you have to talk to the people down the street, not the EXIM Committee on that. I will let you bring reason to that body. Again, other comments that we have for this conversation? I feel like we have --

DIRECTOR PRYOR: I'd like to make a comment, or actually I'd like to ask a question if I could.

AC CHAIR PEARCE: Go ahead.

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DIRECTOR PRYOR: I mean this is a great chart. Thank you for this, and I would echo T.J.'s remarks or maybe it was --

AC CHAIR PEARCE: Larry.

DIRECTOR PRYOR: Larry's comments, that if 95 percent are not guaranteed by an ECA, then clearly that five percent I'm guessing probably needs us. So but what I would like to ask you is we talk about what we should or shouldn't do or how things should be different. But what, I'd like to ask you what you think we should do?

You know, just briefly, we're not just a business. I don't look at what we provide as a subsidy. It's a loan. There's interest charged or a guarantee. It's because they can't get a commercial loan for the most part, or perhaps it is because the buyer is requiring the exporter to have an ECA-backed financing in place before they'll even be considered for that.

But what would you do? What would you

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do if you were EXIM Bank with its mission as a government agency, not as a private bank or private company, what would you do?

MS. DE RUGY: For the sake of additionality, I would actually go back to a system where I would cap the size of the deals, as to exclude the big guys who have access to capital. I would focus the lending on -- I mean assuming that the option is to keep EXIM open on small businesses, I would be pretty strict about making sure that capital is not available.

I would also make sure that if the goal is China, that we compete in places where China is, not in Italy, not in France, not in, you know, in Western Europe and countries where there is plenty of access to capital. That's the kind of things that I would do.

And again, I understand that a lot of this contradicts your mandate, and it's a problem and it's got to be a big headache for you. But that's what I would do.

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AC CHAIR PEARCE: Other comments?

Yes, Maria.

MEMBER CINO: I'd just make a comment and not to open up anything. But I do think that we do have to consider supply chains. I work for a Fortune 100 company. Fifty percent of what our business, what we do, goes through systems integrators or our partners. I think, you know, we're critical of some companies.

We forget who they're dragging up or pulling through, and I think that that's really something that needs to be considered and thought of.

AC CHAIR PEARCE: Mr. Fogel, is that something that EXIM tracks? So when we have a big contract, do you actually track the beneficiaries downstream? Is that a quantifiable figure?

MR. FOGEL: You know, this comes up all the time, and it's something we're looking into more. But the --

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AC CHAIR PEARCE: So I hear a "no"?

MR. FOGEL: No.

AC CHAIR PEARCE: No.

MR. FOGEL: We don't track it and it's so difficult to track. Just the concept of jobs supported, right, which is something we speak to, even that itself, forgetting about the supply chain but just by the exporter that we're interfacing with or supporting, that itself is hard because how do you quantify jobs that are not, you know, people that are not laid out or additional people that are hired? It's a very dynamic thing and it's hard to quantify.

MS. DE RUGY: The counterfactual.

AC CHAIR PEARCE: I would pitch in here that number one, the fact that it's difficult doesn't mean that it should not be achieved. Number two, I'm not sure the difficulty -- I had a small business that was just my wife and I, 50 employees and we could tell you how much we spent with every single

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vendor on every single well site.

Some cafeterias, for instance, cafeteria being kind of a very difficult choice, they could tell you when the price of string beans changes by two percent, how much it affects their bottom line.

So the fact that it's difficult, I think you should challenge the system to start measuring that. It would number one, ease concerns I think that are valid concerns, that all the benefit goes here and if that information were available, that the benefit actually percolates down pretty strongly, maybe like 40 percent, 50 or whatever the number is.

Then that begins to answer serious questions that originate back at the street, and Ms. de Rugy is simply a voice for those concerns. She happens to align with a deep concern in the Congressional body, both Senate and the House.

The more information that you can get there, the more valuable it is. So kind of a

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chafe. Make it work.

MS. DE RUGY: If you look, you could look at what's happened in the last four years. I mean that's a place to start. What has actually happened in the real world in the last four years? I know you have a list of companies that didn't get. I mean make it public, so people can give you input about why these business didn't happen or ask why it didn't happen.

Looking really at how the companies that were in your portfolio did the last four years is actually going to give you a lot of information. It would be also worth it once you have additionality and new additionality rules to actually run.

I don't know how cumbersome it is, but to run your old portfolio and say how many of these would go through under these new additionality rules, or is it just exactly the same? And then it tells you that it -- either

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you had it right before or not much has changed.

AC CHAIR PEARCE: Other comments, questions? Yes, Ms. Young.

MEMBER YOUNG: Yes. Are you aware of any opposition to other ECAs in other countries, and is the Mercatus Center you're with opposing ECAs in other countries?

MS. DE RUGY: Well, I mean I oppose ECAs everywhere. I can only speak for myself, because I think -- but I will say, if the French want to jump off a bridge, we shouldn't emulate them. I'll say that.

So no, unfortunately the problem with the way government expends, it's because the people who are the beneficiaries are, have an incentive to actually go and say look, I need this, I need this, I need this.

Often the victims of those who actually shoulder the cost of these new government interventions, they either don't know because the cost is diffused, and so there's

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not -- and/or they have better fish to fry. They have other battles, bigger battles.

So unfortunately what Congress hears all the time, what you hear all the time, I think what your predecessors heard all the time is mostly people who benefit from EXIM. Of course they like it, and the problem with Congress and all of the agencies, often that's what they hear. They don't hear the other side. This is why I really want to thank you for having me, because it's rarely that I'm asked to come and I'm welcome anywhere.

(Laughter.)

AC CHAIR PEARCE: Easy on the welcome part.

MEMBER RAGUSO: When you were talking about the difficulty in tracking the small business exports, my understanding is there is a bit of a, I don't know, legal or charter definition that you have for who is involved in an export transaction. But just as Jim is

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talking about using surveys to support or to, I guess, some of the additionality and economic impact questions, I think perhaps there's a way to, right.

If it doesn't, if there's not a -- if there's a technical limitation, perhaps there's a way to use some of the surveys, especially where we're talking about the larger contracts that get supported. You could probably capture 80 percent of it by going to 30 names and ask for some measure of survey, so you just get some directional information about tell me how many thousand companies are in your supply chain and just make some estimates.

And so -- I mean we use estimates for everything else, and we're talking about using some surveys. So anyway just a thought to get some more information.

AC CHAIR PEARCE: And could I have you work with them, because by the next meeting why don't we have an update on this question? It's

a very significant question, and if you would, T.J., work with them in the meantime. I mean start, and if you could get 20 percent of the information, you get 20 in the next year, get 20.

I mean start somewhere, and any information is better than what we have. So let's have that report. Luke if you are, that's already on the agenda for next time, if you would? Okay. We need to wrap this portion up. Yes.

MEMBER TETTLEBAUM: Yeah, I just -- along those same lines, it seems to me that the information would really be post-loan more than it would be pre-loan. So the question is whether we're thinking about following up with the borrowers, to ask them to report this information as a condition agreed to, report this post-loan information as a condition of the loan.

AC CHAIR PEARCE: Other comments? We've got to move.

MR. GONZALES: I just have one more, Steve.

AC CHAIR PEARCE: Okay.

MR. GONZALES: I really think that we -- even though all your comments are very well taken, I still think that we don't need to take the China policy lightly. I mean especially in my field, it's a multi-billion dollar business. The more the Chinese flood Chinese product into the oil and gas industry, I think it's going to affect it long term. So again it's something that I really -- I don't think it needs to be taken lightly.

AC CHAIR PEARCE: Thank you very much. So to each of you, Ms. de Rugy, Mr. Burwell, Mr. Gonzales, thank you all for your presentation here. This is the conversation for EXIM. I want to tell you that that's where we should be.

We must address questions that are not coming directly to us from down the street, because those supports or oppositions will grow as the mission of EXIM succeeds or fails, and as it broadens, as it reforms. And so thank you

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each one of you for coming here.

Public Comment

AC CHAIR PEARCE: It's time in the agenda for comments from the audience. You all could be excused. You can just step away if you would like, and we will go to comments from the audience, if there are open comments that you would like to make, this is the time. We have the microphone set up there and you can just make your way to that microphone. While we're waiting for those comments, any comments from members of the Committee? Ms. Reed.

CHAIRMAN REED: I just again want to thank our guests for coming and being so thoughtful. It's very much appreciated and very helpful. So Larry Goodman heads an organization called the Center for Financial Stability, and we've had some conversations on risk and other things.

But Larry, if there was a study or data that we might look at, to help us get at

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this question, I just wondered if you have any expertise to offer our staff and perhaps outside experts?

MEMBER GOODMAN: Well, I think there are multiple issues, and certainly we'd comment in greater detail. Over the next few days I will certainly learn more. I think that the notion of a survey would be very helpful, and that way we can get some empirical information regarding how EXIM's customers are reacting and responding to the available stimulus.

So both on the survey side, as well as any financial risks. For instance, there are lots of risks that any bank runs, whether they're enterprise risks or whether they're credit risks. To the degree that the institution also answers the highly pertinent question of is it a subsidy or is it not a subsidy? It's a loan, and for the most part the subsidies are exceedingly small.

So there are multiple ways to calculate where the risks rest, and provide some

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information that is exceedingly clear on what the customer is doing, where the risks are and how the institution, the financial institution itself, which is what EXIM is, is pricing those risks, that the institution, that any bank takes on in the private sector.

The name of the game is taking on risks. So I think that there are those three areas to delve into that.

AC CHAIR PEARCE: Thank you for that. Other comments from the audience or Committee members?

(No response.)

AC CHAIR PEARCE: Our plan now is to go ahead and adjourn this open meeting, and then we're going to have lunch. But as you know now, we do working lunches here. We hate to give you even a second off. The Subcommittee on Competitiveness and the Report to the U.S. Congress on Global Export Credit Competition, the second Subcommittee on External Engagement and

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Strategic Partnerships and the Subcommittee on Small Businesses will be convened during the lunch.

And so if you can take your break that we're supposed to take at 10:00, and then reconvene, we're going to move to Room twelve-oh -- exactly how are we going to handle? Luke, how are we going to handle this move here?

Right in here, and then go there. Okay, all right. This meeting of the Committee, the EXIM Advisory Committee is adjourned at this point.

(Whereupon, the above-entitled matter went off the record at 11:52 a.m.)

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