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SENATE FOREIGN RELATIONS COMMITTEE
ECONOMIC STATECRAFT: EMBRACING AFRICA'S MARKET POTENTIAL
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Thank you for your invitation to testify on work the Export-Import Bank is doing in Africa. I will first review what the Bank is doing to support US exports to Africa. I will then speak to what the competitive landscape looks like on that continent from our perspective at the Bank. But let me take a moment here to thank the Senate for a positive vote on our reauthorizing legislation. This allows us to continue our important work of creating and preserving US jobs while countries in Africa are able to procure the resources needed to help them grow.

Background on the Export-Import Bank

Ex-Im Bank's mission is to sustain and create U.S. jobs by helping to finance the export of U.S. goods and services which might otherwise not go forward. This is different from some of the other agencies testifying here today, which offer development assistance or have a development mandate.

Ex-Im offers financing when commercial financing is not readily available. We also attempt to "level the playing field" by offering competitive terms so that American companies can compete based on the quality of their goods and pricing. Consistent with the Congressional mandates set forth in our charter, we provide this financing when we can find a "reasonable assurance of repayment" and the transaction meets our environmental guidelines.

Ex-Im is busier than ever. We have met the demand caused by the liquidity crisis and have more than doubled our authorizations since FY 2008. Last year, FY 2011, was our third record year in a row, with authorizations reaching \$32.7 billion, supporting almost 300,000 US jobs.

Ex-Im and US Exports to Africa

The United States has vitally important economic interests in Africa. This underscores the rationale for the new U.S. Strategy Toward sub-Saharan Africa. The Presidential Policy Directive focuses on four main areas: strengthening democratic institutions; spurring economic growth, trade and investment; advancing peace and security; and promoting opportunity and development. As the official Export Credit Agency of the United States, we are committed to do our part in the area of trade exports.

Sub-Saharan Africa is a priority region because many countries have strong prospects for long-term economic growth and improving business conditions. These trends are expected to generate growing demand for consumer goods and services as more people enter the middle class. Moreover, Africa's enormous infrastructure needs will require sustained investment in capital equipment and technology to support the development of power generation, transportation infrastructure and other sectors that play to American strengths. The IMF has forecast that seven of the top 10 fastest growing countries are in sub-Saharan Africa. These include Ethiopia, Mozambique, Tanzania, Democratic Republic of the Congo, Ghana, Zambia and Nigeria. Ex-Im Bank is committed to helping U.S. companies compete for opportunities in these countries.

U.S. exports to Sub-Saharan Africa increased by 24 % from \$17 billion in 2010 to \$21.3 billion in 2011, the second highest percentage increase in 20 years. This was driven by growth in several sectors including: machinery, vehicles & parts, commodities, non-crude oil, aircraft, and telecommunications equipment. Of the top three African destinations for U.S. products, exports to South Africa totaled \$7.3 billion, Nigeria totaled \$4.0 billion and Angola \$1.2 billion. These three markets make up 65% of U.S. exports to sub-Saharan Africa. Of the Bank's nine major countries we are focusing on, two - Nigeria and South Africa - are in Africa.

Proportionately, Ex-Im supports more U.S. exports to sub-Saharan Africa than it does to the world at large. Worldwide, Ex-Im Bank historically covers approximately 2% of U.S. exports. Our authorizations for FY2011 in sub-Saharan Africa were a record \$1.4 billion, or 6.7% of the U.S. exports. This is nearly double the previous year's \$812 million in authorizations. I'm proud to say that already in FY 2012 Ex-Im Bank has set a new record authorizing export

financing totaling \$1.5 billion to sub-Saharan Africa. This financing in nine months surpassed the previous record of \$1.4 billion for all of FY 2011.

We are making every effort to increase our activity in sub-Saharan Africa. I have asked our Vice Chair, Wanda Felton, to personally oversee this important market. I have already made two visits to Africa and will be visiting again in two weeks. Ex-Im Bank is open in 43 sub-Saharan Africa countries - more than ever before. This includes being open for business to undertake short term export transaction in 18 countries under our Short-Term Africa Initiative, or "STAI". Under the STAI, Ex-Im Bank provides support for short-term transactions in markets where coverage would not be available under standard cover policy. The Connell Company of Berkeley Heights, New Jersey uses the STAI program to sell its mining industry spare parts to Sierra Leone, Madagascar, and the Democratic Republic of the Congo. Another company, Reliable Industries of New Orleans, Louisiana sells oil and gas equipment into Mauritania under the STAI program.

Building Relationships with African Institutions

At the end of FY 2011, Ex-Im Bank was strengthening its ties with Nigerian banks, Angolan banks and regional banks such as the Eastern and Southern African Trade Bank, known as the PTA. Throughout FY 2011, Ex-Im Bank staff participated in international and national conferences highlighting the benefits of the Bank's financing available for sub-Saharan Africa. These included Corporate Council on Africa events: the 2011 U.S.-Africa Business Summit and the 2011 Infrastructure Conference. In 2010, I led an Ex-Im Bank delegation to South Africa and signed an MOU with Export Credit Insurance Corporation of South Africa (ECIC). We are in discussion with a South African bank, on a possible co-financing with ECIC for the Eko Rail project in Nigeria. The intent of the MOU is cooperation between Ex-Im Bank and ECIC to support US and South African exports to sub-Saharan Africa.

In 2011, Vice Chair Wanda Felton and I traveled to Nigeria where a \$1.5 billion MOU was signed with the Federal Ministry of Power of Nigeria to finance the purchase of equipment and services from U.S. suppliers as Nigeria extends electricity to consumers and businesses.

We will continue our outreach to Africa next month when I lead an Ex-Im Bank delegation which will be participating in Secretary Clinton's U.S.-South Africa Strategic Dialogue where the Bank has experienced significant growth in recent years.

Interagency Cooperation

Ex-Im Bank has been actively participating with other agencies in the National Export Initiative. These agencies include: USTDA, OPIC, USAID, MCC, Commerce Department, Treasury, State and NSS. Specific areas of cooperation include:

- Ex-Im Bank was actively involved in the Presidential Policy Directive on Global Development and Partnerships for Growth (PPG). The Bank's participation in this initiative was instrumental in further developing our relationships with the Ghanaian and Tanzanian governments.
- Ex-Im Bank coordinated its efforts with the U.S. Foreign Service, U.S. and Foreign Commercial Service of the Department of Commerce and other U.S. government entities to encourage economic engagement pursuant to the African Growth and Opportunity Act (AGOA).
- Vice Chair Felton joined a trade mission led by the State Department and the Corporate Council on Africa. The mission brought U.S. companies engaged in energy and power to five countries: Mozambique, Tanzania, Kenya, Nigeria and Ghana.
- In FY 2011, Vice Chair Felton and business development officers traveled to sub-Saharan Africa to participate in trade-related events with the U.S. and Foreign

Commercial Service and the State Department. Countries visited included South Africa, Ghana and Nigeria.

These outreach efforts have borne fruit. Ex-Im completed several significant transactions in FY 2011, including:

- Ex-Im provided an \$805.6 million direct loan to South Africa's state-owned electric power utility, Eskom, Limited. The financing supported Eskom's purchase of engineering and construction management services from Black & Veatch which will be used to construct the Kusile power plant. With the support of Ex-Im Bank, Black & Veatch has created nearly 300 well-paying jobs for U.S. professionals.
- Our support in financing the sale of 100 GE locomotives to Transnet in South Africa in the amount of \$126 million will directly sustain about 271 jobs at General Electric's factories in Erie and Grove City, Pennsylvania. Indirectly, the contract supports about 884 in additional US jobs from GE suppliers around the country. Total US job impact is estimated to be 1,155 as a result of this contract.
- Ex-Im provided Planson International Corporation, a small, woman-owned tech company headquartered in New Gloucester, Maine, with a \$1.5 million revolving working capital loan guarantee to export computers and software to Sudan for use during the historic referendum for Southern Sudan independence. Planson also exports to Burundi, Central Africa Republic, the Democratic Republic of the Congo, and Eritrea.

We also signed letters of intent, indicating our willingness to finance the sale of up to \$350 million of GE locomotives in connection with the development of Ghana's West Rail Line and a \$500 million water sanitation and flood control project in Accra.

Moreover, we highlighted opportunities in Nigeria's agribusiness and power generation sectors prominently at our Annual Conference and worked with CCA to showcase these sectors to private sector investors and lenders. Members of the Nigerian cabinet including the Vice President joined us at our annual conference to encourage more US companies to export to Nigeria.

As African countries continue to develop, transportation is critical to their success. Since 2009 Ex-Im has financed African airlines in countries such as Angola, Nigeria, Rwanda, Ethiopia, and South Africa. We are helping to connect Africa to the world.

Competition

One of the major problems facing Ex-Im in Africa is that the "playing field" is no longer level. Let me begin with China. China not only offers tied and untied aid into African markets, but also finances exports on terms that are not Organization for Economic Cooperation and Development (OECD) Arrangement compliant. However, these Chinese terms are close enough to what would be available commercially that they do not qualify as aid. It is estimated that between 2001 and 2010, China's Export-Import Bank financed \$70 billion into the African market, an estimated 20% of China Ex-Im's total business volume.

Problems with using "Arrangement-Light" procedures to match China

Although the Government of China frequently uses aid to promote its national interests in the African region, it also finances many projects and transactions on commercial terms. Given that the Chinese are not party to the OECD Arrangement, oftentimes these financing offers fall just outside of the Arrangement rules. For example, where the maximum repayment term for OECD-regulated standard export credits is 10 years in Africa, the Chinese government will offer 12-year financing. Such financing packages do not qualify as aid, and sometimes are referred to as "Arrangement-Light" transactions. Ex-Im has detailed procedures both internally and within the OECD to match "Arrangement-Light" offers by the government of China when U.S. exporters are competing for the same projects. The intent is to counter Chinese

government financing offers in a manner that will gain U.S. exporters market share and send a message to the government of China that the U.S. will come in on behalf of its exporters when necessary. However, finding transactions that will have the desired effect has been difficult.

China's Strategic Approaches in Africa

Over the past decade, China has ramped up its international export finance activity in an effort to support its domestic companies as well as increase its access to natural resources. For example, Angola has used their national resources to guarantee loans from China. Under this structure, the loan typically issued is for infrastructure development and is offered on terms and conditions better than commercial banks. The key condition is that for the loan to be issued, a Chinese company must obtain preferential access to natural resources. In Angola's case the natural resource was oil. Other financing from China used to obtain natural resources of interest include bauxite (Guinea), chromium (Zimbabwe), iron ore (Gabon) and cocoa (Ghana). In 2007, China Ex-Im offered a \$2 billion loan to Nigeria in return for preferential access to oil blocks and offered \$6 billion in infrastructure financing to the Democratic Republic of the Congo in return for Chinese firms holding a seniority stake in a copper-cobalt mining venture.

China has made a strategic decision to invest in African infrastructure projects and in return China has access to natural resources and new markets for their manufactured goods. Ex-Im approaches its financing on a transaction by transaction basis, evaluating credit worthiness but with the overall strategy of preserving and creating US jobs. China's flexibility in financing, combined with the huge sums of money being offered to these countries, creates a very un-level playing field for U.S. exporters. Resource and policy considerations make competing on these terms not viable on an ongoing basis.

I want to close by emphasizing that we look forward to working with Members of this Committee and other Members of Congress in advancing the goal of increasing US exports to sub-Saharan Africa. And while we are fully aware of the risks, we are also very cognizant that

this fast-growing region of the world offers much promise for US exporters and the resulting jobs here in the United States.

Thank you very much. I will be happy to answer any questions you may have.