

Testimony presented by Economic Policy Institute senior international economist Robert E. Scott before the U.S. Senate Committee on Banking, Housing and Urban Affairs on “Reauthorization of the Export-Import Bank. Tuesday, June 20, 2006.

Mr. Chairman, Senator Sarbanes, and members of the Committee, my name is Robert Scott and I am a senior international economist for the Economic Policy Institute. Thank you for inviting me here today to testify on the economic impact procedures of the Export-Import Bank. I recognize the important role played by the bank in providing export financing in cases where such financing is unavailable to foreign purchasers in commercial markets, or where U.S. firms are competing for contracts with suppliers from other countries who have access to below-market financing from their home governments.

My remarks today are concerned with two issues. First, whether the Export-Import Bank is living up to its obligations under existing law to conduct an economic impact analysis for certain transactions where the provision of Ex-Im Bank financing is likely to cause substantial injury to domestic producers. My conclusion is that the bank is not fully meeting its obligation under existing law to carry out economic impact analyses and utilize that information in its decision-making processes.

Second, the bank’s criteria for conducting economic impact analyses should be expanded and its procedures improved. First, the bank should expand its definition of industries covered within the scope of “substantially the same industry.” Second, the bank’s first criterion—that it will only consider making assessments in cases involving the export of capital goods that will be used to expand production capacity—is excessively narrow. The bank should expand its economic impact analyses to include goods transactions that include agreements to transfer production technology or include formal or informal “offset agreements” to transfer production of related or unrelated products abroad, or to serve as a marketing agent for foreign suppliers in the United States in exchange for export sales of goods of any type. Finally, the bank should improve the openness and transparency of its economic impact analysis process. Congress should also require the bank to conduct formal reviews of the aggregated impacts of its financing of exports of both capital equipment and contracts involving offset agreements on particular industries, and that it should adopt an adjudicatory process for such reviews that would be modeled on anti-dumping and subsidy case hearings before the U.S. International Trade Commission.

The Ex-Im Bank’s interpretation of existing requirements for conducting economic impact analyses

In FY2005 the bank provided financing for 3,128 projects.¹ The bank issued only six economic analysis notices covering only 0.2% of the transactions financed in FY 2005.² Furthermore, there is not a single reference to or discussion of any of the bank’s

economic impact analyses in its 2005 annual report. Given the unprecedented size of the U.S. trade deficit, which reached \$717 billion in 2005,³ and congressional concern with the economic impact issue it is surprising that the bank has provided so little public information on its economic impact analyses, or the results of those investigations.

The bank has also taken an excessively narrow interpretation of industries that could be affected by its export financing in at least one case described at the subcommittee hearing on March 29. Testimony by Steven R. Appleton of Micron Technology, Inc., described a case in which the Ex-Im Bank entertained a proposal to provide financing for a Chinese firm, the Semiconductor Manufacturing International Company (SMIC) to purchase a “pure-play” foundry that could be used to manufacture DRAM memory chips, and also NAND flash memory chips.⁴ The DRAM market is subject to chronic over-capacity and boom-bust cycles. Furthermore, Micron was able to demonstrate that the SMIC had excellent access to domestic and international capital markets. Hence, there was no evidence that this transaction involved a purchaser with inadequate access to private financing, nor was there a competing offer from another vendor with access below-market credit from another country. This case should never have been considered by the bank. Yet Micron was forced to go to considerable expense to intervene and testify before the Ex-Im Bank’s board in this case. Although this particular contract never came to a vote before the board, it illustrates that the bank is failing to use economic impact analysis in the way it was intended by the Congress.

Expanding the scope of and requirements for Economic Impact Assessments by the Ex-Im Bank

Congress should expand its requirements for the bank to conduct economic impact assessments in at least three areas:

1.) The bank should expand and much more liberally interpret the definition of “substantially the same product.” Testimony at the subcommittee hearing in March provided referred to two clear examples where this definition should be much broader. In the SMIC case, the applicant alleged that the primary purpose for the purchasing the “pure-play” foundry was to make NAND chips. However, since the same equipment could be used to make DRAM, the bank should have also considered scenarios in which the plant could be used to make DRAM. Given the propensity of Chinese producers to flood the United States with exports of all varieties of computer and electronic products, this possibility should have been taken seriously by bank staff in their analysis of the proposal.

The steel industry provides another example of a sector in which the bank should rarely if ever finance the expansion of production capacity for basic steel products. Basic steel is a highly fungible product. I have served as an expert witness for domestic producers of steel products, include steel pipe, in numerous antidumping and countervailing duty cases at the U.S. International Trade Commission over the past 15 years. The world steel industry has suffered from a capacity glut for decades, as noted by Thomas M. Sneeringer of U.S. Steel Corporation in his testimony before the Subcommittee on International

Trade and Finance on March 29. The United States and other governments have been attempting to develop a multi-lateral agreement to restructure the industry and limit excess capacity for more than a decade. Yet producers in Asia, Latin America, and other areas have announced plans for massive steel capacity additions over the next decade. In particular, the industries in India and China, working with government support, have plans to double and triple basic steel capacity in this period.

There are anti-dumping orders in place covering the import of steel plate, reinforcing bars, and hot-rolled sheet.⁵ Hot-rolled sheet made in China sells for at least \$300 per ton less than in the United States, owing to the market distortions in place there. Since China cannot directly export this product to the United States, Chinese producers have begun to produce and export massive quantities of steel pipe, which is not now subject to anti-dumping orders, to the United States. The vast bulk of the production cost of steel pipe is for hot-rolled plate. Hence, exports of steel pipe to the United States simply embody illegally dumped and subsidized steel plate.⁶ To reiterate, the Ex-Im Bank should simply not finance the export of any steelmaking equipment to China, or other countries presently subject to anti-dumping orders of any basic steel product.

2.) The bank should expand its economic impact assessments' scope to include goods other than production equipment for which exporters have reached formal or informal agreements with purchasers or their respective home-country governments to "offset" part or all of the value of the export sale with any concession that could affect production in the United States. Such agreements are especially common in the U.S. aerospace industry. They have included agreements to transfer production of components to foreign countries, transfer technology for producing like or unrelated products to producers in the importer's country, or to market related or unrelated exports from that country to the United States. Private firms and public agencies in China frequently have offset agreements. However, they are extremely common in defense products industries, and many governments explicitly require such offset concessions and maintain public offices for registering such offset agreements. In aerospace alone, increased competition from foreign producers and offset agreements could displace up to 250,000 workers from jobs in aerospace and related industries between 1994 and 2013.⁷ Domestic firms applying for Ex-Im Bank financing should be required to disclose such agreements to the bank. Disclosure of such agreements should automatically trigger an economic impact analysis that will examine the impact of those agreements on domestic firms, workers, and communities.

3.) Finally, the bank should improve the openness and transparency of its economic impact analysis process. The bank should issue written reports summarizing the findings and decisions made in all of its economic impact analyses. These reports should not disclose confidential, business proprietary information provided by applicants. Their publication would better inform the Congress and affected communities of the bank's actions and the factors considered in its decision-making process. In addition, the 14-day window for comments on economic impact notices should be expanded to 30 days.

Congress should also require the bank to conduct formal *ex-post* reviews of the aggregate economic impacts of its financing of exports of both capital equipment and contracts involving offset agreements, and that it should adopt an adjudicatory process for such reviews that would be modeled on anti-dumping and subsidy case procedures at the U.S. International Trade Commission. This procedure should provide an opportunity for representatives of exporters and affected domestic parties to assess and comment on both the public and business propriety aspects of the contracts being financed by the bank in particular sectors. The bank should give all parties involved aggregated, *ex-post* reviews of transactions in an industry due time to review available data, file pre-hearing briefs, testify to the bank's board and file post-hearing briefs.

At the completion of this process, the bank's board should review and, as needed, revise criteria for making loans for exports in that sector. The board should have the option to reject all applications for financing exports of products in import-sensitive industries, as well as contracts that unduly damage the competitiveness of U.S. producers of related or unrelated products.

In conclusion, while the Ex-Im Bank plays a critical role in supporting U.S. export sales, it also needs to give greater attention and weight to the possible negative impacts on domestic producers of some of the contracts that it is supporting.

Thank you for your interest. I'd be happy to answer any questions.

¹ Export-Import Bank of the United States, "Annual Report 2005." p. 18. http://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf.

² Export-Import Bank of the United States, "Economic Impact Notices", <http://www.exim.gov/products/policies/noticeindex.html>.

³ U.S. Census Bureau, "FT 900: U.S. Trade in Goods and Services." April 2006, http://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf.

⁴ Statement of Steven R. Appleton before the Subcommittee on International Trade and Finance of the Committee on Banking, Housing and Urban Affairs of the U.S. Senate, March 29, 2006, p. 3.

⁵ U.S. International Trade Commission, "Antidumping and Countervailing Duty Orders in Place as of May 3, 2006, by Country." [http://info.usitc.gov/oinv/sunset.nsf/269dca91a05d2d878525663c006a6ac3/96daf5a6c0c5290985256a0a004dee7d/\\$FILE/orders-ctry-tbl.pdf](http://info.usitc.gov/oinv/sunset.nsf/269dca91a05d2d878525663c006a6ac3/96daf5a6c0c5290985256a0a004dee7d/$FILE/orders-ctry-tbl.pdf).

⁶ The U.S. International Trade Commission recently found in a recent "421 investigation" that U.S. producers had been injured by a surge of imports of steel pipe from China. "Circular Welded Non-alloy Steel Pipe From China." Investigation No. TA-421-6. Publication 3807; October 2005. http://hotdocs.usitc.gov/docs/pubs/701_731/pub3807.pdf.

⁷ Barber, Randy and Robert E. Scott. 1995 *Jobs on the Wing: Trading Away the Future of the U.S. Aerospace Industry*. Washington, D.C.: Economic Policy Institute. p. 2. http://www.epi.org/content.cfm/studies_jobsonthewing.