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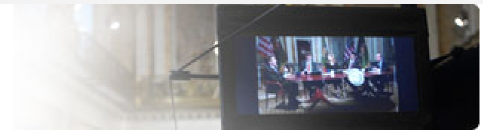

Press Center

Testimony of Under Secretary Nathan Sheets Before the House Committee on Oversight and Government Reform, Subcommittee on Health Care, Benefits, and Administrative Rules, and House Financial Services Committee, Subcommittee on Monetary Policy and Trade

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As prepared for delivery

WASHINGTON - Chairman Huizenga, Chairman Jordan, Ranking Member Moore, Ranking Member Cartwright, and distinguished members of the Subcommittees, thank you for the opportunity to testify on efforts by Treasury and the Administration to discipline the use of government export financing support in a way that minimizes trade distortions, helps ensure that government export financing support complements market finance, and contributes to a level playing field for U.S. stakeholders. We pursue these objectives through focused work to strengthen the existing international export finance guidelines by bringing them closer to market financing, and to bring countries currently not participating in the existing guidelines into a new set of guidelines.

Treasury has been and will continue to be guided by three core principles in this effort:

(1) There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the generosity of any government-supported financing;

(2) China and other large emerging market countries, which now account for a major share of all official export financing support, should participate in and abide by an international, rules-based framework; and

(3) The terms and conditions of official export credit support should be as market oriented as possible to limit trade distortions and help ensure that this support complements, rather than crowds out, market financing.

Even as we pursue these efforts, we must recognize that curtailing U.S. export financing unilaterally could undermine our exporters' ability to compete, potentially causing them to lose business to foreign competitors whose governments continue to provide that support. This could also prompt some U.S. exporters to move their operations overseas to gain access to support offered by foreign governments, and result in a loss of American jobs. Moreover, unilateral action by the United States – without similar moves by foreign governments – could leave us unable to counter the actions of other governments and thus weaken our ability to negotiate more robust disciplines.

Bringing China and Others Into A Rules-Based Framework

Fundamental changes have occurred in the global export finance landscape over the past decade; chief among them has been a dramatic increase in official export financing provided by China and other large emerging market economies that do not participate in the OECD Arrangement on Officially Supported Export Credits ("Arrangement"). These countries have come to account for nearly as much official export financing support as the G-7 countries, which had dominated this space for decades. Unless these countries operate within the international export credit framework, U.S. exporters could face an unlevel playing field, and concerns about trade distortions and crowding out will remain.

Bringing all major providers of official export financing support into an international rules-based framework with a common set of financial terms and conditions is the essential first step in disciplining the use of that support. Therefore, Treasury and the Administration have undertaken significant efforts to develop new international export credit guidelines that would apply to all major providers, including China and other large emerging market countries, bringing their official export credit activities within a set of clear financing and transparency standards. Such a framework can then form the basis for achieving greater market-orientation in the provision of official export finance support, which will contribute to that support complementing, and not crowding out, market financing.

We are pursuing these efforts through the International Working Group on Export Credits (IWG)[1], which was established in 2012 based on a bilateral commitment between President Obama and then-Chinese Vice President (now President) Xi to make concrete progress toward a set of new international export credit guidelines. Since the IWG's establishment, the United States has secured additional important Chinese commitments on export credits in the U.S.-China Strategic and Economic Dialogue (S&ED), and most recently during President Obama's November 2014 visit to China, where China committed to take all steps necessary to advance the IWG initiative, and to support comprehensive guideline coverage.

The IWG concluded its seventh meeting in February and will next meet in mid-May. As with any multilateral negotiation, there are many difficult issues to be addressed, but I can say that to date meaningful progress has been made toward establishment of a new set of international guidelines on official export financing.

Minimizing Distortions in the Aircraft Export Credit Market

The United States has worked for years to make the international guidelines on official export financing support for aircraft more market oriented. These concerted efforts have led most recently to completion of the 2011 Aircraft Sector Understanding (ASU), which substantially improved on the previous ASU in a number of ways, the most important being adoption of a system for pricing borrower risk that adjusts quarterly in response to evolving market conditions. In the 2011 ASU, the

Administration and its negotiating partners – the European Union (mainly Germany, France, and the UK), Canada, Japan, and Brazil – struck a careful balance between the priorities of aircraft manufacturers and those of domestic airlines that largely rely on market financing for their aircraft purchases.

And, we believe that the market-oriented nature of the 2011 ASU, along with meaningful increases in commercial market financing, have resulted in a meaningful decline in the demand for official export financing support for aircraft even as the overall number of Boeing and Airbus aircraft deliveries has increased. Since the 2011 ASU went fully into effect in 2013, we have seen both:

(1) A falling proportion of large aircraft deliveries financed with official support as a percentage of total large aircraft deliveries globally; and

(2) Declining U.S. Export-Import Bank (Ex-Im Bank) support for Boeing large aircraft[2] exports in dollar value terms and in terms of the number of aircraft exports supported.

We believe that this clear trend toward greater aircraft purchaser reliance on private market financing stems to a meaningful degree from the more market-oriented terms and conditions of the 2011 ASU, which reduce the incentive for aircraft purchasers to pursue government financing if they also have access to commercial market financing.

Even with this reduced demand for official export financing support for aircraft, we will continue to explore opportunities with our European counterparts on possible ways to limit official financing support for twin-aisle aircraft, particularly for airlines with access to alternative sources of financing. For example, Treasury's lead negotiator convened a meeting late last year with representatives from the German, French, and British governments on this issue, where he reiterated the U.S. interest in further limiting official financing support for twin-aisle aircraft. These governments noted their belief that the 2011 ASU is sufficient for this purpose, and they were unwilling to explore additional steps to narrow support for twin-aisle aircraft.

Maintaining a level playing field for all U.S. stakeholders requires that reductions in U.S. financing support for twin-aisle aircraft exports be accompanied by concurrent reductions by the only other government financiers of those exports, the French, German, and British governments. In fact, unilateral withdrawal of official export financing support for U.S. aircraft, while European aircraft continue to receive such support, would put exporters from one of the most dynamic and innovative sectors of our economy at a competitive disadvantage, without addressing the concerns raised by domestic airlines.

Improving the Current International Guidelines

In addition to bringing China and other large emerging market countries into a new set of international export credit guidelines and disciplining government financing support for aircraft exports, Treasury and the Administration are currently seeking to make the interest rate provisions of the existing Arrangement more market oriented. The current Arrangement interest rate provisions were established decades ago, and our focus is on bringing them more into line with what is available in the private market. To achieve this objective, we have tabled a strong proposal in the OECD that, if adopted, would help to ensure that official export financing support does not substitute for private market finance, and contributes to a level playing field for U.S. stakeholders.

Conclusion

Since 2012, we have made substantial efforts to discipline the use of government export financing support in a way that minimizes trade distortions, helps ensure that government export financing support complements market finance, and contributes to a level playing field for U.S. stakeholders, consistent with the 2012 Congressional mandate. And, while progress is sometimes incremental as we seek to strengthen the existing international export finance guidelines and bring countries currently not participating in the existing guidelines into a new set of guidelines, progress is being made, and achieving further progress will continue to be a top priority for Treasury and the Administration.

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[1] United States, China, European Union, Brazil, Australia, Canada, India, Indonesia, Israel, Japan, Republic of Korea, Malaysia, New Zealand, Norway, South Africa, Switzerland, Turkey, and Russia

[2] Refers specifically to single and twin-aisle passenger aircraft.