EXPORT-IMPORT BANK OF THE UNITED STATES

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ADVISORY COMMITTEE

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MEETING

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WEDNESDAY
OCTOBER 30, 2019

The Advisory Committee met in Room 1126, 811 Vermont Avenue, NW, Washington, DC, at 11:00 a.m., Stevan Pearce, Advisory Committee Chairman, 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
OWEN HERRNSTADT
KATHIE LEONARD
BRAD MARKELL
RICHARD POWELL
THOMAS RAGUSO
RICHARD ROGOVIN
ALEJANDRO SANCHEZ
CHRISTOPHER SMITH*
HARVEY TETTLEBAUM*
DEBORAH WINCE-SMITH*
JOANNE YOUNG

STAFF PRESENT

SCOTT CONDREN, CFA, Policy Analyst
JIM CRUSE, SVP, Office of Policy and International Relations
BRANDON DUES, White House Fellow, Office of the Chairman
DAVID FOGEL, SVP and Chief of Staff
STEPHEN RENNA, Chief Banking Officer

ALSO PRESENT

NICOLE AUSTIN, SVP and Director of Federal Affairs, Reinsurance Association of America
TOD BURWELL, President and CEO, The Bankers Association for Finance and Trade
LINDA DEMPSEY, VP of International Economic Affairs Policy, National Association of Manufacturers
JOE MONAGHAN, CEO of Public Sector Partnership, Aon
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

11:03 a.m.

AC CHAIR PEARCE: Thank you all for being here today. This October 30 meeting of the EXIM Advisory Committee will now convene. We had, I think, a very productive meeting at our last time. Since then, we have submitted our report to the Congress, and now we're preparing for the phases that I think are very important.

As you know, we, the Advisory Committee is called for in statute, and we are the ones that will look from outside. We're not part of the operational structure of the Bank, but we look from the outside and make suggestions, recommendations, and communicate to the Congress.

So, we're beginning that look forward to next year's report to Congress, but also what can we do in the meantime to provide advice to what we think the directions that the Board should be considering.

We, as an advisory committee, will not be overly prescriptive, but we will make suggestions, and then stand back and watch those suggestions take root.

We're here today to have conversations that begin to bring, I think, an understanding of where we think, as an advisory committee, that, the directions the Board should go.

As you know, the past years in Congress, there have been great discussions whether the Board should even exist, or whether the Bank should even exist, and the problems with the reauthorization, and we think it's best to have those discussions open here today, so that's the reason we're convening today.

Welcome, Chair. I appreciate you being here. I'm going to turn it over to you to make comments if you would.

CHAIRMAN REED: Good morning, everyone. We've had a great morning. We just voted on an important transaction for the country of Senegal that will support approximately 500 jobs in the United States across 14 states.

And I just want to thank this Committee. We've been working really hard up on

Capitol Hill. Probably as we speak, our reauthorization bill will be voted on in the House Financial Services Committee. They had the start of the markup last night, and then it should conclude today with a vote.

I also met yesterday with Leader McCarthy and also with Senator Cramer, who has a bill cosponsored with Senator Sinema for our reauthorization in the Senate, so lots of conversations going on.

I want to tell you how appreciative Senator Cramer was yesterday when I handed him your Committee report. Thank you for being so prompt to complete that, because he just really underscored the value of this and sends his regards to that fact.

I also want to thank you for allowing us to be successful with the reforms that I have committed to do for this agency as we move forward, the six important reforms that Senator Toomey challenged me with upholding under oath during my confirmation hearing.

And so we sat down with him and went

through -- we have a document of all we've been working on, as you know, for our reforms. We presented it to you at the last meeting, and now we're sharing that progress more widely with the members of Congress as they take a look at our reauthorization.

Another important thing I want to point out to you is that Speaker Newt Gingrich came out with a piece that should be in your packets on October 18 called, the Export-Import Bank Can Help Deal With the China Challenge, and I will say that members of Congress are responding to that, that op-ed, in a very strong way.

So, it's important as you, being challenged under the law of talking about the world of competition, just to know these things.

And I know I'm given five minutes, but I would like to turn over one minute briefly to Kyle Jackson, who is a senior loan officer in the Global Infrastructure Division of the Office of Board Authorized Finance.

Kyle presented to our Board today for

the vote that we took to support a deal for Senegal and that meeting is closed, and the reason for that is there is proprietary business information that is discussed.

But I want you, since we're gathered here today, to just hear briefly of this deal and why it's important for us to be in the deal, and that is only possible with our extended reauthorization as we look at the competitive world of China and other places. So, just for one minute, Kyle, can you just comment on that?

MR. JACKSON: Yes, thank you very much, Chairman Reed, Dr. Pryor, Dr. Bachus, distinguished Committee members. My name is Kyle Jackson. I'm a senior loan officer here with the Bank, and this morning, I had the privilege of presenting a transaction to the Board.

This transaction involved a small Chicago area business. It's an engineering firm and they have secured a contract with a utility corporation within Senegal.

Now, the significance of this, a number of different points I want to highlight here is, one, as I mentioned small, this is a very small firm. They have less than two dozen employees, and the value of the contract is in excess of about $100 million, and with the help of EXIM Bank, they've actually executed similar contracts in other markets that were considerably larger.

The importance of EXIM Bank being in this transaction is this transaction was a very strong demonstration and success -- oops, oh, my goodness.

(Off-microphone comments.)

MR. JACKSON: All right, notwithstanding the special effects --

(Laughter.)

MR. JACKSON: So, I just wanted to highlight again the importance of this transaction and what this means, not only for this very small U.S. firm, but I think for U.S. export as a whole, and really demonstrating the value of what the U.S. government, and obviously what EXIM Bank brings to a transaction.

To briefly state it, this transaction

involved multiple agencies, Department of State, Department of Commerce, Advocacy Center, U.S. Trade and Development Agency, USAID, all advocating on the behalf of this exporter to demonstrate the value they are bringing to the particular opportunity and particular transaction.

In a market like Senegal where the U.S. does not have a strong presence, to be quite frank, we have a very small trading relationship with the country, they typically look to both the Europeans and obviously China, and China, as we know, you know, they have been making huge plays on the continent.

In Senegal itself, they've only had a relationship with Senegal since 2005, but they now represent its largest bilateral creditor, all right. Chinese companies dominate the market and the infrastructure space.

And so the idea that Senegal would realign their focus and look away from the Chinese and look away from some of their traditional financing partners, and look to a small business in Chicago to undertake a large $100 million-plus opportunity, that speaks volumes, all right, and it really does reaffirm the value proposition that EXIM Bank brings to these types of opportunities because it wasn't --

Certainly Secretary Ross and many of the other individuals who advocated on the part of this particular company, they certainly added to the company's ability to win this contract, but from the Senegalese perspective, they would not have awarded this contract to this company if they did not believe EXIM Bank was standing behind that USG effort, all right.

The mere fact that if we were not there, they absolutely would have looked to another company from another market with their own respective ECA to support them, there is no doubt in our minds.

So, we see this as a very strong representation of the total value chain that EXIM Bank brings with the U.S. government's effort to promote U.S. exporters, so thank you very much.

CHAIRMAN REED: Thank you very much, and I just want to also thank my Board colleagues, Judith Pryor and Spencer Bachus, for the work we've been doing to share the mission of the Bank on the Hill as we look towards reauthorization.

We expire under the continuing resolution on November 21st, and we really thank this Committee for your work and your input to the Congress as well.

AC CHAIR PEARCE: Thank you, Chair, and I also would like to welcome Spencer and Judith to the meeting this morning. I served on the Financial Services Committee in Congress under the chairmanship of Spencer Bachus.

And the relationship between chairs and members is not -- I mean, I never wanted to strike him with a flagpole, but I would note that --

(Laughter.)

AC CHAIR PEARCE: -- he might not want to pass the knowledge that it fell his direction, not Judith's direction, so, but there's nothing about that, sir, but thank you for being here.

Well, we were supposed to have a legislative update. Ross Branson was going to be here, but if he's giving us a legislative update while the legislature is going on and meeting about this very issue, he would not quite be doing his job.

So, he's there for that vote on the markup this morning, I suspect, isn't he? Okay, so we'll know more.

The process in the House has been quite contentious for several years on the Bank, and so we're watching with great interest and know many of the players there.

Mr. Bachus was involved as Chair of the Committee, but also as a member of the Committee, I was involved in those discussions, and so we'll be watching with interest.

And the discussion today really highlights the tension at Capitol Hill, so again, I appreciate each one of the people who are here and prepared to testify.

We're going to keep moving through the agenda. You'll note that we're going to attempt to stay on time, and we will stay on time. We have a very hard close at 2:00 today, and so we're going to get everything done that we came here to do, and then some of the discussion from the audience.

So, if we can, I'll get Stephen Renna, Nicole Austin, and Joe Monaghan to come to the table. We'll have presentations that they will make to us, and we'll determine after that if we're going to go to a short question and answer for them or if we're going to simply continue with the agenda. We'll make that determination.

So, Stephen Renna, he's the Chief Banking Officer at EXIM. Nicole Austin is the Senior Vice President and Director of Federal Affairs at the Reinsurance Association of America, and Joe Monaghan is CEO of Public sector Partnership, Aon.

Stephen, thanks for being here and we look forward to your presentation.

MR. RENNA: Thanks so much, Mr. Chairman. And the purpose of this session is first, with my part of it, is to give the

Committee some contextual background as to how EXIM has utilized reinsurance to date, and then my colleagues that I have at the table with me, Nicole and Joe, are going to talk about how we can take next steps to further use reinsurance to manage our risk exposure in our portfolio.

So, from a historical perspective, and I beg the indulgence of those of you who already know this, maybe some of you do not, but I'm going to give you a little bit of context about our engagement with reinsurance.

So, the Export-Import Bank Reform and Reauthorization Act of 2015 included a new provision or a mandate to establish a pilot program to share risks.

In other words, we were encouraged to look at reinsurance, and in March of 2018, we completed a groundbreaking reinsurance program that works with the private sector to share risks.

Specifically, what this involves is reinsuring $1 billion worth of loss coverage for a significant portion of EXIM's existing portfolio of large commercial aircraft financing transactions.

It was determined that because this is a major part of EXIM's portfolio exposure, but also an asset class that's easily understood from an underwriting standpoint, that was chosen to be what we were going to utilize as far as the pilot program.

So, the program that we were able to complete quite successfully is the first reinsurance program for a federal credit reform agency.

What's involved with this reinsurance basically is that for exposure on our aircraft portfolio, EXIM will be exposed to the first $250 million of loss, the first loss position, and then the reinsurers will back that beyond that up to $1 billion. All of the reinsurers in the program are S&P rated A or better.

The all-in cost of this reinsurance to EXIM was $12.5 million for two years of coverage. The reinsurance coverage was funded by the fees that are generated out of our aircraft financing transactions.

The reduction in business risk, what did this mean for EXIM, was to reduce our business risk on the models from 1.25 ratio to 1.10 with the structure, and reduce the chance of exceeding the two percent default rate that we're governed by from four percent to one percent with reinsurance, so we got a significant reduction in our default exposure because of that.

So the outcome of this from the reinsurance standpoint, and Nicole will speak more to this, it allowed reinsurers to bring diversity to their portfolio and expand their ability to insure transactions leading to further investment in the United States and abroad, and it also allowed the reinsurers to expand their risk appetite and to efficiently deploy capital to other risks, effectively growing the pie of risks that are reinsured, so this is basically what we call crowding in.

So, EXIM now based on the success that we have seen in our pilot program, and also through the encouragement of a number of policy makers as Chairman Reed meets with them, the topic of reinsurance of our portfolio continues to be raised, we're committed to engaging in new risk sharing opportunities with the private sector.

The Reinsurance Association of America is encouraging EXIM to build off its pilot program and it will exercise its authority to transfer risk away from EXIM, and thus, the taxpayers, and into the private sector, and the Reinsurance Association of America has also reported that reinsurers are poised to work with EXIM to maximize EXIM utilization of the private sector market to extend what the industry can write credit risk for.

So, with that introduction, I'm going to now turn it over to Nicole and then Joe to talk about reinsurance more generally as our steps going forward that we can consider.

MS. AUSTIN: Great, thank you, Steve, and I hope I live up to that introduction, but I have been asked to kind of give you an overview related to reinsurance, and I just want to thank

Chairman Pearce, Chairman Reed, members of the Board, Mr. Bachus, Ms. Pryor, and EXIM staff, and of course the Advisory Committee members. Thank you for the invitation to join you today.

I'm Nicole Austin. I'm the head of Federal Affairs at the Reinsurance Association of America, and we are the only reinsurance trade association in the U.S. and represent reinsurers doing business in the United States before state, federal, and international bodies.

And I'm honored also to be here with Joe Monaghan, who is the CEO of Aon's public sector partnership, and I'm happy to report Aon is a member of the RAA.

RAA's members help private and public sector organizations evaluate, manage, and share risk. You've probably heard of insurance companies. You hear their jingles on the TV and you know that they support homeowners, and drivers, and small businesses like where you buy your cup of coffee, large businesses that make cogs that go to Mars.

But what you may not hear about is the

folks who are behind the insurance companies, and those are the reinsurers. We typically don't have mascots and jingles, but we are there to support the economy, and businesses, and families, hopefully not on your worst day, but that's why we are there.

After major catastrophic events like hurricanes and 9/11, we were there with our capital to help support, for example, two-thirds of the insured claims paid after 9/11, so we are also working on the Terrorism Risk Insurance Program reauthorization in addition to supporting the reauthorization of this Bank.

So, what I want to mention to you is that while federal programs like EXIM and agencies are now embracing the idea of risk transfer, it is something that has been around for hundreds of years that the private sector has utilized, and states as well for decades.

I just want to highlight, you know, in the '90s, you've probably heard of the movie Titanic, and Jurassic Park, and The Lion King, but what you probably didn't hear about, because it's not a front page story maybe here in Washington, is that state programs started using reinsurance, and it's a good story.

After the Northridge earthquake in California in the mid-90s, California saw a void in the insurance market. They decided to create the California Earthquake Authority, and nearly from its inception, the CEA enlisted the reinsurance community to help share in the risk and manage the risk of their portfolio.

And since the 1960s, the majority of states have created some kind of an insurance organization at the state level. Sometimes they're known as the FAIR Plan. Sometimes they're known as other things depending on the state, but those programs, also state-chartered programs, have enlisted the reinsurance industry to help with risk management and to share in the risk.

Now, turning to the federal government. So, dating back to at least the Great Depression era, before my time, members of Congress and presidents of both major political parties have created, reauthorized, reformed, and supported a number of federal programs to bear credit, disaster, and political risk. These risks are ultimately backed by U.S. taxpayers.

In the wake of historic disasters like Hurricane Katrina, and the financial crisis, the housing crisis, additional taxpayer funds had to be dedicated to federal agencies and federally created organizations to help them continue to operate, pay claims, and both stifle and reverse economic tailspins.

Congress also provided authority and subsequently strongly encouraged some agencies in federally created organizations to improve their risk management specifically through reinsurance and risk transfer programs.

These programs, I will highlight this throughout the rest of my remarks, these programs were implemented during both the Obama and Trump administrations.

It's not the front page of the Washington Post, but, and it won't even make the Washington Post, but it is a great bipartisan moment, I think, for two administrations, as well as Congresses that have been led by both Democrats and Republicans.

So, I wanted to highlight other federal programs that have gotten into this space and the benefits that they have realized from doing risk sharing or risk transfer through reinsurance.

The National Flood Insurance Program, which is run by the Department of Homeland Security, in 2016, following a reauthorization of their program, was encouraged by members of Congress if I may point them out.

Former House Financial Services Committee Chairman Spencer Bachus, and Mr. Stevan Pearce, the Chairman of this Advisory Committee, both held shepherd and support a reaffirmation and an encouragement to that program to use private capital to bolster that program and their claims paying capability.

Well, it's been seen as a huge success, so much so that after they launched their pilot in 2016, they purchased reinsurance in 2017. You all heard of Hurricane Harvey and the ensuing devastating floods that resulted from that storm.

Well, for the first time in U.S. history, or since 1968 when that program was created, the private sector was called upon to help pay claims. They provided over a billion, with a B, dollars to the NFIP to help disaster victims get back on their feet.

That money never has to be paid back by U.S. taxpayers. The NFIP and the Department of Homeland Security do not have to go to Congress for that billion dollars.

They have expanded this program since then, and it's been deemed such a success by members of Congress, like the current Chairwoman of the Financial Services Committee, Maxine Waters, has touted this at the National Flood Conference this year. She has not touched that as part of her reform efforts because she sees it as a success.

The President's budget for FY19 also included a special breakout box, no lights and glitter, but a breakout box that highlighted the success of this private capital being infused into a federal program to help share in the risk and better manage that program.

So, we are seeing, you know, this bipartisan proposal to create this program perpetuated through many Congresses since the 112th Congress, and we will see it expand going forward, I think, for the NFIP.

And again, this was something started in the Obama administration, and has been embraced and grown through the Trump administration, so a rare moment.

Another example I want to highlight is you've heard of Fannie Mae and Freddie Mac, the government-sponsored enterprises. They are not federal agencies, but they are under the direction of their conservator, the Federal Housing Finance Agency, which was created in the midst of the housing crisis in 2008.

They have been given direction by their regulator and conservator to better manage their risk in their portfolios, and so one of the programs launched and was a critical part of this in 2012 and 2013 was the credit risk transfer program.

Today, over $9 billion in risk transfer has been assumed by the private sector on almost $3 trillion of outstanding single family mortgages, so it's also a great success story.

It has been highlighted as a successful program and should be continued and grown by the recent Treasury and HUD proposals for housing finance reform, also Chairman Crapo of the Senate Banking Committee has included that in his housing outline.

And lastly, I will say that there was bipartisan legislation last Congress in the House that would have codified this program, so once again, a very bipartisan effort.

And let's turn to the most important agency that we're here to talk about today is EXIM. As was mentioned by Steve, in 2015, a Congressman from Ohio named Steve Stivers, who was very ambitious and enterprising, as his former colleagues know, had the idea that EXIM should do a pilot program with reinsurance.

And thanks to the success of that program, we have what I like to refer to as a ray of hope or a shiny object for several members of Congress who know the benefits of risk sharing and better risk management from these other programs that they've seen succeed in this space, and I think there's a lot of support, I know there's a lot of support on Capitol Hill.

Chairwoman Waters, in her current draft EXIM bill, reauthorization bill, Section 14, actually would reaffirm this program, convert it from a pilot to permanent program, and allow the Bank to execute in that space.

And so, we see Senators like Senator Toomey and Senator Schumer, quite a range of political views, have supported risk transfer in the past, and I could see them supporting this going forward. This has been reiterated in bipartisan legislation introduced in the Senate as well.

And so, I want to conclude with a

couple of points. What are the benefits of risk transfer to agencies like EXIM? One, improved program risk management and risk diversification; two, private market analysis and price discovery; three, protection against losses through risk sharing, thereby protecting taxpayers, helping to maintain solvency, and avoiding requests for supplemental appropriations; four, avoiding a crisis; five, improving U.S. competitiveness with other export credit agencies that have risk transfer programs to name a few.

Why are reinsurers interested in doing this? Steve alluded to this. Risk management is their business and they also seek to diversify risks within their portfolios.

Is the capital there? Mr. Monaghan may want to expound on this as Aon has issued a number of reports in this space, but the industry globally has about $600 billion in capital available, and the industry is highly resilient.

In the wake of major catastrophes, the industry typically comes back stronger, and even with better pricing at times, approximately $136 billion to $144 billion in insured losses in 2017, and $70 billion to $85 billion in 2018. With those losses, the global reinsurance industry continues to grow, so it's a great industry and I'm honored to represent them.

Just in conclusion, Republican and Democratic led states, previous Congresses, this 116th Congress, and at least two administrations have supported and implemented reinsurance risk sharing programs.

Government risk, including from EXIM, can and should be transferred voluntarily to the private market. The use of private capital will protect consumers, taxpayers, and communities, while spreading risk throughout the globe to insurers, reinsurers, and other capital providers who are willing to assume such risk.

RAA is grateful for EXIM's leadership, staff, and this Advisory Committee in supporting the launch of EXIM's historic reinsurance program. With a continued bipartisan support from Congress and support from this administration, we encourage EXIM to continue to use this important risk management tool to remain viable in the long term.

The RAA and reinsurers are poised to work with EXIM to maximize its utilization of the private market to the extent the industry can rate the credit risk. Thank you again for the opportunity to share the RAA's point of view. Thank you.

MR. MONAGHAN: Thank you, Nicole. Good morning. I'm Joe Monaghan. I work at a company called Aon, which is an insurance and risk intermediary, and I want to add my thanks to Nicole's thanks to everyone here for giving us the opportunity to present.

We've had the honor to represent EXIM in the reinsurance market on the pilot transaction, which was groundbreaking, and building on what Steve has talked about in terms of the program that was placed, what Nicole has outlined with respect to the appetite that the reinsurance community has to do more business with government agencies, I want to spend a little time to talk about where the program might go.

AC CHAIR PEARCE: Joe, if I could get you to pull your mic?

MR. MONAGHAN: Sure.

AC CHAIR PEARCE: When you turn your head, then the people in the back are straining to hear.

MR. MONAGHAN: Is that better? Okay, so where do we go from here building on this pilot? And because I'm a reinsurance broker, that means I always bring a presentation with me wherever I go. We have it on both screens. Hopefully you can see the presentation here.

And some of the themes that Nicole touched on in terms of why you do risk transfer, and why government agencies, especially in the federal space, are looking at doing this in increasing ways first and foremost is protection of the taxpayer.

Just like if you utilize insurance on homeowners or for commercial exposure, you are exchanging certainty for uncertainty.

So you have uncertainty in future

outcomes, economic volatility of what the future may be, especially in longer tenure contracts, and what you are doing with risk transfer is putting a ceiling on what those losses might be, and you're doing that in exchange for a known premium today, so you are removing uncertainty in exchange for certainty.

But there are benefits that extend beyond protecting taxpayers, and that is especially important in the context of EXIM Bank. The thing to bear in mind is that 31 of the 35 major ECAs buy reinsurance and have been buying reinsurance for a long time.

They make it a part of their risk management program, and they do that not just to reduce the volatility, but also because the reinsurance industry has been operating in areas that have credit exposure and political risk for decades.

One of the benefits that you receive in building these partnerships is a second set of eyes that can add to your own underwriting perspective that is operating in these jurisdictions on behalf of other ECAs and commercial buyers.

That enhanced perspective just broadens the view that the Bank has when it's making its underwriting decisions, and we have seen that actually come to fruition recently in the mortgage risk transfer programs.

And Nicole mentioned that FEMA bought reinsurance. It just so happens the very first year they bought it, they got a full recovery, a billion dollars paid to them by reinsurers in 10 days. They went out the very next year and they bought even more coverage, and the marketplace was there to provide that coverage.

Fannie Mae and Freddie Mac are purchasing now between $5 billion and $6 billion of reinsurance limit a year. They have been doing that for five or six years. They have gotten an excess of $20 billion of risk transfer in force. That started with a single pilot transaction with one reinsurer for $77 million.

There is a process of going from a pilot to a program that creates more comprehensive protection and a solution that is broader than just protecting taxpayers, although that is an essential and critical element of the benefits of reinsurance.

Steve already outlined the pilot program, but I want to take just a moment to talk about the thought process for that program because many people may look at that and say, well, of course you had a ton of reinsurers that were interested in the commercial aircraft portfolio. It's the best portfolio, a great track record, a great history.

When you're seeking to establish relationships with reinsurers, their objective, and they have a mentality and approach that is different from, for example, the capital markets. They price risk over the cycle. They look to have a buy and hold mentality.

So, they want to build a programmatic relationship where they know in some years, they're going to pay losses. In other years, they're not. They're going to receive a premium. On balance, over time, they'll make a margin and the Bank will get the benefits of that risk transfer program.

The most important thing when you're starting out with reinsurers is establishing relationships with the right panel of reinsurers, highly-rated groups of reinsurers that actually bring underwriting expertise that can benefit the Bank and with whom you can build a stronger partnership to cover the broad aspects of the portfolio, and that's where we look to go in the future.

So, building on that pilot, just like it has been done with FEMA, it has been done with Fannie Mae, it has been done with Freddie Mac, the next step would be to create a reinsurance program that covers the broad portfolio that the Bank has, so you're getting that protection across all of the asset classes on a portfolio basis that you are working with.

This shows you a graphic of that build up with Fannie and Freddie so you can see what is possible. The reinsurance market can do size. They can do risk transfer on multibillion dollars of risk transfer a year in partnership with government agencies.

And then we also have here that you can review case studies on each of the programs that has been done, so the FEMA case study, of course the Freddie Mac and Fannie Mae case studies.

In addition to the federal agencies, the World Bank recently did a catastrophe bond that they sponsored on behalf of four Latin American countries for earthquake risk. Those countries could not purchase protection on their own. It was through the sponsorship that the World Bank had that they were able to access that, and that's important because it's similar, frankly, to one of the key roles that EXIM is playing here.

The reinsurance marketplaces understand how to underwrite these assets. They understand how to underwrite many of these country risks, but there are going to be parts of the portfolio that EXIM has that without EXIM taking leadership and going into those countries, frankly, the reinsurers would not deploy their capital.

They're confident in deploying that capital behind EXIM. They're confident because of your track record, because of the underwriting standards, and the strength of EXIM U.S., and that actually creates a great partnership overall because it diversifies the portfolio of risk that the reinsurers have, and that's a critical element that EXIM can build on with this established pilot program.

So, with that, I know time, we want to stay on time here, so that's the conclusion of my slides, Chairman.

AC CHAIR PEARCE: Thank you very much. I appreciate each one of you and your presentation. Just for the Committee members, we're going to go into about 15 minutes of Q&A here, and we want your questions to be nice and tight.

So, my first question is not nice and tight at all. In fact, I'm going to probably roll in two or three conceptual pieces. We'd like to get to where do we go from here, but the first point is, Joe, I think, and maybe Nicole, my question is are there reinsurance agencies that fail?

Keep in mind, I was sitting in Congress in 2008 when we watched the entire system collapse. The insurers of the insurers were collapsing underneath, and so there was actually fewer than, I don't remember the exact numbers, $1.00 for every $100 of actual exposure was being held in capital.

So, talk a little bit, less than a minute, about the stability of the reinsurers, and do you see failures in them, and do you see differences in their ability to rate projects, especially outside the country? So, a very short answer on that because I really want to get to where we're going.

MR. MONAGHAN: Sure, so it's a very important question and one we cover often is the counterparty exposure. So, the worst position you want to be in is you pay a premium for protection, and when it comes time to get recoveries when there's losses, either they're unable or unwilling to provide that.

What we saw actually in the financial crisis is that insurance and reinsurance companies held up very, very well. You have, obviously AIG is the name that everyone thinks about, but it was the financial products division of AIG that had its challenges, not the rated domestic insurance or their reinsurance vehicles. Those entities did not have financial challenges and paid their claims through the crisis.

The best example, and Nicole touched on it, most recently was the 9/11, and that was an important example because the nature of that loss was different from how reinsurers manage their risk.

As a result of 9/11, the rating agencies and reinsurers have taken a more robust and dynamic approach to managing their risk accumulations, and the industry is now financially stronger than it ever has been at a record level of over $600 billion of capital.

AC CHAIR PEARCE: Real quickly,

Nicole, how many failures in the reinsurance market of the reinsuring firms have you seen in the last ten years more or less, just --

MS. AUSTIN: I haven't seen any reinsurers --

AC CHAIR PEARCE: None?

MS. AUSTIN: -- failing.

AC CHAIR PEARCE: Zero?

MS. AUSTIN: And I think one of the key words to focus on is diversification of risk, and so --

AC CHAIR PEARCE: I understand.

MS. AUSTIN: -- reinsurers that we represent are required by their regulators -- they're regulated at the state level. They are required to diversify their risk, and so --

AC CHAIR PEARCE: Okay, all right.

MS. AUSTIN: You saw a lot of monoline insurers during the financial crisis in the mortgage space, but reinsurance is a different level there.

AC CHAIR PEARCE: All right, is there interest in the Committee -- we just don't have time today to go into this full discussion, but I would like a phone conversation with the two, maybe the three of you all sometime in the near future. Is there interest in the Committee?

I think we really need to explore this because the system fails in 2008 and we watched it systematically fail, and so I, with all respect, I hear your reassurance that it was okay, but I don't think so, and I don't want to get into it any deeper today, but if you all are open, anybody else care? Okay, if I can get -- yes, Chair, you were -- yes, go ahead.

DIRECTOR BACHUS: Of course Steve mentioned AIG. I know they have AIG Re now, so they are in the reinsurance business today, and their claims have increased recently, so I think there is some concern about AIG Re, but were they a reinsurer at the time in 2007? I know they were in effect reinsuring a lot of Goldman Sachs' obligations.

MR. MONAGHAN: So, AIG Re, their reinsurance component, is a very small part of their overall business, and has been historically. They are much more of a global insurance company.

DIRECTOR BACHUS: Sure.

MR. MONAGHAN: They do reinsurance business, but they're a small player in the reinsurance marketplace overall. AIG, with their financial products unit and financial credit derivatives, yes, they have a significant amount of exposure, but that was not in the regulated insurance or reinsurance companies --

(Simultaneous speaking.)

MR. MONAGHAN: And we're happy to talk, and we have chapter and verse on this because --

DIRECTOR BACHUS: Right.

MR. MONAGHAN: -- it's a very important issue and want to make sure the Board has confidence.

DIRECTOR BACHUS: So, they were, as a practical matter, regulated as a reinsurer when they made those obligations mainly to Goldman Sachs. Is that correct?

MR. MONAGHAN: So, the entity that

supported banks, Goldman, among others, was not a regulated reinsurance company.

DIRECTOR BACHUS: Okay, that's what I was thinking. And my second question is this, because of the recent catastrophic losses, of course, you know, we've got the California fire, but you had Dorian, and I know recently, there's been some concern about the reinsurers based in Bermuda.

I don't know if you all are aware of that, but is your association, Nicole, does it include those reinsurers that are based in Bermuda?

MS. AUSTIN: Sure, we have -- yes, we have Bermuda-based reinsurers. We have Bermuda -- reinsurers based all over the globe, U.S. reinsurers as well, but you have to have a presence and be doing business in the United States.

And I will say that reinsurance is a global industry. All of our companies operate in dozens of countries all over the world, and that is also part of their risk diversification. They may reinsure a business in Southeast Asia that could be hit by a tsunami.

They may reinsure a business in California that could be hit by a wildfire, and that diversification geographically and by risk is what makes their portfolios robust.

DIRECTOR BACHUS: Okay, finally, let me say this, you know, I've said many times that when we weren't, when EXIM wasn't reauthorized in 2015, it obviously gave a real energy to China's efforts to further penetrate markets, but as I recall --

And you mentioned that there was a bipartisan move to introduce private-public partnership through reinsurance, but the old leadership, the old Chairman of EXIM, and I think the Board, never really acted on, you know, on the reform proposals that we put forward in, you know, as early as, I think, 2012, but, so was 2018 the first time that that was, there was a reinsurance agreement?

MR. MONAGHAN: For the Bank, yes, for the Bank.

DIRECTOR BACHUS: You know, that caused quite a bit of hostility against EXIM, the fact that they simply ignored a lot of what Congress asked them to do, and I think probably one of the most important things was the reinsurance component.

And I'm happy to say that this new board is listening very closely to criticisms such as distortion of markets and, you know, I think it's a new day at EXIM, but that was one of the cases of irritation.

There was quite a bit of irritation on the Hill that EXIM, the Board, the Chairman simply blew off efforts, concern, real concerns about market distortion, about, you know, public-private partnerships.

AC CHAIR PEARCE: Thank you, Mr. Chair. Now, let me get to the -- go ahead and ask your question and then I'm going to ask the key one. That's where we go from there, so.

MEMBER HERRNSTADT: I appreciate that, Mr. Chair.

AC CHAIR PEARCE: Yeah, drag your mic

right up close so everyone can hear.

MEMBER HERRNSTADT: Yeah, just three, hopefully I think they're pretty brief questions. One is, and I apologize if I missed this in your presentation, but do you have a list of EXIM projects that would not have gone through had it not been for the reinsurance program?

Number two, I just want to confirm. I think I've got the answer, but I just want to confirm that nothing in the reinsurance program impacts in any way the current public policy requirements of the Bank, that is those impacting the domestic content requirement, shipping requirement, or economic impact.

And then the third, I guess this is more of a question for Steven, if you could clarify for me the additional expenditure for reinsurance, how does that impact the Bank's overall budget that's been appropriated by Congress? Thanks.

MR. RENNA: Well, the money that was used to pay for the reinsurance came out of the fees that we charge for this, so it actually protected the Bank's overall exposures that we would have. We have reserves amounts and things like that before the taxpayers are going to be affected at all.

But I just want to make sure you're aware also is that if we have revenues that exceed the budgeted amount per year that Congress allows us to have, because they don't appropriate, they tell us the amount of our revenues that we can keep, we remit that to the government.

So, this is -- using these proceeds that we get from the transaction to reinsure is a way of protecting us more on the downside rather than just saying, well, here is $12.5 million more that we could remit to the Treasury. This is more of a taxpayer protection than that.

MR. MONAGHAN: I want to make sure I understand the first and second questions. I think the answer is, frankly, similar to both of them. So, I think what you're asking in the first question is was there a project that the Bank did because there was reinsurance in place?

So, but for the fact that the

reinsurance was in place, that project would not have happened is the first question. The second question was: does the reinsurance impact any of the Bank's policies themselves?

So, the answer to both of those questions is no, and the reason is the nature of the reinsurance. The reinsurance is done -- the pilot was done on an existing portfolio of aircraft deals that the Bank had in place.

So, it was after those deals were put in place, not before those deals were put in place, and that's the way most of the reinsurance works. It's on the portfolio that's in place.

The second question on the Bank's policies, the reinsurers have no impact on the Bank's policies. What they really care about is the risk. They're looking at the portfolio that's being reinsured and ascertaining the risk, and then determining how that risk fits their underwriting appetite and ascribing a price to that risk.

AC CHAIR PEARCE: So, as we look at moving forward, I'm wondering, that I don't think we're ever going to get the size of the Bank to compete with the Chinese, not at the level that we're at now.

We're going to have to take the potential, the potential to make loans, to enter the market and expose to the risk and rewards, we're going to have to take that, in my mind, a much deeper level into the public. So just very briefly, can we visualize expanding the number of firms down to a lower level?

So, the bank in Hobbs, New Mexico, they don't know much about things outside of New Mexico. They do mostly local lending. Is there a bonding structure that you all could visualize that would make it to where they could invest? Put money into the pot understanding that this project has got this risk. This one has this risk, but it's also got this reward or --

And then even further, say you get a housewife in Hobbs, New Mexico that's looking to invest $1,000. Do you ever visualize a product where they can stick it in in the internet, put it into a portfolio that EXIM has authorized, maybe it's even outside the purview of EXIM, and they can put their $1,000 in tonight and take it out tomorrow night if they decide they want to make a down payment on a car or something?

So, how do we expand beyond our current vision to where we can access the tremendous capital that is in this country? I do not think EXIM is going to get the dollar volume to compete with China, not the numbers I've seen, not the numbers I've seen historically from us or the numbers I see in the last couple of years from them.

And so how are we going to compete actually? They're touching roughly 60 percent of the market today, I forget the numbers, four billion people, more or less. How do we get that scale? We're going to have to do something different and I think that's a question.

So, also, we've got six minutes to explore that and then you're into the food time, and I'll let you deal with these Committee members, so, okay, let's go on your six minutes. Well, seeing none, thank you.

(Laughter.)

MR. MONAGHAN: Mr. Chairman, it's an important question, and the two specific ideas that you offered, which are both interesting and compelling ideas, are something that I think with respect to reinsurance, it plays a role in creating an environment where the Bank can be innovative, so let me expand on that.

As I mentioned, 31 of the 35 ECAs buy reinsurance, and what they're doing is putting a ceiling on their losses. They know what their worst day is going to be. It's not an unknown.

What that creates is an environment of more certainty so that they can go forward and be creative in their solutions knowing that they have that protection on the ultimate volatility of the portfolio.

AC CHAIR PEARCE: Yeah, I mean, with all respect, because our time is so limited, expand and not into the reinsurance itself. We're here as an advisory committee, and so I'm looking at where we go, not just in reinsurance and what you bring, but if we're just having a casual conversation where we had a couple of Board members here who might report back to the other Board members that, wait, maybe there are some ways we can expand and start tapping into the capital of the average homeowner.

I don't know if any of you have money in the bank, but money in the bank is absolutely worthless today. You get about a quarter of a percent. I don't know. I haven't had money in the bank in some time.

So it has no value, but if we could help create values for small banks like those community banks that are always buying bonds, and we're able to leverage our benefits outside this country, now we begin to compete with the Chinese, and so direct your conversation more at that.

I think you're trying to stay too closely rooted into the reinsurance question itself. I'm okay. We're going to have the broader discussion of that on our phone conversation, but think with us as advisory committee members on the other aspects of how we get more funds into the playing field without exposing the taxpayer. That's the question right down the street.

MR. RENNA: If I could jump in?

AC CHAIR PEARCE: Sure, Steve, yeah.

MR. RENNA: I think one of the ideas we should think about, and actually was suggested by Secretary Ross in a meeting that Chairman Reed had with him when I was at Commerce and in that meeting, and it's also something that he mentioned to me when I had my last meeting with him before I came over to EXIM; he thinks we should consider selling some of our seasoned paper that we have --

AC CHAIR PEARCE: Absolutely.

MR. RENNA: -- particularly on our direct loan side of the equation, which is often in our large project finance. This is very desirable paper, and that if you're trying to get private capital into that piece to sell these loans --

Now, if David Sena were here, and he's not, he would say, Steve, there's an issue at

Treasury we have to deal with in how we book interest rates, and I get it, and I mentioned that to Secretary Ross, and his comment to me was, that's a math equation that can get solved if you want the policy.

But I think one of the things to look at to allow investment in the capital markets, so basically, you're accessing the capital markets that reduces our risks of exposure and recapitalizes us, that would be to sell some of our paper.

AC CHAIR PEARCE: Yeah, because looking at it from surely a political point of view, you can either go after the people who can write you a $2,700 check or whatever the limit is now to go into Congress, and you can find a few of those, but if you get down to the people who give you 10 bucks or 50 bucks and you expand that universe broad enough, and we're seeing that in some of the fundraising today, you have the ability to tap far more capital, and so how do we get the investment mechanisms to people who will put it in this afternoon? Nicole, you're chomping at the bit. Let's go, all right.

MS. AUSTIN: So, you know, happy to run down the rabbit hole with you a little bit further in a future conversation, but, you know, just to high level it, you know, reinsurers, when our members accept premiums from their customers, those premiums, as you mentioned, they don't sit in a bank account.

They're reinvested, and so one of the not frequently stated facts about reinsurers is that we are one of the biggest investors in municipal bonds in the United States. This was heavily discussed during tax reform, during the lead up to tax reform in 2017, and was hugely impactful in the development of changes to the tax law in that space.

And so, when you're talking about every taxpayer in every town in America that's funding roads, schools, and bridges, we're one of those investors as well.

And so, you know, when you look at the whole picture, the whole panoply of how reinsurance works, you can see that Americans everywhere are investing in EXIM and EXIM is investing in them and it's a shared effort, and reinsurance is the facilitator or the catalyst in that space.

So again, I'm happy to go into more detail, but I think that's a little bit of what you're getting at, and again, we can go into --

AC CHAIR PEARCE: Okay.

MS. AUSTIN: -- more detail later.

AC CHAIR PEARCE: I'd like to dismiss the panel. Thank you very much, each one of you, and, yes?

MEMBER YOUNG: Could I ask one question?

AC CHAIR PEARCE: Sure, yeah.

MEMBER YOUNG: Historically, Boeing's foreign customers have relied on EXIM Bank financing, and my question is given the situation with the 737 MAX aircraft, to what extent is the reinsurance industry going to be or is involved in covering the losses that are being experienced there, or is that going to hit the $250 million first loss that EXIM Bank has to cover itself?

In any event, we'll hit that.

And secondly, you mentioned that aircraft fees, lease fees covered a lot of the premiums for the reinsurance, and so the question I have is to what extent is that going to be impacted by the ongoing 737 MAX problem, which, if I may, could be used on Capitol Hill as a problem for EXIM?

MR. MONAGHAN: So within the aviation portfolio, there are some maxes in there. It's not the predominance of the portfolio, but there are some maxes in there, so that would be covered in aggregate against the overall deductible.

Based on where it is now, we don't see that breaching the deductible level, but it is covered in the current portfolio.

AC CHAIR PEARCE: Fair enough. Does that --

MEMBER YOUNG: Yeah.

AC CHAIR PEARCE: Okay, so we do have members on the phone today. Harvey Tettlebaum, Deborah Wince-Smith, and then Chris Smith is on the phone also, so I appreciate you all checking in. We're going to release this panel.

And so from last time, we understand that we're going to work through lunch, and the longer you spend in there, the less time we have to discuss, and so my urging is to go get your food, come back here, and let's sit down.

After releasing the panel, during lunch, we've got 15 or 20 minutes on the schedule to just casually eat and not talk. I would rather spend that time talking and eating, and I would like for us to continue this discussion among the Advisory Committee members.

Fair enough? Okay, the dinner bell has rung. Be back here as soon as you want to start the discussion. I'll open the discussion or the floor to anyone who wants to continue right now.

So, feel free to go ahead. We're going to continue talking back and forth around the table. Yes? I think let's go ahead and let everybody choose when they want to listen to the conversation or go, so go ahead.

MEMBER ROGOVIN: My question is these

fees that fund the reinsurance, are these fees only charged against aircraft deals or are they charged against all of the deals?

AC CHAIR PEARCE: I'll tell you, let's make a note of that question and we will actually get someone from the Bank to address that.

MEMBER ROGOVIN: I've got some follow-up questions too.

AC CHAIR PEARCE: No, it's a good question.

MEMBER ROGOVIN: And I'll elaborate more when --

AC CHAIR PEARCE: Okay.

MEMBER ROGOVIN: -- you get somebody.

AC CHAIR PEARCE: After we kind of reconvene, we'll be tracking that down. Other questions? No, you're --

(Off-microphone comments.)

AC CHAIR PEARCE: Yeah, we'll ask Steve more specifically. Other conversations that we're going to continue? I mean, feel free to go get your sandwich. Yeah, we don't have to talk, but --

MEMBER RAGUSO: Well, one comment I'd make is that, regarding the reinsurance, I think it's really important that the Bank get credit in its aggregate authority for its net exposure so that if you reinsure a billion dollars, that you can then go use that freed up capacity to do more --

AC CHAIR PEARCE: Right.

MEMBER RAGUSO: -- so that way you really can leverage the balance sheet because you've minimized the risk.

I think it's -- we don't want to just reduce the risk in isolation and say, okay, I've reduced risk. I sold off. Now I can go and stand and do more lending, so I think that's really important that --

AC CHAIR PEARCE: Yeah.

MEMBER RAGUSO: -- there could be new language in the charter that has to contemplate that, but just like how banks, how we lend money, when we sell down risk, we can now use our capital for something else.

AC CHAIR PEARCE: Yeah, yeah, I will

bring that up, and I think that is something that we can definitely address to the groups because this dough is still being formed right now.

MEMBER RAGUSO: Yeah.

AC CHAIR PEARCE: Yeah.

MEMBER RAGUSO: We need to write language.

AC CHAIR PEARCE: Even though they're doing the markup, which is the actual voting on the bill, it goes to the Senate, so it's back and forth, a lot of massaging left to do on that.

MEMBER RAGUSO: Yeah.

AC CHAIR PEARCE: Larry, yeah?

MEMBER GOODMAN: I like this idea about looking into the portfolios of the reinsurance companies. We're essentially transferring credit risk that is being done in-house to these agencies, and their balance sheets have changed demonstrably in the era of quantitative easing.

We've had insurance companies stretching for yield and duration, and been putting a lot of collateralized loan obligations into their portfolios, so the durability of the system is an important and worthwhile issue.

AC CHAIR PEARCE: Okay.

MEMBER GOODMAN: I also like your idea about expanding the balance sheet creatively.

AC CHAIR PEARCE: Yeah.

(Whereupon, the above-entitled matter went off the record at 12:07 p.m. and resumed at 12:23 p.m.)

AC CHAIR PEARCE: So, as we wrapped up, we had a couple more comments. My challenge to the reinsurance industry is to, I view that we've got to be able to classify the risk, but we must, must get more investment from the private sector into these operations.

In order to do that, we're going to have to have a risk calculation. I view it as, in TSP, if you have your thrift savings plan through the U.S. Government, you could put your money into just a savings account, or you could choose risk levels A, B, C or D.

You didn't have any percentages, they didn't tell you what your rate of return is going to be, no numbers like that, just, this is pretty risky, this is a little less risky, this is less risky, very little risk at all, very little growth, more growth, more growth.

So, if we have those mechanisms, then the potential for a bank in Hobbs, New Mexico, I say that because we're as far off the grid as probably you can get in America. But then a housewife in Hobbs, New Mexico could say, wait, this one sounds a little risky, I'm going to go to this level here, she could put $1,000 in tonight, take it back out tomorrow night.

And then you begin to tap the tremendous wealth potential in this country, to compete with China. I do not think that we're going to have, ever, the expenditure by either Democrats or Republican to compete with China. And if we don't compete with China, they will take the market. They're taking it right now.

And so, I think that's the tension of the argument. How do we get more capability with less risk of the taxpayer? That, for me, as a policy maker, that for me is the essential question.

So, my challenge to reinsures is, think how you can go ahead and classify that risk in a general nature so that you give people a fair shake if they put their $1,000 in tonight, what potential they have to get some rate of return and what risk do they have.

Thank you very much. We're going to go next to --

MR. LINDBERG: Mr. Chairman, real quick.

AC CHAIR PEARCE: Yes.

MR. LINDBERG: Sorry, Luke Lindberg here with EXIM. I just want to make a point of clarification for the Committee.

At the end discussion, Mr. Monaghan from Aon made the comment that there were 737 MAX planes as part of our portfolio. And our transportation division is telling me that we do not have any 737 MAXs as part of our portfolio, so I just wanted to make that clear --

AC CHAIR PEARCE: Okay.

MR. LINDBERG: -- as part of the record here. Thank you.

AC CHAIR PEARCE: Thank you. We've got now then the discussion of additionality and economic impact procedure. We're going to review those.

And so, I've got three presenters here. We've got, all from EXIM, Jim Cruse. He's the Senior Vice President of the Office of Policy and International Relations.

Brandon Dues, the White House Fellow, Office of the Chairmen, EXIM.

And then Scott Condren, CFA Policy Analyst.

So, Jim, why don't you lead us off. And you all know your time limits on these. We've got you schedule for eight minutes, so I'm kicking this off 12 minutes late, so we'll probably take it out of your time, just guessing.

(Laughter.)

MR. CRUSE: Okay, thank you, Mr. Chairman and others. The way this has been structured is that there are two topics that this group is addressing in 25 minutes, now 18 minutes, both economic impact and additionality.

And what we're going to try to do in the slide show in our presentation is first go through economic impact. I'm going to try to explain what we're talking about, then Scott's going to give some examples of how the other world does it, and then Brandon can review the summaries.

The key here, and then we do additionality the same way. And then we go to another panel and questions are answered after all that. Okay?

The key here is that we feel it's necessary to try to explain what these two policies are before you get into a discussion of what to do with them. They are not the simplest things in the world to understand and I'm going to try to make it as simple as possible.

All right. So, the first one that we're going to look at is the economic impact procedures. But before I get into that, let me just explain that there are major differences between the economic impact procedures and the additionality criteria.

They both relate to key EXIM bank policies. Additionality gets to the core of, when do we add value. Economic impact is, do we have any unintended consequences.

We have to try to walk a fine line on both of those to make sure that we're not too careful that we don't do our job. We can't do our job too efficiently that we don't watch out for these consequences.

The key thing on both of them that people need to understand is that they are both judgements. The more sure you try to make the procedures as to what you're doing the more risk you take that you err on the other side.

And so, you can't get away from the fact that the bank was created as an independent agency and given a bipartisan board because the Congress knew it had difficult judgments to make. And these are two of the types of judgments that the board consistently has to make.

I can't stress too much that we're going to try to explain the difficulty of those judgments. All right.

Starting with economic impact. It is in the charter, unlike many things that we deal with as policy, economic impact is unambiguously in our charter.

In fact, it's in our charter in six to ten pages out of a roughly 25 to 30-page charter. So that you can see that it makes up almost a quarter of our charter.

And that's because the Congress debated this issue for several months, back in the mid-'80s and came into a resolution of it. And in that resolution they have spelled out, very explicitly, what they expect to be done.

But it makes no bones that we are to take into account any serious adverse impact.

This has been in our charter, it started in 1968, when Senator Holland of Florida didn't like the fact that we were supporting phosphate mines in Morocco, given his phosphate mines in Florida, which are now mostly sinkholes.

But at the time they were operating phosphate mines and he was concerned about it.

But it went from small paragraph to eight pages. So that gives you a sense. It's been around for over 50 years and it's grown almost every time there's a re-authorization, there's another clause put into our charter.

All right. So, what they have done in the charter is that they have tried to work a compromise between two very opposing series of beliefs and concerns.

The first is that you had a whole bunch of people saying, what is, why are we trying to do economic impact analysis. If the bank doesn't do the project, the project is going to go forward anyway with Chinese with Japanese or French.

So, why do we worry about blaming EXIM Bank for their consequences when they don't cause the consequences, the project is going to get done anyway.

Then the other side of that coin is, by those who say, I don't care whether it is a cause or it's associated with it, I don't want my tax money being used in such a way that it causes significant harm to the citizens of the United States.

Those two positions went back and forth for months during the 1983, '84, '85, '86 period. And eventually came out to what is, is comprise.

Which basically it says, you do it, but you only look at the biggest worst examples, but we want you to find them. And so, we have to figure out a way to go through a process that identifies the cases that could have enough harm that it would be worth basically cutting off our nose despite our face. That's what economic impact is about.

Now, what the procedures are, and keep in mind, I use the wrong, let me go back one. I said the economic procedures serve as a compromise. They are the mechanism to work through the compromise that the Congress has crafted.

The Congress crafted instructions

that said, we're going to define what significant impact is, one percent. We're going to define what you need to do if you go through this.

And the procedures are our way of going from point-to-point, within the policy setup by the Hill. So, we don't really have a lot of choice about the points, we do have a choice about how we get from point-to-point.

And so, what the procedures do, first off, it sets up a series of screens, or sieves, which say, if a case is small, it can't possibly have a significant impact therefore we're going to quickly go past it.

If a case involves services, it can't involve the increase in production of a good therefore we're going to go past it. So, you go through these screens and that gets rid of 95 percent of the cases very quickly, in terms of their potential for economic impact.

Obviously, questions can arise as to whether we're using the right screens. That's what came up with aircraft six years ago.

Aircraft didn't like the fact that

most of those were screened out because they were services. Today, we no longer screen aircraft out.

Then it says that we're supposed to take into account, for those that get hit by the screens, we need to, they are, and the screen is at one percent of U.S. production. And it says, okay, you're indicted, now you can be declared innocent only if two things happen.

One, there is not a long run oversupply in the product that you're talking about and two, that you can go through a process that identifies that the benefits exceed the costs expected.

And so, we, as an analytical tool, set up a way to evaluate whether there is a surplus in the commodity. And we setup a model that looks at the trade flows to identify what benefits from exports, what costs might come from competing with a product.

There are lots of assumptions in the model and all those assumptions are subject to debate about whether they're the right ones.

And so, what we're talking about today is you can't change the one percent that's in the charter, you can change the way we look at the screens, you can change the way we go through the model. Those are the issues of the procedures, okay, that connect the points of the policy.

That's what all the suggestions are dealing with, is what assumptions we make and what screens we use and therefore how stiff is the process at connecting the points.

Now, within all this we have gone out of our way to make sure that both an exporter, who can be declared having too many unintended consequences and therefore we won't support your sale, we have said to them, if you wish, you can do your own analysis of cost and benefits and bring that before the board and they will consider that.

So, we're not saying we're the only one that can evaluate this. The exporter who could be affected by our denial has the right to do their own analysis.

Similarly, for any company that feels

it would be affected, they are notified by a notice in the Federal Register when the application comes in and we make a judgment that it could hit one percent, that they have a right to also submit any information they wish.

And at times we have had companies submit treaties of 60 to 100 pages or 200 pages, giving their rationale for why the case should be denied.

So, we let both sides have ample opportunity to bring their own information to bear. All that information is presented in summary form, with the entire thing attached, in the board memo.

So, the process, the procedures setup a mechanism for moving the case through the tasks that the charter sets out. And in the process of that, we allow any affected exporter and any affected other company to put in all the information, any information, that they feel is relevant to the decision. And all that information is brought to the board at the time of decision.

Today, what we are doing here is trying to see if the procedures that we built in 2013 are still the best today in the marketplace. Are there new industries that we should be looking out for as a, right, the example I gave was aircraft. Today aircraft is including in the economic impact. Ten years ago, it was not.

Are there similar industries that need to be considered? Also, to the extent that the tasks are too easy, the tasks are too hard, the process is too facilitating, the process is too efficient or it's too hard.

These are the questions that are being asked. We can't change the standard, which is, that only some cases are supposed to be given analysis, that's in the charter. That's the one percent rule.

And at the same time the charter makes it clear we are to efficiently as possible process everything to find those so that we don't hold up every case to find a few that have an impact. So, the procedures are meant to be efficient, but not too fast that we overlook things.

They are meant to get to the one percent, but they are not mean to address everything. So that's what the procedures are about and what we're here to today evaluate.

Now, let me --

(Off-microphone comments.)

MR. CRUSE: Well, actually, in the flow of the PowerPoint we have Scott's information first.

AC CHAIR PEARCE: Scott, okay.

MR. CONDREN: Just briefly on economic impact. To our knowledge, no other ECA has such a similar procedure --

AC CHAIR PEARCE: Pull your mic up really close. There we go.

MR. CONDREN: All right. To our knowledge, no other export credit agency has a similar economic impact procedure.

We see this clearly in the steel industry. It's on our sensitive sector list. We would rarely, if ever, support a steel project.

The entire world agrees steel is an

oversupply at the G20 and the OECD. However, other ECAs are still supporting the steel products even through 2018, hundreds of millions of dollars a year.

In the U.S. Government, OPIC has a similar procedure. Their legislation is less prescriptive in what they do. They consistent, like a single sentence that their products should not have an adverse impact on U.S. employment.

As Jim said, ours is far longer more prescriptive than what Congress expects us to do. We do know OPIC looks at the overall impact on the economy, the balance of trade and employment impact, which are tied to U.S. procurements.

And that's about it for other U.S. agencies in terms of economic impact. And I'll turn it over to Brandon.

MR. DUES: Thank you, Scott. Mr. Chairman, Chairman Reed, Director Bachus, and Director Pryor and distinguished members of the Advisory Committee, thank you very much.

I am Brandon Dues, the White House Fellow. And with that context, please allow me to give you a quick overview of the summary of the public comments that were received.

Several quick points for context before I get into the specific recommendations. The first is that you all have a copy of the draft, I'm sorry, excuse me, the final version of the summary of the comments for your review.

They provide basically a holistic and transparent view of all the public comments that were received. As a quick note of history, EXIM had suppled comments in accordance with Chairman Reed, directed basically to reform the Bank.

As we put out for public notice, 30 days for public comments to come in and then extended that for an additional two weeks.

For the economic impact procedures, this is not the first time that we have solicited public comments. This is an update from 2013.

For holistic view we received 12 public comment letters. And then coincidentally, were basically evenly split between economic impact procedures and additionality.

And then further, the two themes that

they split apart, and as you can see in the green font on the slide, were increased stringent procedures versus loosening requirements.

And before I go through each one of those I would just like to highlight that the allocation of the recommendations are not even. And for context, note that those favoring increased stringent procedures are specifically targeting specific aspects of existing procedures, thus allowing for greater comments.

Whereas the recommendations for the latter, the loosening requirements, are broad and sweeping approaches to relaxing the larger constructs.

Additionally, there were other aspects to the recommendations in comment letters that were very specific, including addressing definitions within the procedures. And there were also broad recommendations that used the economic impact and additionality as vehicles to address these larger constructs.

Those will not be addressed within these slides, but you have a copy of those context within the summary. I'd be happy to field any questions on that.

For economic impact, six comment letters were received. As you can see, they were evenly split.

The specific recommendations, looking on the left-hand side of the slide, are assessing the more stringent procedures.

And they were very much focused on publishing some of the economic impact analysis after you complete one for every deal. And then allowing businesses that were adversely affected by it to then being notified.

And also, allowing those businesses to provide their own analysis to then supplement EXIM's analysis and challenge the deal.

Finally, the comments reflected a desire for the EXIM board, should they wish to still approve a deal that had adverse impacts to see that published, as well, for their notification.

Conversely, those general comments for loosening the requirements focused on the context and challenges that the analysis inherently creates challenges for them. And that is the timeline for the economic impact analysis is a deterrent to business. They identified it being slow and expensive.

And then within that context, if it's already slow, if there were any other delays that would allow further lobbying by competitors, which would ultimately result, in their experience, anecdotal problems with U.S. companies losing a deal and thereby losing jobs.

That's a quick summary. I'll now yield the floor to Jim and Mr. Cruse to address additionality.

MR. CRUSE: Let me just end by noting that, obviously from what was just described, that the economic impact procedures largely effect larger cases. They don't really affect smaller cases. That was part of the congressional intent.

So, all this discussion really is about the major cases, 50 or so a year. Aircraft and non-aircraft that we do in the OBAF division.

Now, for additionality. Here we have something separate. We do not have procedures, we have the, not the culmination, but the latest iteration of a 50 to 60-year effort to try to solve Rubik's Cube for the equation for relativity.

There is nothing in the charter that uses the word additionality. What we have crafted is the intent of Congress into various parts to make it clear that we should be letting the private sector do whatever it can do to get the cases done. And we should only step in when the private sector is not adequate.

That's often referred to as being the lender of last resort. But I prefer the term that it really, it should be when only EXIM Bank can get the deal done. I prefer that language to last resort.

Now, what are the two characteristics that most typify the existence of additionality or the fact that the case won't go forward without it.

The two that are reflecting are

mandate in the charter are when there is foreign competition that would win the deal for a foreign entity if we did not match it, or the existence of a gap in the marketplace created by regulation, risk or serious other incidents.

The gap aspect has increased considerably since the financial crisis. Since that time, banks under the regulation of Basel III have greatly, have been disincentivized from providing long-term finance into international markets, particularly less than investment grade.

That's where we do a lot of business and therefore there is a lot of gap there. You combine that with the competition, and those are the two areas that we get to.

Keep in mind, under our approach you don't need both of them at the same time to be additional, one or the other is sufficient to be additional.

Now, one of the things that has come up repeatedly over the years has been, how can you be a lender of last resort, vis-a-vis the commercial banks, and yet do the case when a commercial bank would do it. And this is where the situation of competition comes into play.

Of the top ten country obligors of the world of ECAs and medium term, eight of them are industrialized countries and all of them are investment grade. So that gives you the sense that the predominant influence in effecting the flow of export credit is the competitive pressures.

The gaps are usually there also, but they're secondary.

So, what you have is a situation where a borrower has a choice of buying from France or Italy or Japan or ourselves of China, and all of them are offering official export credit, which has various attractions to it that fit the borrower's needs. More so than the market.

And so, while the market would do the case, that it would not be sufficient to get the business for the United States. And so, in that case we step in to meet the competition and ensure that the U.S. gets the order.

That is a fundamental conflict that

has existed throughout the years and is not really resolvable by procedures or by criteria, it's just a fact of life.

Now, judgment is a primary key to this whole process. The criteria that you have here, as I said, are a result of 50 years of trying.

In the early '70s, Paul Volcker sort of determined our additionality by a variety of decisions he made as Undersecretary of Treasury. Later that decade Treasury tried to come up with a complex additionality probability that they would assign certain probability statistics to various attributes of a case. Then see if it had more than 50 percent probability it was good.

Since then we have tried a variety of qualitative factors. And what we have tried today, with the documents you have in front of you, is to create a list of things that could identify, what does the case need, what can the commercial sector provide. And then some options as to how the bank could best meet what the case needs while maximizing what the commercial sector can do.

Now, the criteria list that you have is a first time in the 50 years that we've been struggling with this that we actually have put forward an idea of what defines the situations or the existence of additionality. It can hardly be accurate every place exactly.

And so, what it is, it's a guide to what the loan officer should look for as they go through the months, and even sometimes years, of preparing a case. What pieces of information to collect, what to keep in their record?

And when you go to the board, what are the things that should be in the story. And I don't mean that as a fiction, but each case has a story of where the competition was, what the problems with the market were.

And the more pieces of information that you can bring to that story, the more comfort that the board can have as you have additionality. All right.

Now, it's intended that this will help it to be more efficient, expedient without overlooking anything.

But keep in mind that it is, as it sits in front of you today, it is tilted to make sure we err, if we err on the side of making sure we make the export.

Now, I'll let Scott talk about what other countries, others ECAs too.

MR. CONDREN: All right. So, while not every U.S. Government agency uses the term additionality, additionality does reflect broad U.S. Government principle. We want the private sector to drive the economy, not government financing agencies.

Additionality does appear to term in OPIC's charter. They also are supposed to compliment, not compete, with the private sector. So, they have similar guidelines.

The Small Business Administration has a requirement for make sure to credit not otherwise available before providing their guarantees on their seven-day program. And they require lenders to certify that's true.

They don't require proof of denial from a bank before providing those guarantees.

And similar for their working capital program.

Internationally there's a spectrum of concern of additionality I would say. Some countries take it very seriously that they don't want to compete with the private sector.

Australia's ECA has the most stringent procedures we've seen. They want evidence that a bank would not do a transaction uncovered.

European ECAs always state they don't want to crowd the private sector. They tend to have the view that as long as no one is actually complaining that they're displacing them, that there is no problem. This may reflect their history as guarantors and insurers since there was always private sector involvement.

And finally, Canada and the Asian ECAs don't appear to worry about it all. EDC, the Canada ECA is well known for competing with banks for business. And with that, I will turn it to Brandon.

MR. DUES: Thank you, Scott. For a quick overview of the additionality requirements, so there were six comment letters submitted, much like the economic impact procedures. They were split along a two-theme stricter additionality requirements and then relinquishing those requirements.

Again, the number of recommendations reflects the greater specificity against existing procedures, as you see on the left-hand side of the slide versus the latter, which cover broader aspects on the right-hand side.

Specifically, for the stricter requirements, they including publishing EXIM board memos regarding any additionality decisions, fixing a discrepancy in borrower concentration, specifically high versus low-income countries where private capital is deemed available prior to using ECA's, removing caveats in an additionality checklist.

In Section 3, specifically, they would allow a company to potentially use a catchall to justify additionality. And then to complete an annual survey of commercial banks in the EXIM competitive report.

And most commonly, to raise the

minimum evidentiary standard for additionality beyond just oral confirmation by the business, between itself and EXIM to ensure that no private capital opportunities exist.

On the contrary for the relinquishing requirements, they were broad again. And the focus should be on not what it should be limited, but to expand what might be considered as a first general comment.

Secondly, those would like to loosen requirements to allow U.S. businesses to essentially be unleashed to compete within this more competitive global economic atmosphere we find ourselves in.

And finally, there's a general consensus that EXIM should refrain from policies that unnecessarily would delay or impose extraneous requirements that could affect businesses from receiving ECA financing.

Those are the comments that reflect the holistic and representative view of additionality. And pending further comments by the Panelists, Mr. Chairman, I yield the floor to you.

AC CHAIR PEARCE: Thank you all very much. Far from reclaiming time from you, you've run actually 02:19 more than allotted and so we're even further behind now.

I would ask if we could get copies, the Staff could get copies of the two screens that Brandon had for the different comments. If you could distribute those to committee members, I would really appreciate that.

And then one slight caution, I've heard the word and the terms, know the will of Congress, understand Congress, thrown around pretty loosely. If you think God works in mysterious ways, you ought to go down and work with Congress sometime.

And so, when you said about the understanding will of Congress, you're on a long-term path my friends. So, I'd say, just read the words and do the best you can.

But let's dismiss this panel and we'll go ahead and, it looks like the Chair has got a question or comment.

CHAIRMAN REED: Before the panel leaves, I just want to allow everyone in attendance today know, to know about Brandon Dues. He is our White House Fellow. And he served our nation. He was aide-de-camp to the Military head of NATO and he has an economics background.

And so, this is a wonderful example of his nonpartisan work as part of his year long stint here with EXIM. But he is just really a fabulous addition to our team. Thank you for your service.

(Applause.)

AC CHAIR PEARCE: Yes, go ahead, Richard.

(Off-microphone comments.)

AC CHAIR PEARCE: Let's go ahead and just --

(Off-microphone comments.)

AC CHAIR PEARCE: Yes.

MEMBER ROGOVIN: It just seems to me that a lot of these policies tend to make the Bank, to speak generally, more bureaucratic in many ways and less like a private institution, which has been one of the features of this Bank.

And one particular concern I have, with the reinsurance issue that I wanted to bring up before, and a question.

Does the additional fee for the reinsurance show up on deals, other than aircraft deals? Is it spread over all EXIM proposals?

Now, I ask that from a standpoint of somebody who had a customer, which was a west coast African country, compare an EXIM proposal for financing with a French proposal for the same financing of a different competing product and look at the fees. The French fees compared to the EXIM fees.

The French fees are substantially less, and it didn't involve reinsurance at that point.

Every time we add expense here, when there has been no real problem justifying the expense, it shows up in the way we compete with these other export credit agencies and makes us less competitive.

Now, with the ideas to be competitive, how do we justify these additional bureaucratic things that we're doing that really slows us down and makes us less competitive.

But my question is about the reinsurance fees. Can anybody answer that for me?

AC CHAIR PEARCE: Sure. Steven, you still in the audience, can he address that? Jim?

MR. CRUSE: No matter whether the transaction is reinsured or not, it does not increase the fees the bank charges. What we paid out to the portfolio reinsurance came out of our reserve of fees already charged. So that nothing in the transactions going forward, there was no excess.

In any of the going forward ideas of reinsurance, the industry has explained to us that they felt they could reinsure for a portion of each case at our fees. Which means, we'd only share our fees, we would not have any additional fees.

MEMBER ROGOVIN: All right.

MR. CRUSE: To date, no extra charge comes out of reinsurance, and we do not expect any extra charge, to be in any going forward.

MEMBER ROGOVIN: All right. Well, right now the premium is only $12 million with a substantial, what is it, a $250 million buffer that we cover ourselves, is that how that goes?

MR. CRUSE: We take the $250 first lost, they take the next billion, and then we have the $18.5 billion left over. So, for a billion dollars that we're sharing, they charge you $12 million. Which comes out of our reserve of fees already charged.

MEMBER ROGOVIN: Okay.

MR. CRUSE: Not new fees.

MEMBER ROGOVIN: Okay. Now, let me ask this, what have our annual loses been over the past several years that makes it necessary for us to incur this additional expense for reinsurance?

MR. CRUSE: Our loses have not been great. You have to remember that under the 2012 and 2015 charter, there's a provision that says that if we ever get to the point where claims hit two percent of our reserve, that our exposure cap goes down to exactly where it is today, which means we're shutoff doing your business.

It is the risk of hitting that two percent target that the portfolio reinsurance is meant to deal with. It is not because we have access claims, it is that there is a draconian consequence to us if there is a surge at one point in time and we hit that two percent.

The reinsurance minimizes the chance that you would ever hit that two percent in a surge. And that's what it's about.

MEMBER ROGOVIN: All right. But up to this point we haven't had that problem, am I correct?

MR. CRUSE: Correct. But it's a problem we cannot afford to let happen. We have to take reasonable steps to make sure if, we cannot stop the fact there could be a surge.

You could have a crisis in the world that would lead to a surge of claims. And that's the point, we cannot let that shut us down. And that's what the reinsurance is meant to protect.

MEMBER ROGOVIN: All right. All right. But I hope that the board is considering the fact that there is a price for every new regulation, there's a cost for every new feature.

Some of these things that I'm reading here sound to me like they require disclosure of pending deals to competitors of applicants. For example, provide those domestic businesses, adversely effected the means to challenge the transaction with EXIM.

I mean, how would I know what transaction might adversely impact my company unless EXIM publishes the information about that transaction?

And is EXIM going to be doing that or is EXIM going to be letting my competitors know that there is a transaction that might impact me and I have a right to comment on it and maybe stop it. Is that the intention here? I'm looking at economic impact procedures. Number 4, Page 1. Provide those domestic businesses adversely affected in the EIA or the means to challenge the transaction with EXIM.

Number 5, publicly disclose EXIM board approval and justification to projects with any adverse EIA results.

Now, I think we operate now under principle confidentiality, like any commercial bank. But are we going to now expose our transactions of customers like ours?

Expose the transactions to competitors and allow them to comment on the transaction?

I mean, is that the intention here?

AC CHAIR PEARCE: Yes. That actually probably is going to be addressed somewhat in the coming panel. So, if can just hold that question --

MEMBER ROGOVIN: Sure.

AC CHAIR PEARCE: Let's go ahead and call that panel up and let's take a look at it.

MEMBER ROGOVIN: Okay.

AC CHAIR PEARCE: The Chair would call, at this point, Tod Burwell, Veronique de Rugy and Linda Dempsey to the table. I think you've got your name tags there.

Tod Burwell is the President and CEO of the Bankers Association for Finance and Trade.

Veronique de Rugy is a Senior Research Fellow at Mercatus Center.

Linda Dempsey, the VP of International Economic Affairs Policy of the National Association of Manufacturers.

And so, I got into trouble last time because I was going by the order on the list, and so we'll take it in the order that you all are seated here, not knowing the ways of Staff, of EXIM, any better than I know the ways of Congress.

(Laughter.)

AC CHAIR PEARCE: So, Tod, if you would lead us off. And we've got you each scheduled for ten minutes.

And again, I think that you can see that there is already things popping in people's heads here, and that's what this discussion is intended to do. Tod, thank you very much for being here.

MR. BURWELL: Thank you very much for

inviting me. Just to put in perspective, BAFT is an international transaction banking industry association.

We have members that are headquartered in roughly 60 countries around the world. Domestically here, we represent banks from the largest of the large, down to banks in the $1 to $10 billion range. So that gives you a sense of who our membership is.

As an industry, and I should say, our focus is specifically around issues affecting trade finance, cross boarder payments, liquidity, compliance and things of that nature.

So, the community that I represent is strongly supportive of the re-authorization of EXIM Bank because they view it as being critical to the business that they need to do with their clients. So, I want to talk about what that partnership means for them.

But before I do, I want to just sort of squarely address a couple of myths that I know we have heard repeatedly. And I can talk to them with a little more color.

First, simplistically, is that EXIM Bank competes with banks. They don't.

The second is that the private sector can meet the needs of financing for trade if EXIM were no longer present. They can't.

And the third is really built around this notion of EXIM Bank and ECA financing really representing corporate welfare. It isn't.

So, let me start with one sort of central theme that we've dealt with as a trade finance community, which is the trade finance gap.

Over the last four years at least the Asian Development Bank has done a market study and they've concluded that there is roughly a $1.5 trillion gap in the amount of trade finance that is demanded by clients and the amount that's actually available to them.

So, every year I participate in a roundtable that's hosted by the WTO, called the Trade Experts Roundtable. And this trade finance gap is, and has been, sort of the central issue of discussion.

So, what's evolved over the last several years is both public sector and the private sector. And a variety of constituents within both have been focused on what can they do, what can we do to address this, this gap.

And so, what you've seen over the past several years is certainly an increase in the amount of financing coming from multi-lateral development banks. You've seen an increase in financing coming from new export credit agencies around the world, you've seen an increase in credit agencies around the world, you've seen an increase in credit insurance, you've seen an increase in non-bank lenders in the trade space.

And over the course of the, and you've seen a variety of education to try to broaden the community. In the course of the four years, there is still a $1.5 trillion dollar gap in financing.

And I think that underscores the point that the private sector cannot fill this gap and there is a critical role to play in trying to create additional capacity.

So, let me focus a bit on what the

partnership between the banks and EXIM looks like. First, if I put it into U.S. context, less than five percent of the U.S. Banks actually do trade finance.

If we were to really assess the banks that are "active trade finance providers," meaning that they do more than one or two transactions a year, you're talking about less than 100.

And part of the reason for that is because this is a relatively specialized type of business. And so, despite the fact that there is a low default rate and its relatively safe lending, you still have to know what it is you're doing so there is not a low barrier to entry where there are a lot of new providers coming into the space to fill the gap.

There was reference in the prior panel to the evolution of the banks following the financial crisis. There's been a lot of emphasis on raising capital, better managing leverage, better managing credit discipline risk management profiles and the things of that nature.

All of those have had a somewhat negative impact on the availability of trade finance. And so, when we look at this there's a couple of ways that we look at it.

First is, let's talk about the sort of smaller and more regionally focused banks. Actually, I should say, one of the other characteristics is that you tend to see a parallel relationship between the size of the corporations involved in trade and the size of the banks involved in the trade.

What I mean by that is, that the larger trading companies tend to bank with the larger more sophisticated banks. The smaller and medium size companies tend to bank more with regional banks or smaller banks.

So, you have to then sort of look at the characteristics of the finance providers. What we hear from are smaller and medium sized banks more than anything is that they simply lack the credit capacity and the country limits to be able to facilitate the types of transactions where EXIM comes into play.

In many cases, if they are dealing with clients that are doing business in higher risk jurisdictions. The conversation is a non-started.

But even in the developed markets, a country limit may be somewhere in the order of a million dollars or less. So, when you have a transaction that's presented to you for $3 million, for $5 million, you don't have the capacity to be able to do those transactions.

Part of the challenge here too is because these are smaller banks. There's not a steady flow. So, it's more difficult to anticipate year-on-year, where these transactions are going to be focused.

So, to build up the credit underwriting skill around doing business in certain parts of the world, just really isn't quite as practical. In some cases, some of the banks just have a credit policy that simply doesn't allow for financing foreign receivables.

If you look at the large banks you have some similar concerns. You still have country limits but you also, and I say this as a former banker, you also often run into individual counterparty limits.

I had several of the largest U.S. exporters as my clients, when I worked for a bank. And we competed with every other area of the bank for use of the balance sheet. And the truth is, there just was not enough credit available on a name-by-name basis.

So particularly, when you start looking at longer and medium term transactions, it becomes virtually impossible for the large banks to be able to accommodate some of these transactions.

And so, similar to smaller banks, they tend towards shorter term types of deals. So, whether it's larger banks, smaller banks, the bottom line is that they both view the partnership with EXIM as being critical to being able to extend their balance sheet to support the deals that they need to do for their clients.

The last thing I wanted to sort of reference is the notion around corporate welfare.

We've always sort of struggled with this within BAFTs because our view of these products is that they are loans or guarantees, they're repaid with interest or their paid for.

This is not really handouts, this is not really welfare in the sense that we think about it. But what sometimes gets lost, and I think this is sort of a big company small company perspective as well, is that if you look at large companies because their deals are larger, they take up a larger share of balance sheet of EXIM, the view is that they can source financing from capital markets or they may have other avenues available to them.

So, the loss of EXIM may not cause the loss of a sale for a Boeing or a GE or a Caterpillar or someone of that nature. And that could be true.

But what we have seen over the last several years in the absence of EXIM is that a few things have happened. Number one, some of these larger exporters have developed agreements with foreign ECAs.

So, some of the sourcing of parts, products and inputs have moved to other jurisdictions. So, when you look at the large exporter, what gets lost is the downstream supply chain.

And if you have U.S. companies that are supplying that larger exporter, taking Boeing as an example, they have more than 6,000 suppliers. So, every time that U.S. exporter has to move a supply chain, or they lose a deal, doesn't just impact them, it impacts all of the supply chain that's providing inputs to them.

The other thing that we've seen, and this has come up with some of the trade agreement discussions around the world is, companies that are large have the ability to flex their manufacturing locations. And you shift your production.

And we've seen this take place as well. So, some gas engines that may have been produced in Wisconsin, get move to a factory in Canada and get financed by the EDC.

So, again, the larger exporter may not

necessarily lose the sale, but what gets lost are the jobs downstream to produce that product that are specific to the U.S.

AC CHAIR PEARCE: Mr. Burwell, we've already reached the ten-minute point, I really do need for you to wrap it up if you can. And we'll go to questions, you'll get more time to comment on that.

MR. BURWELL: Okay. I will then hold my comments then and --

AC CHAIR PEARCE: Okay. And we're not going to go to questions until we finish all three of the presenters. Thanks. Go ahead. Yes, thanks.

MS. DEMPSEY: Thank you, Chairman Pearce, Members of the Advisory Board, Chairman Reed and Members of the Board of Directors.

I appreciate the opportunity to be here today on behalf of the National Association of Manufacturers. The oldest and largest manufacturing business association in the United States representing manufacturers in every state in the Union. Mostly small and medium sized manufacturers.

Trade and global engagement have been part of the DNA of our organization since it was founded. Our mission is to grow the manufacturing competitiveness of the United States. Trade, and particularly exports, and the issues that we're talking about today, are a critical piece of that.

Manufacturers export a lot of overseas. But there are times, not every time, but there are times when the tools and parts of the export-import bank are absolutely critical to get us those sales overseas to support jobs and manufacturing across this country.

We therefore support, and I wouldn't otherwise be at the hearing right now, a very robust and long-term re-authorization of the export-import bank. And want to assure that there are procedures in place that make sure that the EXIM bank can function properly, appropriately but in support of manufacturing competitiveness and growth in this country.

Our experience getting to the issues

of additionality that we are discussing today, our experience as a customer, as the exporter who is looking for finance from local banks, regional banks and big banks, is exactly what you have heard from my colleague Tod. But let me put it in a different frame. The frame that I hear about from our manufacturers.

I have manufacturers who don't even think about the export-import bank, they are able to make their sales without this. I have lots of manufacturers, particularly small manufacturers, who are unable to do those sales without the services that this bank provides.

The cases where this comes up the most often are several. First, obviously, when there is foreign export credit agency competition. We see that increasingly.

Don't need to tell the folks in this room about the massive inquiries in that competition.

When a foreign ECA is helping to support a competitor overseas, if we don't have EXIM, if our manufacturer doesn't have EXIM, we are going to lose that sale. It's that plain and simple.

And we are going to let that other country have those jobs and manufacturing to the detriment of economic activity, to taxpayer dollars, to all of those good things in terms of why we want manufacturing.

Tod talked about medium and long-term loans. Particularly emerging markets but not necessarily.

Our companies who are involved, or trying to be involved in major products overseas, maybe it's a five-year project, maybe it's a ten-year project, what they hear from their banks is we can't do this alone. Often times they partner with EXIM Bank, as many in this room well know.

But that if the answer is, it's that private bank alone, they're not going to finance that deal. They're not going to move forward with that.

A third factor, I'll just leave emerging markets in there, I know our time is short, is sales to government and state-owned enterprises. So, we have, you know, one of my small manufacturers makes medical devices that they sell around the world, and who do you think they sell to, they sell to hospitals.

Unlike in the United States most of these hospitals overseas are what, they're either government run or their state-owned enterprises. What they want to see at the other end of the transaction is just not a private entity they want to see a government.

When they're looking to buy those same products out of Germany and other competitors, those foreign ECAs are there every single time. If we don't have EXIM involved in these sales, we will not make those sales. We will, again, lose those jobs.

The issues on additionality, I believe that we're discussing, only apply to medium and long-term loans. So, I'm going to leave some of the issues about working capital and other issues for our small businesses to one side.

Our experience, the conversations that they have with our members again and again demonstrate that additionality is met. The Office of the Inspector General of the export-import bank took a very serious look at this last year in November and put out a report that said, EXIM is meeting its obligations. Not that it couldn't improve, but EXIM is meeting its obligations.

And so, I think it is important that we start with that.

We reviewed the proposed additionality checklist and submitted comments. And let me just make three comments.

I agree very much with the view, and our manufacturers do, that we do not need to impose new regulatory hurdles, costs and delays, on manufacturers in the United States. Just as this administration is trying to streamline pieces of those regulations so that we are more competitive on a domestic basis, we need to make sure that these policies do not hinder our ability to compete for other sales.

You heard that no other bank has these types of things. We've seen in cases the U.S., the U.K. EXIM Bank used to follow the procedures, in many respects, of the U.S., and they kept losing deals. And so, they completely changed and reduced their procedures.

I think we can have it both ways. We can have decent reviews, but we need to do it in a way that understands the additionality is really there. That there are easy ways to document this without creating new time and burn delays.

One of the comments we did make in our comments, was instead of necessarily having this checklist of this procedure at every single piece of it, is to have, as part of your annual competitiveness survey, a survey on this, right?

Where are the banks that are complaining that EXIM is displacing them? We've not heard of them. I don't think Tod has seen them.

Let's add that to the survey to make sure that what EXIM is doing is in fact additional.

One of the other pieces we

recommended, if the checklist is going forward, is we would urge EXIM to add a point on sales to foreign governments, sales to foreign SOEs. If that is in the mix, then EXIM is going to be needed. That's what we see time and time again.

We appreciate all that you are doing to try to move forward and have an affective and competitive export finance agency for the United States. Again, as we, as you review this policy, the other policies, kept in mind what the rest of the world is doing.

And we have spent the last four years without our board of director where we have been hobbled. Where my organization estimated we were losing 80, 100,000 jobs per year because of the loss of opportunities here.

That's lost wages, that's lost taxpayer dollars, that's lost manufacturing, and with negative impacts to communities. These are the issues that we hope you will consider. Thank you.

AC CHAIR PEARCE: Veronique, thank you. Appreciate you being here.

MS. DE RUGY: Good afternoon. Thank you for having me.

During her, during your confirmation hearing to become the new president of the Export-Import Bank, Ms. Reed, you've made a bunch of commitments to Senator Patrick Toomey in six years. Including improving protection for domestic companies from economic harm that might arise from EXIM financing to foreign competitors and ensuring that EXIM is not crowding out private financing option that would otherwise be available but for EXIM involvement.

So, I assume that it's with the intent to fulfill these last two commitments that EXIM posted notices last month in the federal register soliciting public comments on its economic impact procedures and on its additionality checklist.

So, I submitted written comments regarding both. And for the sake of time, I will just skip the economic impact analysis and just focus on additionality.

So, with additionality procedures, EXIM did provide document for public comments, but I'm afraid, looking at it, it demonstrate either a lack of understanding about how markets operate, remember, I'm an economist so I may actually be looking at this from a different perspective as you are, or else a puzzling focus on the actions of other export credit agencies.

Specifically, I'm going to go through three of the categories. And in my opinion, the first one is the more puzzling.

So, Category 1 on the EXIM checklist is to meet competition from foreign ECAs. And I have three points about this.

So, EXIM, and it's very clear when you read, pretty much everything from EXIM, especially the competitive report, is extremely focused on what other ECAs are doing as if economic growth and jobs are the result of the outcome of a hand-to-hand combat between government banks. It's not.

Take the case of Italy, which the EXIM's competitive report highlights as a hyperactive ECA. Italy is the top OECD country by volume of exports backed by ECA financing.

Yes, yet the Italian ECAs hyperactivity doesn't appear to have any impact on the country economic growth or employment. I mean, Italy is one of the basket cases of Europe.

Now, take Germany. It's the second highest ranked OECD country on the list. By all accounts, Germany has good economic growth. But then you look at the data which reveal that only 0.7 percent of German exports are actually backed by ECA financing.

So, it makes it hard to argue that Germany's strong economic performance has much to do with the German ECA.

Now, take the U.S., which the report highlights for its unusual low level of export backed by EXIM. Now, the U.S. economy is thriving. I mean, some say better than it ever has.

Dare I say, exports are growing. I did a report that actually looked at the last four years without EXIM and show that they were actually a negative correlation between the lack of export financing and growth. It wasn't economically significant, but it was there nonetheless.

Export continues growing, at the very least, at the same rate. Wage and employment are up. So, this suggests that ECA financing could be irrelevant to the overall health of the export market and economic growth, contrary to what we hear repeatedly.

Now, second on this point, even though beneficiaries -- and this is important -- like what they get from ECA financing, it doesn't mean that we should assume that ECA financing is -- makes the deal more competitive. I mean, there are three reasons.

And we've seen this the last four years. Again, very big case, I mean, a good case study of what the world looked like without EXIM.

And I've written an entire report about this, looking at the data. And the product itself usually drives the sale rather than the financing.

This is true for the big ones. There's no doubt about this, right? And so, it was very clear the last four years.

Second, private financing may be equally as competitive as ECA financing. I mean, the satellite industry actually has shown this the last four years and is actually innovative in that space, and even said that it's easier because it has fewer constraints.

And again, there are no evidence that foreign ECA's financing moves the needle on economic growth or jobs.

Finally, the intense focus on EXIM on competing with ECAs has also led to a situation where a vast majority of the funding takes place in higher income nation. That's problematic for additionality because it means that they focus on making deals to company, the majority of one of which are big, operating in markets with plenty of access to capital.

This also seems counter to the goal, which we've heard today, of fighting China. If the administration and Congress are serious about using EXIM to compete with China, it won't get any result by lending money in higher income country or selling discounted planes to China Air.

The key here is to extend deals where China is expanding. That's in lower income nations. And this is why the deal in Senegal is a step in the right direction.

Now, Category 2 on the checklist is that EXIM financing compensate for commercial financing unavailable due to regulatory or other constraints.

I mean, you mentioned the Inspector General's report. Yes, I mean, it was like a very low standard.

The IG report actually assumed, IG report assumed the standard of EXIM. But then it did notice that there was actually very little due diligence in actually checking that borrowers didn't have access to capital. I think it's important to say this.

And then, again, massive amount of private credit remain available, notwithstanding regulatory requirements. In fact, as I showed in detail in my recent study on the issues, such financing expanded in the last four years.

Now, Category 3 is quite puzzling to me. It sets aside for other reasons not identified, which is problematic for the sake of transparency. I won't waste my time commenting on this, but I would refer you to my written comment.

So, in short, the proposed additionality checklist seems to not change very much in the way EXIM Bank selects a loan applicant. And one way to do this, to actually do a check and let's see, you know, let's take what has happened the last 15 years, run it through that new checklist and see what doesn't get through.

Now, nothing makes it clearer than concrete examples, so allow me just two. So first, three weeks ago EXIM approved a $2 million guarantee to a private export funding corporation, PEFCO.

In the nearly 50 years since EXIM created it, PEFCO has reduced the role of private lenders in the market, transferred that risk from private market to taxpayers and focused on sectors and market where commercial financing is readily available, all the while paying dividing to well-connected shareholders that include major banks and large corporation. Only four of them who are not beneficiary of EXIM.

In my opinion, this, you know, the fact that the directors resuscitated PEFCO within months of their swearing in actually doesn't bode well for commitment to reform, in particularly not crowding out private financing option that would otherwise be available but for EXIM involvement.

I also highlighted in my written comment a pending aircraft finance for El Al Israel. As with PEFCO I surprised that the board was turning back to aircraft, a sector that actually prospered during EXIM board lapse.

So, let's quickly run El Al through the categories of EXIM additionality checklist. Does El Al not qualify under Category 1, competition from ECAs? Well, El Al, according to their website, have an entirely Boeing fleet. So

I guess not.

Does El Al qualify under Category 2, commercial financing unavailable during the lapse of EXIM? El Al successfully financed, privately, its Boeing acquisition through the commercial market. So maybe, perhaps, EXIM is tucked under the mysterious Category 3.

Now, I will say that I realized today that there was, that the El Al deal was gone and that seems to be a great news. But I'd like to know whether that is actually because the Board has recognized that EL Al doesn't qualify for additionality. And that would be a great breakthrough and I'd like confirmation of this.

Now finally, I would like to raise an issue that I'm most concerned about. The more I study EXIM the more I realize that there is a possibility that EXIM may not think that it has the ability to turn down transactions that do not demonstrate additionality.

There is a provision in the charter, Section 2(b)(1)(b) that states that only in cases where the President, after consulting with

Congress, determines that denying a loan for nonfinancial, noncommercial consideration is in the national interest, can EXIM turn down a loan. Now, I'm not a lawyer so I may be wrong about this, but this could be a major problem.

Does it mean that any loan applicant who can repay am EXIM loan is entitled to get one? If so, how can you guys commit additionality?

And if my interpretation of this section is correct, how can Congress and the President use EXIM to fight China. And I don't think the answer to this question is that they can.

So, Congress needs to reexamine this role it seems to me otherwise nothing will change, and additionality won't be changed. Thank you.

AC CHAIR PEARCE: Okay, thank you very much. As far as your survey sees us scheduling, I've been trying to stay right on the schedule. I'm not going to have any closing comments and we're going to go to discussion time now.

And we're also going to go all the way up to that 2 o'clock hard deadline so just so we get the ground rules.

If also, we could have them address your questions in writing after this meeting, or with you individually.

MS. DE RUGY: Sure.

AC CHAIR PEARCE: I want this time to be questions --

MS. DE RUGY: Sure. Absolutely.

AC CHAIR PEARCE: -- from us to panel members.

MS. DE RUGY: That's okay.

AC CHAIR PEARCE: And so, is that fair enough? Chair, can you all address the questions that she gave --

CHAIRMAN REED: Yes.

AC CHAIR PEARCE: -- later rather than now?

CHAIRMAN REED: Yes. Yes. And also, we have a 2020 report to the U.S. Congress on global export credit competition discussion. I think that we can reschedule that for a conference call.

AC CHAIR PEARCE: We can reschedule that. And so now that, let me take care of some housekeeping duties.

Richard had asked the question in the interim, since the last meeting we had all discussed the potential of suggesting Congress might want to change the name of EXIM. We looked at that, in depth with lawyers enough to make my head hurt, which it doesn't take a lot of lawyers in order to do that.

(Laughter.)

AC CHAIR PEARCE: And they felt like that it was, we were going to get into tricky territory in the relationship between us and Congress if we did that. So that has been placed on hold until I can take more discussions with lawyers.

It's not dead, it's on hold for the moment. So that's from the last meeting.

DIRECTOR BACHUS: Chairman?

AC CHAIR PEARCE: Yes.

DIRECTOR BACHUS: One thing that would

be helpful, if the Panel could submit, maybe in writing, your comments so we can --

AC CHAIR PEARCE: Can we, if you all can send that, we will send that out by email or text to everyone. So, if that's not a great inconvenience.

So the -- we're going to go into questions now. So, Ms. De Rugy, would you go so far as to say that we don't need EXIM at all? Is that too far? I'm trying not to put --

MS. DE RUGY: No.

AC CHAIR PEARCE: -- words in your mouth.

MS. DE RUGY: No. No, it's not too far. That said, my position on EXIM is one thing, the reality is another one.

So, I think under the current circumstances where EXIM is going to be reauthorized, it doesn't seem this much commitment to reform in the Senate bill. But I think it should be reformed.

And reforming it in a way that actually guarantees additionality. Which really means, not continuing to lend money.

Beneficiaries love it, there is no doubt about this. So all comments from beneficiaries that say, we love it, we love it, of course of you love it.

If you got a discounted rate or terms for your mortgage, you would like it too. It doesn't mean that its beneficial for the economy.

And in fact, the economic literature is extremely clear on this point. Export subsidies, including export subsidies I could export, they may be good for the beneficiaries and they are not good for the economy as a whole.

And so, it's like you can discount the fact that it's not a big negative. You know, we've heard this during the trade war that, oh, it's such a small, but it's still a negative.

So, additionality would actually mean to extend deals that actually would really not happen.

From what I've heard by the other panelist, there seems to be a consensus that if there is additionality, it's not with the big guys, it's with the small guys. And yet, a vast majority of what EXIM does is -- deals with big companies.

AC CHAIR PEARCE: The -- and I don't, let's say that I approach the discussion more from your point of view then from the point of view that we should be, not recognizing the risks that we run when we mix business and government, so I understand that.

But then on the other side, in my own approach to it, two things are very prevalent. Number 1, the size of the U.S. economy is roughly 20, 25 trillion something. The world economy is 80 trillion.

And I don't think we can ignore the impact that lending into countries to develop relationships have. So, the size of the economy world-wide is something that I think we ought to be very cognizant of. And are we going to be a player. And then the question that you raised, are the ECAs effective.

But the second thing came when I visited India multiple times on congressional delegations, and they began to fill me in with the history of India. So, after the war, World War II, India then began to express its independence.

And they expressed that it was kind of like, okay, we've got Russia and we've got the U.S. and we've got to choose some way to arm ourselves.

Okay, into Russia the U.S. was pretty silent on the matter so they just choose Russian armaments in order to then find spare parts and whatever else. Then they just began to naturally close the gap between them.

And their comment to us was, we've had a 50-year cold relationship with the U.S. and so now that generation was dying off and stopping, their retiring and going out of office.

In the new generation, the younger Indians wanted the relationship with us but they had to understand that we're going to be there as a part of that relationship. And so, just the relation, the fact that they had to have spare parts for armaments that they kind of flipped a coin to choose between two, formed a 50-year relationship with the largest democracy in the world and we were basically absent.

That concerns me, approaching the issue from your point of view, which I naturally do, I was in a small business and I competed with international giants who everyday were trying to crush us. And we succeeded in taking market share from them.

And so I approached this from a very small business point of view. But in the long-term I wonder that we can stand back on my congressional delegations constantly then through Africa.

The question was, where is the U.S.? We've got these massive dam projects, we've got this, we've got that. And we want a relationship with the U.S. but instead the BRI, coming out of China, is funding at a tremendous pace.

And so I, as a fairly conservative view-point, still say that somewhere we have to find this balance that allows us to shop our products there. And like it or not, the ECAs are going to form relationships which then are going to cast 30 and 40- and 50-year relationships going back to the India example.

MS. DE RUGY: So --

AC CHAIR PEARCE: I see you like my comment, yes.

MS. DE RUGY: No. There may be a case, I'm an economist, I look at this from an economics perspective. But there may be a case that there is some diplomacy issues that I don't see, nor is it my role, to maybe foreign, foreign policy issues.

AC CHAIR PEARCE: Okay.

MS. DE RUGY: Again, it's like with trade. I can trade. I never deny, I'm a free trader, I'd never deny that they could be some foreign policy reason, national security reason, to have some tariffs. I have never seen a case made that is sustainable, but there could be.

So, it could be the case. That said, I do believe that their thing, what makes the U.S. unavoidable, that what make the U.S. exceptional, is our economic growth.

Our economic growth doesn't come from government intervention in the market. That's not where it comes from.

And I think that's where we need to focus. But that said, you know, we're talking about China a lot.

India is not a high-income nation. So, India may be actually a case where there would be some additionality, doing more deals with --

AC CHAIR PEARCE: Yes, I was just talking about a relationship that was established --

MS. DE RUGY: Yes.

AC CHAIR PEARCE: -- at a point of time in history that doesn't exist anymore.

MS. DE RUGY: Yes.

AC CHAIR PEARCE: Now then the world economy is much different, the competition is much different. We could survive walking away from India at that point and being blasé about it or haphazard.

I did not think at that point the Russians were haphazard about it. And I did not think, at this point in time, that the Chinese are haphazard about the relationships they're forming with basically 60 percent or --

I'm dominating this and I didn't intend to. Alexander, go ahead.

MEMBER SANCHEZ: Yes, Mr. Chairman. Thank you, Mr. Chairman. I've got a couple of questions here, but before I do that, I want to thank Luke clarifying that EXIM does not have any of the 737s in its portfolios, so I thought that was a very helpful comment.

Tod, I really enjoyed your testimony, thank you very much. And to the last panelist here, if I understood you correctly you said that EXIM services a lot of big corporations.

I'd love to take you to the third largest state, Florida, and take you to Doral, the Doral area of Miami. And the greatest usage there is a lot of small businesses in the State of Florida.

Let me tell you something, EXIM Bank is very important to the third largest state in the United States, Florida, to our economy. So, I just want to add that, if I understood your point correctly.

But, Mr. Chairman, my, this is our second meeting and I want to make sure I understand the logistics. Does EXIM have to show that there was no private financing?

Is that part of the criteria that you would have to show them?

AC CHAIR PEARCE: I will yield Jim on that. Just a yes or no. We really need to keep this rolling.

MEMBER SANCHEZ: Yes. No, I know.

MR. CRUSE: No.

(Laughter.)

AC CHAIR PEARCE: Okay.

MEMBER SANCHEZ: We do not, okay. Because, you know, I think based on Tod's comments and when the briefings that we had to read, I like the European model.

If someone comes to EXIM, it's with the presumption that they couldn't private financing. So another, to Dick's point, to add more bureaucracy and more rules, that could hold up deals for the Bank. For EXIM Bank.

And so, then taking Tod's testimony into consideration, very few players out there so I'm glad to hear that you don't have to have more paperwork to show that there was some private financing available before EXIM --

DIRECTOR BACHUS: Mr. Chairman? Mr. Chairman? I'm uncomfortable with the response that we don't have to show that there is not a private capital --

MR. CRUSE: Proof. Proof.

DIRECTOR BACHUS: Proof? Well, I believe that we have to demonstrate that there is not private capital available at terms that will cost the export to go forward.

And one of the things that's been mentioned is aircraft leasing or aircraft financing. And the professor raised EL Al situation, and we've been looking at that. And El Al says one thing.

But I will say that the private companies, at least didn't express to us, if they wanted to do the deal. They said they want to do deals with, and --

But in this case, we released, there was some representations made that they would not want to finance that particular aircraft. But I think there was a legitimate question.

I believe that you can be an important part establishing a dialogue. You can tell us what some of your criticism were based on.

We can share with you conversations that we've had with the Ambassador from the Bahamas, who is tremendously concerned about the Chinese delegation, the recent visit there.

This morning we approved a project that treasury, State Department, Commerce, U.S. Trade Representative and two or three other government agencies urged us to do. Yes, and I want to close with this.

This is what our commander of the Indo-Pacific Fleet said. And I think what you, and I appreciate you acknowledging foreign policy.

Here's what he said just recently. We have to move out in the diplomatic and the information space and in the economic space quite briskly because China is spreading dollars around very perniciously through corruption.

Through various mechanisms that you talked about earlier, and those included the ECAs. The export credit agency. And we've got to be willing to work in those other realms.

MS. DE RUGY: Yes, I agree. I mean, but these are not high-income nations we're talking about.

This is why in my comments I've mentioned that if you want to be serving the purpose of fighting China, the way to do this is not to be continuing to do a lot of business in high-income nation for big companies, that's not what it serves. It's the Bahamas, it's India possibly, it's Africa.

And yes, for course, China is using its ECAs. I mean, China is using its government for a lot of things.

DIRECTOR BACHUS: Well let --

MS. DEMPSEY: Could I --

DIRECTOR BACHUS: I have found that,

when we were doing the FACT Act, we sat down with the credit reporting agencies who were taking one side, consumers taking another. And after discussions we came to some common ground.

And I would invite us to continue this dialogue. Because --

AC CHAIR PEARCE: I would urge that too.

DIRECTOR BACHUS: -- do not want, you know, you know --

AC CHAIR PEARCE: We've got to, yes, I've got a queue here of a lot of questions and diminishing time. Now, you seem to want to make a comment and --

MS. DEMPSEY: Could I just make a comment, because I see manufacturers who have lost deals over his last four years, who have put jobs at risk, who have not manufactured here, who have taken foreign ECA activity and produced things overseas that we want to be made here in the United States to make us stronger.

Macroeconomics might be very nice but that's not what is going on with the hobbling of the EXIM Bank.

On the China question. We need to compete with China everywhere. In Europe, in Africa, in our own hemisphere and in China. Right?

If we're not selling into China, they're going to continue to develop their industries without competition. And so, I think there is value for all of that.

China is complicated, there is no more complicated relationship that we have. But we need to be clear eyed about this.

AC CHAIR PEARCE: Absolutely. Our queue is, Larry, you're going to be next, Richard, you'll be next. On the phone we got Harvey Tettlebaum and then, Richard, you'll wrap us up in questions.

As you can see, we're going to drift somewhat passed the 2 o'clock deadline and I apologize for that, but I think the discussion is where we need to be right now, nationally, on this issue. I really appreciate each one of you. Larry, go ahead.

MEMBER GOODMAN: Yes. First and foremost, thank you for three illuminating presentations. I'm new to the Committee so I found them exceedingly helpful. Thank you for that.

I was a little bit concerned, and I'd like all three of your perspectives on a comment that Veronique made, which is that there is a lack of understanding of markets at EXIM. I'm a markets guy, I'm an economist.

I find the comment interesting. One of the things that we have seen, and markets are fantastic, they work exceedingly well for an exceedingly long period of time.

What we've learned in the 2008 crisis is that sometimes they don't work. So, from the vantage point of measuring additionality, how do you think about measuring network effects?

For instance, it seems that 90 percent of the deals that are being done here are for small and medium sized companies. How do we measure the long-term effectiveness of those deals, those transactions?

Because it strikes me that with that amount of penetration, small and medium sized enterprises, you're essentially not giving someone a fish, you're teaching a company how to fish for an extended period of time. So how do you measure that effect, that learning effect, that networking effect on the long-term viability of these transactions and activities?

AC CHAIR PEARCE: Panelists?

MS. DEMPSEY: I'd want to think about how to do that, but I think you're exactly right. I mean, the types of stories that you have about companies that are using these resources to export, to develop new export markets with stand downturns in the U.S. economy.

You know, I think about our small fire truck manufacturers who use EXIM, who need it because these are big projects to get financed overseas.

When municipalities and state governments here can't support new fire truck sales, they can make up for it overseas.

In terms of the economics of how to do

that, I would frankly want to go back to my chief economist and think about how we could offer some suggestions on that.

MS. DE RUGY: So, on your question, I mean, is it worth remembering that while, I mean, I'm talking about in 2014, so in the years before, yes, the majority of the transaction it was 89 percent of the transaction I think we're going to small business. But in terms of where the money was going, it was like 24 percent of the money was going to small businesses.

So, the bulk of the money went to big businesses. And in fact, this is why the last four years, right, when you lower the cap so dramatically, it's the big guys that weren't in there and it was, I mean, now everyone lost the small business.

But 93 percent of the money going to big businesses was gone. So that's one point of clarification.

And yes, you know, markets have ups and downs, but that's the feature of the market. It's a correction effect.

And I mean, as far as the economic science has looked at this, government intervention is actually rarely smooth in the past. If anything, sometimes it creates bigger swings.

Now, I'm not saying EXIM is part of this. EXIM, in the grand scheme of things, it's pretty small. Right? But that's the way I think about this.

AC CHAIR PEARCE: Okay, we're going next to Richard.

MEMBER ROGOVIN: On the subject of China, maybe you'll all remember what I'm going to tell you. I was in Panama last week for three weeks on a business trip and I learned that the previous administration, because they had an election in May or June of this year, the previous administration in Panama, was entirely pro Chinese.

They accepted Chinese money, they accepted Chinese relationships. And what was most shocking was the fact that the Panamanian Government had agreed to sell them, for a bargain price, about four acres of land for a new embassy at the end, the Pacific end of the Panama Canal.

The new administration, when they came in, they cancelled that sale. But the Chinese wanted to situate themselves right at the end of the Panama Canal on the Pacific side. Okay. And you can think about why you would want to do that, but I think we all know.

The other thing I want to comment on is that a lot of these comments that EXIM has received I think may be coming from Congress or members of Congress?

CHAIRMAN REED: These were public comments.

MEMBER ROGOVIN: Public comments, okay. But I do remember that you did a little traveling because in one of these comments, which was EXIM should work to de-escalate ECA financing globally, right?

And you considered that important enough to take some trips overseas to meet with the Indian ECA and some others?

CHAIRMAN REED: It's our role as the

United States Export Credit Agency to be engaged with our fellow 112 export credit agencies around the world. Particularly, that was the G12 meeting where the United States had been present -- absent for four years.

MEMBER ROGOVIN: Okay.

CHAIRMAN REED: So, I really wanted to be there with China, as well as U.K. and others, when we reopened.

MEMBER ROGOVIN: Okay.

CHAIRMAN REED: To deliver the message that Congress has asked us to deliver.

MEMBER ROGOVIN: Okay. I remember you said something about you were responding in part to a comment like this to de-escalate ECA funding globally or financing globally?

CHAIRMAN REED: In law we are required to basically put ourselves out of business around the world. And that is in law. And I take the law very seriously.

The law also says we need to be competing with all we can. That's also in the statute. And so, we have to do an important balance of each of those things.

And so, we were in conversations continually with our colleagues around the world. And I'm moving the discussion forward on leveling the playing field, increasing transparency. And in fact, what we can do to reduce ECA financing globally.

But it's a large task that also includes treasury, USTR and other parts of our government as well as cooperation of governments around the world.

DIRECTOR BACHUS: Mr. Chairman --

AC CHAIR PEARCE: It was --

DIRECTOR BACHUS: -- the Chairman has to catch an airplane.

CHAIRMAN REED: I've delayed it.

AC CHAIR PEARCE: Yes. We will let --

CHAIRMAN REED: I've delayed it.

DIRECTOR BACHUS: You've delayed it?

CHAIRMAN REED: I've delayed it. This is so important. This is the most important discussion right now. Thank you.

MEMBER ROGOVIN: It strikes me that some of these comments are really, the only word I can use to describe them is silly. And I hope that we are not responding to all of these comments by trying to accommodate some of these comments that make absolutely no sense. And that's one of them, makes absolutely no sense whatsoever to me.

And it just occurs to me that --

AC CHAIR PEARCE: Before we leave that, a show of hands, Committee Members in agreement with this?

I hope we're not dealing with the comments just to deal with the comments. Is that basically what --

MEMBER ROGOVIN: Basically, we're trying to accommodate --

AC CHAIR PEARCE: Yes.

MEMBER ROGOVIN: -- the comments.

AC CHAIR PEARCE: So, you are cautioning against that. I want to see a show of hands, just, who would agree with that comment. Committee Members concerned that we just shouldn't be --

MS. DE RUGY: Even the one that are in the charters?

AC CHAIR PEARCE: Yes. Okay --

MS. DE RUGY: Even in the one that are in the law?

AC CHAIR PEARCE: No.

MEMBER ROGOVIN: No, I think that my point is that we should be responding to these comments, and when we don't agree with the comments, we should say so and give the reasons for that.

AC CHAIR PEARCE: Right. Okay.

MEMBER ROGOVIN: Otherwise we're just going to be bouncing around between people who really don't know what they're talking about.

AC CHAIR PEARCE: Yes.

MEMBER ROGOVIN: And one of the things we do have, that's very fortunate we have is, this Advisory Board. All right.

And you can, from time to time, submit some of these comments to us. And ask us for how we might respond to these. And then take what you will from those responses.

And then you can quote us and say, yes, but the Advisory Board says this, or the Advisory Board says this, please take that into consideration. Meaning that the board and the officers of EXIM don't have to take it upon themselves to alienate congressmen or other people who --

AC CHAIR PEARCE: Yes, that gets a little close to prescription not so close that I would reject it. But I also don't want to tell them you got one more hoop to jump through by sending it to us. And I don't think that's --

MEMBER ROGOVIN: It's purely voluntary one their part.

AC CHAIR PEARCE: Yes. Yes, okay. All right.

MEMBER ROGOVIN: Purely voluntary.

AC CHAIR PEARCE: Okay, let's keep on the track here.

MEMBER ROGOVIN: Thank you.

AC CHAIR PEARCE: So, our next question comes from the internet, Harvey

Tettlebaum, and then we got Richard to wrap up.

But we're also into the point of the schedule on the agenda of where members of the audience were going to be allowed.

Can I see a show of hands, who in the audience wants to make comments because it's going to affect where we go from here. I don't really see anyone that's burning with comments.

All right, Harvey Tettlebaum, you're on the internet, go ahead.

MEMBER TETTLEBAUM: Yes. Can you hear me on the phone? Am I --

AC CHAIR PEARCE: Yes, we can hear you fine. Go ahead, sir.

MEMBER TETTLEBAUM: Okay. So, this is a question for Ms. de Rugy. Really two questions.

One is, you seem to be comparing the economies of countries to the charter and the mission and the task of the Bank, and I don't, it seems to me it's apples and oranges.

That whether a country is doing well economically or not doesn't necessarily mean that particular industries or companies within a particular country don't need the assistance of the bank. So I just don't see the connection at all quite frankly.

And let me give you my second question just so you can comment on both at the same time. The one thing that the Bank does seem to offer, and the Congress wanted it to offer, was opportunity.

And I didn't hear anything in your comments that really spoke to opportunity. Because the Bank opens up opportunity to those that may not otherwise, especially small business, have those opportunities.

And whether the amount of dollars that go to those particular small businesses represent a majority or a minority of the dollars that the Bank actually guarantees, seems to me not to be terribly relevant. I think the opportunity is the important thing that we really haven't discussed.

But I'd be interested in your comments on both of those please.

MS. DE RUGY: Why, thank you for these

questions. So, one of the reasons why I actually highlighted the economy of a country with the amount of ECA provided is because actually, in the EXIM, EXIM's competitive report, it's actually one of the standards that is put there.

There is a table there that actually ranks the countries by amount of ECA backings. Export by ECA backings.

And the message, and the countries that are highlighted are the one that have a lot of them. And it's just a message about competitiveness and job and economic growth is clearly right there in the report.

And what I'm trying to say is actually, there may be a correlation, or not, but there's a very big gap between making this a causation.

And so, a case of Italy is really clear. And it's really highlighted, I'm talking big, there is like a big kind of zone on Italy.

And first, it's also important to actually note that no matter which country, including China by the way, none of these countries that are on that list have exports, more than 2.7 percent of their export backed by ECA financing.

So it's actually kind of important to say that no matter where you look, I mean, most of the financing is actually provided by the private sector, which is something that is important to note because when you listen to these conversation they really actually seem that there is just this massive gap that exists.

And anyway, and so that's the first question. This is why I was actually making that point. It was more of a response of something that I hear all the time. Connections to, made causation to be made that I don't think hold water.

And your other questions were the opportunities. Sure, they could be opportunities, but what concerns me is actually that first, so prior to 2014, basically two-third of the financing, the justification for EXIM financing was not at all the lack of capital it was countervailing duties.

So, this is a real, EXIM is really focused on its competition with other ECAs. And, again, I'm sorry for my mentioning, from my point of view, from all the literatures I've read, this notion that you get economic growth from competing with the government bank just doesn't, again, holds.

But the question is, if you are going to be making the claim that it is the lack of capital that is holding that company, first I'll say, one, the fact that not everyone is getting capital is a feature of the capital market, not a bug. Not everyone should be getting capital.

There are actual, sometimes, very good reasons why companies are not getting capital. But let's even assume that there is a market failure and companies should be getting capital and create economic growth, but banks somehow are overlooking them.

What is EXIM doing to actually guaranteeing that these borrowers, one, cannot, truly cannot get access to capital, and by that I don't mean at a rate that they like, truly cannot get access to capital. And second, that they have, what tools that they have that the private sector doesn't have to actually see that economic growth will ensue that the bank hasn't followed.

And I think these are important points. Now, we may decide, Congress may decide, this august body may decide that we don't care, it's like it takes eggs, whatever is the expression to make an omelet, you have to break eggs -- and that's just kind of extending capital to people who have, who would have access to capital and they get a better rate is well and fine.

But that's what I'm responding to is this notion, and I think someone has to do it because when I hear reporting about the exporting board bank, as a lender of last resort, the lender of last resort doesn't actually mean, oh, my rate is too high I'd rather have a lower rate.

The lender of last resort means you can't get capital. And I actually don't see this to actually be proven to be the case. I can't pretend that I know, that I haven't seen every deal.

But from what I've read, whether it's the Inspector General's report or many other cases, I don't think that there is a process that guarantees that this is really who is getting capital.

MEMBER TETTLEBAUM: Well, I'm kind of surprised that --

AC CHAIR PEARCE: We --

MEMBER TETTLEBAUM: -- that the economist --

DIRECTOR BACHUS: Chairman, can I say this?

MEMBER TETTLEBAUM: -- don't recognize that rates can affect opportunity. If the rates are too high the opportunity goes away even though the money is available. So, I was a little surprised at that. But thank you for your response.

DIRECTOR BACHUS: Could I --

AC CHAIR PEARCE: Any other comments, Harvey?

MEMBER TETTLEBAUM: No, that's it. Thank you, Mr. Chairman.

AC CHAIR PEARCE: Okay, thanks. All right, we have a queue going but go ahead.

DIRECTOR BACHUS: Mr. Chairman, I would like to say, I don't think we want to be like China's ECA. That is a very poor model.

And if competition means that we match their terms, we're in for a disaster. I'm convinced that many of their loans are going to turn out very badly for both China and for the country that they're in.

So, I do believe that we want to expand our exports. But we don't want to do that at the expense of making foolish deals simply because if we don't make them, they will. So I think we have to be very careful.

I think Belt and Road is one of the worst ideas that I've ever seen. I think it's going to turn out very badly for not only the countries involved but for China.

And I do think that differences of opinion and listening to differences of opinion is part of what's made America great, is we're a democracy and we have freedom to speak. And we have freedom to disagree.

And we see too much on the Hill where we insult people because they have a difference of opinion. And I think the last thing we want to do is crowd out the private market. That's one of the strengths of America.

And I know the Chairman agrees with that and I know Director Pryor does. And I think most all of us agree we have to be very careful if there is a private market solution that we don't do anything to restrict the private market or limit them.

AC CHAIR PEARCE: Mr. Powell.

MEMBER POWELL: Thank you, Mr. Chairman. We're primarily concerned with the export of environmental technologies, and so I actually had a great deal of sympathy for, and maybe not an exclusive emphasis but an over and above emphasis on the developing world because that's obviously what we're sort of directly competing with China often for their very unenvironmental technologies that are being developed and installed in much of the developing world.

There is a particular environmental technology that I think is of interesting focus in this conversation, which is nuclear energy. And it's one where I'm actually -- I'd like to first ask Linda and Jim whether, is there any nuclear plant built anywhere in the world without export credit assistance?

So there might be airplanes bought somewhere in the world without ECA but is any nuclear plant built in the world?

And second, Veronique, you mentioned you might have exceptions to your sort of general anti-tariff policy for national security. Clearly exporting American nuclear technology around the world, maybe not in the EXIM charter but sort of broadly in the Department of Energy, Organization Act and other places it's seen is a key feature of our global non-proliferation regime where we want to make sure that's our nuclear technology and our standards and not somebody else's around the world.

So, if indeed it is true, which I think is the case, but you all will confirm or deny, that nuclear isn't built without ECA anywhere, would you put sort of a national security exemption in for proliferation of American nuclear technology around the world?

MS. DEMPSEY: I'd have to double check, but I do believe that's the case. And we know that there is a number of ECAs that are actively trying to win these nuclear developments in other countries.

And that does raise, we obviously have a commercial industry here and not a lot of nuclear power plants being built in the United States. But it does raise, I think, broader national security issues that we, as citizens, should all be concerned about.

And, Jim, I don't know if you have any more information. You were asked too.

MR. CRUSE: Just that it's true that no nuclear reactors in developing countries is done without ECA support.

MS. DE RUGY: Now, I agree, that's what I, from what I've looked. But I'm not a national security expert so I really could not weigh on whether that's a national security, I mean, motive.

I mean, I just really, just can't. I would rather leave it to people who know national security.

AC CHAIR PEARCE: Ms. Leonard, you have a question?

MEMBER LEONARD: Yes. Well, it's actually a comment. I've listened very careful to everything at this meeting --

AC CHAIR PEARCE: Pull the mic up closer so the people in the back --

MEMBER LEONARD: Oh, excuse me, I can't make this any --

AC CHAIR PEARCE: Yes.

MEMBER LEONARD: I'll have to stand up.

AC CHAIR PEARCE: There we go.

MEMBER LEONARD: I just feel it's incumbent upon me to say a few words because I am one of those small manufacturers. I'm a U.S. manufacturer, have been for 40 years and that's why I'm on this Committee representing the textile industry.

I'm a survivor. I actually have been making these products in the United States for all those years. I'm not a multinational. And I have survived.

And part of the reason we're still here is because of that, of the program, that's available through EXIM, you know, for insurance of our receivables. So when we ship offshore we couldn't get financing from our bank for that.

So I get a little emotional as I'm hearing that, you know, we don't need this, it's just a handout, it's welfare. It's really not welfare.

It's one way to help U.S. businesses compete. And I can tell you, it's hard to compete with countries like China.

We actually, we lost 30 percent of one of our major product lines to China because of all the subsidies. They might not, you mentioned

2.4 percent that they get for exports, but there are almost 70 percent of the product they were exporting here was subsidized.

Okay, so who needs another, they don't need a loan, they get subsidies and rebates when they export. We get nothing, okay?

I filed my own antidumping case and the government didn't pay one penny of that. So, American business, we got our hands tied behind our backs.

And so, I really, I think that EXIM, some of the programs, I don't know all of the programs yet, but I do believe it's a great value to American business.

AC CHAIR PEARCE: No, I appreciate that. There is a small Christmas ball manufacturer in New Mexico in the second district and they beat out, it used to be multiple countries, so Italy is gone, Pakistan is gone, India is gone, it's just down to the Chinese and this one manufacturer in New Mexico.

And the Chinese will bump their currency up and down and they'll tell me, oh, they let their currency float today so we're going to make a profit this year. One day the currency actually floated, and they make a profit.

And so that's what we're up against. And so, as much as I respect your view-points, there is a different side of the conversation that needs to be had.

I see we got comment but we really, I really want to go to Tod and ask kind of the closing comment and then I'll let you all kind of wrap up if you would.

Tod, now, you mentioned that small banks and medium size banks just don't have the capability. And this is the reason I'm thinking that there is an industry out there.

Small banks across the country really are engaged in the bond market. They buy and sell bonds. And generally there is an industry that advises them on that.

And so, when I think about expanding the capability of EXIM into the private sector and using more of our capital across the country, I just make that comment because I think we're going to reissue this same panel, I think we're going to have another discussion. I would like for you to think about that before the next time or we can talk about it later.

But what I want to -- my closing question for you and the closing question for this, and then you all can make your wrap up comments, is how Basel III in the regs are limiting the private sector banks abilities to operate so ---. And then that would give us another in case of why EXIM might or might not be needed. Can you address that effect on the banking system here?

MR. BURWELL: Okay, I'll try to do this as simplistically as I can. And so, it's a complicated topic.

But one of the challenges we've been concerned with is that trade finance, in particular, is sort of lumped together with all other types of corporate lending. And what gets lost is the short-term low risk nature of most trade finance lending.

So, if you take a look at a bank's balance sheet and then they allocate out the capital cost to the various users of that balance sheet, the profitability to the business that is responsible for doing trade suffers as a result of some of the changes in Basel III.

Now, as you start to move out to emerging markets and un-rated countries, it gets even worst.

So, the challenge is, we've had a positive economic upturn for several years. Particularly as markets start to turn south.

Our concern is that the lack of availability to do trade financing is going to get even worse. Part of that is a function of Basel, part of that would be a function of just tighter balance sheets.

And the third piece that we really didn't talk about, and this goes back to the large bank, small bank; is that there are a lot of know your customer, financial crime compliance requirements that banks have undertaken.

What that's done is it's forced some

of the larger banks to move up market. And that also has pulled away some of the availability of financing to smaller companies.

AC CHAIR PEARCE: Okay. Now, you all see the displacing of our members so I'm going to ask you to make your closing comments very quickly. If we lose one more member, we don't have enough members to adjourn and then we have to meet the rest of the night.

(Laughter.)

AC CHAIR PEARCE: So, any closing comments from this panel?

MR. BURWELL: Two things that I didn't mention, and this would probably not go on record if you were to ask a banker, but having been a past banker, it was always more profitable for us to do a deal ourselves if we could then to do a deal structured with either partners, secondary sales providers or with EXIM Bank.

So, just from a behavioral perspective, if banks could do more, they would do more.

The second point that I wanted to make

is was really going back to, and I think there was a question about how to measure the network effect.

My perspective is that I think you want to go down to the lowest level, which is to go to the users of the services that EXIM provides and to actually survey that base over a period of time. To actually observe what the network effective --

My concern is, if you look at it from a macroeconomic perspective, you'll miss what's actually happening on the ground. I think that's the best way to approach it.

AC CHAIR PEARCE: Linda. Thank you.

MS. DEMPSEY: Thank you for your time, I'll just two points. One is, our organization also believes in market-based rules and supports efforts to negotiate the elimination of global export credit subsidies.

I think there is work that can be done at the World Trade Organization in a binding way or other ways.

But we live in the world in which we

are. And we are in a world where there is massive export credit agencies that has cost jobs, that has cost small suppliers.

For the thousands of small manufacturers that benefit directly from the bank, there are tens of thousands, if not more, who benefit from those medium size small companies and large companies.

As you all look at this going forward, I urge you to keep them in mind. Their workers, their communities, their families, because that's what we're talking about here. Are we going to be able to compete for that manufacturing or are we going to lose out.

AC CHAIR PEARCE: Veronique?

DIRECTOR BACHUS: You do realize that we're not going to approve, at least I can't speak for the other Board Members, we're not going to approve any deal, small or large or have insurance guarantees on anything that we feel like the risk is unacceptable?

There's going to be a risk. But --

MS. DEMPSEY: Of course.

DIRECTOR BACHUS: -- if we don't believe that we'll recover, our cost and then a profit, then we won't do it. And I think you realize --

MS. DEMPSEY: Of course we support the Bank's procedures on their --

DIRECTOR BACHUS: And I will tell you something --

MS. DEMPSEY: -- due diligence and the low risk that the Bank --

DIRECTOR BACHUS: But to part of the point, sort of seconding what you're saying, I was in Houston about a month ago and I was meeting with the biggest exporters there and they said 20 or 30 years ago there were 20 banks in Houston, or that had offices in Houston that had an international trade section, and today only two of them have people that specialize in international trade.

And so, when people come to they simply say, we don't have the expertise to do these deals, which is a shame. But the capacity is simply not there. And I think we're from

Houston, you know that to be a fact.

AC CHAIR PEARCE: Ms. de Rugy.

MS. DE RUGY: So, again, leaving aside, I mean, national security arguments or diplomacy arguments, I mean, on this we're willing to say that the economic literature of the last 50 years on export credit that shows very clearly that the net impact on an economy of a country subsidizing export is negative, right?

On this we do this, we have to recognize that this notion, because other countries are subsidizing their exports and hence hurting their economy on that. Again, you can go to the people, receive those loans, those discounted loans, and they will say they like it. The question is, it doesn't mean it's good for the overall economy.

This notion, because they want to do this we should do this, it just doesn't, it's not compelling to me.

Then to you I will say, I totally understand that it's a hard, hard world for small businesses. But that's not the majority of the exporting board banks business.

The vast majority of the exporting board bank business are big companies. And in fact, a pretty small number of big companies.

So, I mean, let's have the exporting poor banks just cater to small businesses. Thank you.

AC CHAIR PEARCE: So, now we got to wrap all this up. First, a comment to the EXIM Staff is that in our next meeting I would like to reconvene this same board. I find the tensions to be appropriately balanced here.

I find the, if we're not careful, judging from what happens in Congress, you typically bring in the world's best people and then you give them five minutes and then you can ask them questions for five minutes and you're basically waterskiing across the top of the issue.

Instead what I would like by reconvening the same group is we now have positions established, we have some, you don't have to do those positioning statements again and we can begin this deeper dive into the tension of the discussion. That's what we should be doing.

And so, with all respect to our Staff, and this should be at least a two-hour discussion. At least.

Are you all open to coming back and having this dialogue back and forth, because I think the Chair indicates this is where the discussion is and should be.

And we are, I think all of us are talking about reform. How does that reform happen without penalizing small manufacturers without risking the supply chain or scooting it to the different country.

So I think this has been very productive. And finally, Ms. de Rugy, you've heard from one of the Board Members the desire to continue the conversation that this is not a threatening thing to have disagreements, it is actually very productive. And so, I hope that you will continue that discussion as well.

MS. DE RUGY: I will be happy to.

AC CHAIR PEARCE: Yes. And this

discussion with the Advisory Committee is completely separate from that.

And so, we will reconvene at our next meeting and you all, we'll try to do this a little bit more patiently next time. This time, as you can feel, has been kind of jilted and I'm trying to keep us in a tight time schedule that I didn't succeed at.

But we, in my mind, have covered a lot of ground. And so with that, thanks to each one of our members and we are going to adjourn this meeting.

(Whereupon, the above-entitled matter went off the record at 2:25 p.m.)