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Export–Import Bank: Propaganda versus the Facts

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A June 29 posting on *The Hill*'s Congress Blog carried the headline: “The Arguments for Ex–Im No One Can Rebut.”¹ The author, John Murphy, the senior vice president of international policy of the U.S. Chamber of Commerce, claimed that, in a recent hearing, “no one was able to rebut my arguments about the indispensable role the bank plays in specific circumstances.” Herewith is a rebuttal of the arguments, which he repeated in *The Hill* blog.

Claim: “*Ex–Im is necessary because—in the case of many small businesses—commercial banks often refuse to accept foreign receivables as collateral for a loan without an Ex–Im guarantee.*”

For example, *Bridge to Life Solutions of Columbia, South Carolina, provides state-of-the-art cold storage organ transplant solutions. As John Bruens, Chief Commercial and Business Development Officer for Bridge to Life, explains: ‘Without Ex–Im, I would have to tell my customers, “prepay everything up front, or we can’t do business.”’*²

Fact: Advocates of Ex–Im rely on such anecdotes because their claims cannot be substantiated empirically. (It is, of course, no surprise that subsidized firms value their subsidies.) The reality is that small businesses account for 98 percent of all exporting firms,³ and exports have reached record levels in recent years.⁴ That makes one thing very clear:

Export financing obviously is not a problem for small firms in the aggregate. Moreover, Ex–Im benefits are a mere 2 percent of all exports, which means that the vast majority of small-business exporters do not need—and do not receive—taxpayer subsidies.

This is further validated by the fact that small businesses ranked “Exporting My Products/Services” as *the least* problematic of 75 business problems assessed in an annual survey by the National Federation of Independent Business (NFIB) Research Foundation.⁵ (The cost of health care ranked as the most severe problem.)

In the event that a small business cannot access private capital, it can seek to export through wholesalers or associate its business operations with large firms or with global supply chains.

Bank proponents focus on small firms to deflect attention from the fact that the vast majority of Ex–Im beneficiaries are major corporations.⁶ The top 10 beneficiaries profited from 75 percent of bank financing in fiscal year (FY) 2013. These included Boeing (\$91 billion market capitalization); General Electric (\$267 billion); Bechtel (2013 revenues: \$39.4 billion); and Caterpillar (2013 sales and revenues: \$55 billion).

In many instances, Ex–Im actually harms small business by providing their overseas competitors with financing at artificially low rates.

Claim: “[B]uyers overseas increasingly expect vendors to offer financing. Without Ex–Im, many U.S. small businesses would be unable to extend terms to foreign buyers and would have to ask for cash-in-advance. In these cases, sales would most likely go to a firm from another country that can count on the backing of an official export credit agency (ECA) like

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Ex-Im. These realities are among the chief reasons why small businesses account for nearly 90 percent of Ex-Im's transactions."⁷

Fact: The number of "transactions" bears no relationship to the dollar value of Ex-Im financing. In fact, only about 20 percent of Ex-Im authorizations benefit small businesses. The number that do receive aid is artificially inflated by the bank's expansive definition of "small," which includes firms with as many as 1,500 workers, as well as companies with revenues of up to \$21.5 million annually.

Requiring upfront payment does not result in lost sales. It is very common among small businesses—69 percent of exporters in a 2013 survey say they demand payment in advance of shipping.⁸ Only 12 percent utilize any type of "payment enhancement," such as credit insurance. Nor do most small businesses lack access to private capital, as Ex-Im proponents claim: 73 percent of small businesses report that they access export financing from a bank or credit union.

Meanwhile, the number of small businesses that export (and the value of their exports) has grown significantly in recent years,⁹ which belies the claim of Ex-Im proponents that small firms are unable to compete without Ex-Im financing (since the vast majority of these firms do not get such assistance).

Between 1997 and 2007, for example, the value of exports per small and medium-size businesses increased by 80 percent, and the number of these exporting firms grew by 30 percent, according to the U.S. International Trade Commission.¹⁰ (Firms with fewer than 20 employees accounted for 95 percent of the growth.)

Claim: "[T]ens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities. This includes companies such as GE, which has more than 30,000 small and medium-size suppliers, or Boeing, with more than 14,000."¹¹

Fact: General Electric and the other major beneficiaries of the bank (and their suppliers) are well-positioned to prosper without Ex-Im subsidies.¹² They do not lack access to private capital—including their own finance subsidiaries. All have billions of dollars of backorders with which to keep production going.

Boeing, the largest beneficiary of Ex-Im, operates a financing division which, just like Ex-Im, provides credit guarantees for purchasers with less than investment-grade credit. (The guarantees are largely collateralized by the aircraft being purchased.) Boeing Capital posted customer-finance assets of \$3.4 billion in the first quarter of 2015.¹³

1. John Murphy, "The Arguments for Ex-Im No One Can Rebut," *The Hill*, June 29, 2015, <http://thehill.com/blogs/congress-blog/economy-budget/246347-the-arguments-for-ex-im-no-one-can-rebut> (accessed June 10, 2015).
2. *Ibid.*
3. Natalie Soroka, "U.S. Trading Companies, 2012," International Trade Administration, November 2014, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_004048.pdf (accessed June 10, 2015).
4. U.S. Department of Commerce, "The Role of Exports in the United States Economy," May 13, 2014, <http://trade.gov/neinext/role-of-exports-in-us-economy.pdf> (accessed July 10, 2015).
5. Holly Wade, "Small Business Problems & Priorities," National Federation of Independent Business Research Foundation, August 2012, <http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/small-business-problems-priorities-2012-nfib.pdf> (accessed June 10, 2015).
6. Diane Katz, "U.S. Export-Import Bank: Corporate Welfare on the Backs of Taxpayers," Heritage Foundation *Issue Brief* No. 4198, April 11, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/IB4198.pdf.
7. Murphy, "The Arguments for Ex-Im No One Can Rebut."
8. National Small Business Association and Small Business Exporters Association, "2013 Small Business Exporting Survey," <http://www.nsbabiz/wp-content/uploads/2013/06/Exporting-Survey-2013.pdf> (accessed June 10, 2015).
9. Economic Statistics Administration, "Data Snapshot: How Much Do Small- and Medium-sized Businesses Contribute to U.S. Exports?" January 22, 2015, <http://www.esa.doc.gov/under-secretary-blog/data-snapshot-how-much-do-small-and-medium-sized-businesses-contribute-us> (accessed June 10, 2015).
10. U.S. International Trade Commission, "Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports," January 2010, <http://www.usitc.gov/publications/332/pub4125.pdf> (accessed June 10, 2015).
11. Murphy, "The Arguments for Ex-Im No One Can Rebut."
12. Diane Katz and Veronique de Rugy, "The End of Ex-Im: No Threat to Exports or Employment," Heritage Foundation *Issue Brief* No. 4417, June 10, 2015, http://thf_media.s3.amazonaws.com/2015/pdf/IB4417.pdf.
13. Doug Cameron, "Boeing to Offer Aircraft Financing if Trade Bank Shuts," *The Wall Street Journal*, June 5, 2015, <http://www.wsj.com/articles/boeing-would-provide-more-jet-finance-if-ex-im-bank-shut-1433528462> (accessed June 10, 2015).

Indeed, both Standard & Poor's and the Government Accountability Office effectively have concluded that Boeing, with a market cap exceeding \$97 billion, would manage well without taxpayer subsidies.¹⁴

Commercial financing for Boeing planes is also available directly through the capital markets. Under a customized provision of federal law, investors may obtain an "enhanced equipment trust certificate,"¹⁵ which allows them to quickly obtain possession of collateral (aircraft) in the event of a bankruptcy petition by the borrower—notwithstanding the stay provisions that apply to other debtors.

Caterpillar (market cap \$54 billion) also operates a finance division, with more than \$35 billion in assets.¹⁶ The world's leading manufacturer of construction and mining equipment posted 2014 sales and revenues of \$55.2 billion. Caterpillar's backlog currently exceeds \$17 billion.

General Electric enjoys a market cap of \$275 billion. The company began the year with a record backlog of \$261 billion. Its finance arm, GE Capital Corporation, holds assets of \$499 billion and its 2014 net income was \$7 billion.¹⁷

Claim: *"Ex-Im is necessary because ECA support is often required even to bid on a wide variety of foreign business opportunities. This includes requests for tender from both public and private sources, including opportunities as diverse as infrastructure projects, nuclear power plants, and contracts to provide medical equipment to hospitals. For example, the New York Times reported last month that a \$668 million drinking water project in Cameroon will go not to U.S. vendors but to their Chinese competitors if Ex-Im is not reauthorized."*¹⁸

Fact: Foreign developers can demand support from export credit agencies for the simple reason that such support is available. In its absence, developers hardly ignore the vast majority of U.S. firms that have access to private financing.

It is important to remember that Ex-Im benefits just 2 percent of exports. And, to claim that the entire 2 percent would vanish without Ex-Im subsidies is preposterous. Finance costs are only one among a variety of factors that affect a purchaser's choice of supplier. Availability, reliability, and stability all play significant parts in purchase decisions. There should be no question that U.S. firms are capable of competing successfully without corporate welfare.

Demand for Ex-Im financing declined in recent years, too. Authorizations dropped by 24 percent between FY 2012 and FY 2013, and decreased by 25 percent between FY 2013 and FY 2014.

Claim: *"Ex-Im is indispensable to the nuclear power sector. Just five nuclear power plants are under construction in the United States, but 61 are under construction overseas, and an additional 165 plants are in the licensing and advanced planning stages—nearly all abroad."*¹⁹

The U.S. nuclear industry is prized for its reliable and efficient products, its operational excellence, and its culture of safety. It is the gold standard for nuclear power generation. American products and expertise are highly desirable in international markets. As it is, the U.S. industry has been competing on a tilted playing field, winning contracts over companies that are directly financed by foreign governments.

The biggest threat to the competitiveness of the American nuclear industry may in fact be the U.S. government. The Nuclear Regulatory Commission currently has 60 rulemakings underway and enforces an outdated regulatory system that inflates costs and makes bringing new technologies to market prohibitively difficult. Commercial nuclear exports are likewise inhibited. The commercial nuclear export regime is convoluted and burdensome and spread among three different federal agencies—all of which increases costs, imposes delays, and limits innovation.

14. Diane Katz, "Government, Private Auditors Agree: Boeing Doesn't Need Taxpayer Subsidies," The Daily Signal, July 15, 2014, <http://dailysignal.com/2014/07/15/boeing-get-insane-amount-tax-dollars-ex-im-bank/>.

15. 11 U.S.C. 1110. See, Joel Shpall, "Up in the Air: Finding Value in Aircraft EETCs," MetWest, March 8, 2010, <http://www.mwamllc.com/pdf/DFIrsch76-UpInTheAir.pdf> (accessed June 10, 2015).

16. Doug Oberhelman, "Caterpillar's Successful 90-Year Track Record Managing Global Volatility," Caterpillar, <http://www.caterpillar.com/en/news/caterpillarNews/global-footprint/caterpillars-successful-90-year-track-record-managing-global-volatility.html> (accessed June 10, 2015).

17. GE Capital, "GE Capital at a Glance," <http://www.gecapital.com/en/our-company/company-overview.html> (accessed June 10, 2015).

18. Murphy, "The Arguments for Ex-Im No One Can Rebut."

19. Ibid.

Claim: *“Ex-Im is necessary because it is par for the course for expensive capital goods to be sold worldwide with unashamed ECA backing—the support of which can make or break a deal.”*²⁰

Fact: “Par for the course” is not synonymous with sound policy. Nor does it equate to the 98 percent of U.S. exports that do not rely on Ex-Im financing.

As noted above, the manufacturing titans that disproportionately benefit from Ex-Im are well-positioned to profit without export subsidies. In fact, export subsidies create economic distortions that harm the U.S. economy and consumers more than they help. As noted by the Congressional Research Service, “Ex-Im Bank’s credit and insurance programs...draw from the capital and labor resources within the economy that would be available for other uses, such as alternative exports and employment.”²¹

Moreover, America should not emulate China and other foreign governments that provide massive subsidies to state-owned enterprises.

As Ronald Reagan said: “We’re in the same boat with our trading partners. If one partner shoots a hole in the boat, does it make sense for the other one to shoot another hole in the boat? Some say, yes, and call that getting tough. Well, I call it stupid. We shouldn’t be shooting holes; we should be working together to plug them up.”²²

Claim: *“Refusing to reauthorize Ex-Im would put U.S. companies selling expensive capital goods such as aircraft, locomotives, and turbines at a unique competitive disadvantage because their foreign competitors all enjoy ample financing from their home-country ECAs—enough to easily knock U.S. companies out of the competition. For some industries, executives will face the question of whether to shift production to locations where ECA support is available.”*

Fact: This is fearmongering. Economist Veronique de Rugy of the Mercatus Center has documented²³ that only about a third of Ex-Im financing—which benefits just 2 percent of all U.S. exports—is

designated in bank records as necessary to counter subsidized foreign competition. A whopping 66 percent of the financing classified as necessary to counteract foreign competition went to the Boeing Corporation, which hardly lacks access to private capital.

In other words, Ex-Im Bank financing counteracts foreign subsidies for less than 1 percent of U.S. exports—with more than half the benefit accruing to Boeing.

The claim of “competitive disadvantage” is further belied by the agreement among 31 member countries of the Organization for Economic Cooperation and Development to abide by a set of financing rules covering loan term limits, minimum fees, and other practices.²⁴

There is rarely such a thing as a “level playing field” in trade. Every country has advantages that others lack. The ingenuity and drive of American companies can trump the comparatively measly export subsidies doled out by foreign governments—assuming, of course, that tax and regulatory barriers do not further restrict free enterprise.

Conclusion

Subsidized financing is an attractive government-provided perk for some large, well-financed American companies—particularly Boeing, which is the largest beneficiary of the bank. But Ex-Im subsidies carry considerable costs—for taxpayers and for the American businesses that are left to compete against foreign firms that receive export subsidies from the U.S. government. Given the vast resources of Ex-Im’s beneficiaries and the abundant supply of private export financing, there is no need to lament the recent expiration of the bank’s lending authority.

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20. Ibid.

21. Shayerah Ilias Akhtar et al., “Export-Import Bank Reauthorization: Frequently Asked Questions,” Congressional Research Service, November 26, 2014, <http://fas.org/sgp/crs/misc/R43671.pdf> (accessed June 10, 2015).

22. “President Opposes Restricting Trade to Help Industry,” *The New York Times*, November 21, 1982, <http://www.nytimes.com/1982/11/21/us/president-opposes-restricting-trade-to-help-industry.html> (accessed June 10, 2015).

23. Veronique de Rugy, “Key Argument for Export-Import Bank Invalid,” The Mercatus Center, June 11, 2014, <http://mercatus.org/publication/key-argument-export-import-bank-invalid> (accessed June 10, 2015).

24. Export-Import Bank of the United States, *Annual Report 2014*, <http://www.exim.gov/sites/default/files/reports/annual/EXIM-2014-AR.pdf> (accessed June 10, 2015).