ROBERT E. DUNCAN

Bob Duncan has a background in international business spanning a 25-year career in both the corporate and financial sectors. His expertise in international trade and finance originated in his early career in the international trade area with Caterpillar Tractor where he acquired overseas experience in Southeast Asia, Latin America and Africa. It continued during his tenure at Kidde Credit Corporation, a subsidiary of Grove Manufacturing. As Vice President & Treasurer, he managed the commercial credit division, a US$500 million industrial finance / leasing company. His strong credit skills were further developed in his tenure at US West as the credit administration head of that company's financial services company overseeing a $3 billion portfolio. In response to the growing market demand for international trade finance, Bob founded Leawood Export Finance in 1995. The Governor of Kansas appointed Bob to the State Export Loan' Review Board. He has served on the Export-Import Bank of the United Stales Chairman's Advisory Council as the representative from small business and is currently serving his second term on the Chairman's Advisory Council for Sub-Saharan Africa He is a graduate of the University of Arizona and the American Graduate School of International Management.

Robert Duncan founded Leawood Export Finance, Inc. in 1995 as an international trade and finance company modeled on the traditional trading companies of Europe, Japan and Latin America. The Company takes title to U.S. manufactured goods and exports them to foreign buyers using financing terms 95% insured and/or 100% guaranteed by Ex-Tm Bank. Short term revolving lines of credit for up to one year are available for foreign companies buying raw materials, inventory and equipment supplies under Leawood's Multi-Buyer Insurance Policy. Sales of larger capital equipment products are eligible for medium term financing under the Master Guarantee Agreement (MGA) the Company has in place with Ex-Im Bank. (Leawood is one of the only non-bank beneficiaries of a direct MGA in the country.) During 1999, Leawood ranked in the top 100 of top bank/lender users of Ex-Im Bank programs (Chase Bank was ranked 1st). As an exporter, Leawood was ranked in the top 50 – just below Hewlett Packard, (Boeing Aircraft was ranked I"). Therefore, Leawood is a supplier (the banks arc not) and a lender (for products it sells) providing a broader range of trade finance not available from the banks. Leawood exports generic U.S. products whereas the U.S. exporting environment is generally product specific.

In 1994, Duncan formed Terramarr, Inc., which acquired the operating assets of an established El Paso, Texas-based supplier of medical products and supplies with a significant cross border business potential in Northern Mexico. After successful penetration into the cross border health care sector, it became apparent that the clean room and assembly operations in the large and growing *maquiladora* market headquartered in Juarez (directly across the river from El Paso), had significant demand for many of the same sanitary products sold to hospitals and clinics. Leawood and Terramarr have operations in Overland Park, KS; El Paso, TX; and Juarez, Chihuahua, Mexico encompassing 350 employees with 50 directly related to exporting. Annual revenues will reach $20 million in the current year.

UNITED STATES TRADE DEFICIT REVIEW COMMISSION

PUBLIC HEARING

APRIL 26, 2000

KANSAS CITY, MISSOURI

COMMENTS BY:

Robert E. Duncan
Leawood Export Finance, Inc.
Overland Park, Kansas

My comments center on the ongoing recognition that, while the export support programs provided by the Export-Import Bank, SBA and Department of Commerce have improved significantly, the trade deficit will not be significantly impacted by small to midsized exporters until:

1. The operating budgets for these agencies are significantly increased to service the small exporter needs;

2. Those agencies which provide loan guarantees, commercial and political risk insurance, and pre-export working capital dedicate a significant portion of their support directly to small exporters;

3. Unless Nos. 1 and 2 above occur, the commercial banks will not be viewed as a viable source of trade finance capital to the small exporter.

This is very simple to see when one looks at the 1999 Fiscal Yearend Ex-Im Bank statistics for "Top Bank/Lender" users of their programs:

Of the top 1 16 bank/lender users, the top 3 1 banks represented:

1. 94% of the $11.4 billion Ex-Im Bank support
2. An average transaction size of $24.4 million
3. Chase Bank and Citibank represented:
   5 1.5% of the total used by the Top 3 1 banks
   and
   48.4% of the total used by the Top 1 16 banks.
4. Even after Chase and Citibank are subtracted, the remaining 29 banks of the Top 3 1 represented an average transaction size of $13.3 million.
5. Of the Top 3 1 banks, 16 are foreign banks who utilized 28.1% of the support given to the Top 3 1 at an average transaction size of $37.5 million.
6. Without Chase and Citicorp, the 16 foreign banks represented 56% of the total support utilized by the 3 1 banks.
7. Only 2% of the support provided to the Top 31 banks was for pre-export working capital — a program utilized by small exporters and 3.5% of the $1 1.4 billion total provided to the 1 16 top banks/lenders.

At the same time, Ex-Im Bank approved about 2,200 transactions supporting $16 billion in U.S. exports. More than 80% were for small to midsized exporters.

To deal with the growing reality of cross-border trade e-commerce and the needs of small to midsized exporters to compete, continued budget restraints spell doom to the small businessman. Congress must wake up and recognize that Ex-Im Bank and the other trade capital support agencies need additional budget support to reach their constituencies — the small exporter. One suggestion would be to dedicate SO% of Ex-Im Bank's support to small and midsized exporters. In Fiscal 1999, this would have been approximately $8 billion versus the $2.1 billion of support given by Ex-Im Bank. In so doing and with budget support, I believe a significant shift would occur in the average transaction size shown by the banks. If so, small exporters could have a growing positive impact on the trade deficit.

The following reflect my views of what the trade deficit represents to small exporters:

- The Realities
- The Dilemmas
- The Conclusions

In conclusion, trade capital availability will open export opportunities for the small exporter. Remember, foreign competitors have the advantage of better and more comprehensive market information about U.S. markets than we have about their markets. I believe e-commerce could hurt small U.S. companies from a trade standpoint — meaning greater access to U.S. markets than U.S. companies have to foreign markets. We need increased assistance to access foreign markets — particularly trade capital and payment risk mitigation. Tighter monetary policies would hurt small business efforts to allocate limited capital to the export effort because the banks would lend less to the small business domestically, let alone for export needs.

Thank you.

SMALL- MIDSIZE EXPORTER REALITIES

1 EXPORTING IS SURVIVAL TO SMALL AND MIDSIZED COMPANIES.

2 MARKET ACCESS IS QUICKER AND IMPACT IS GREATER –
INTERNET NOW AND IN 5 TO 10 YEARS

3 TRENDS TOWARD FOREIGN BUYER PRIVATIZATION AND PRIVATE SECTOR TO ACCELERATE

4 1980S LATIN AMERICAN DEBT CRISES IRRELEVANT -- VERY LITTLE LOST IN TRADE FINANCE

5 BIG BANK MERGERS ⇒ MARKET DOMINANCE ⇒ REDUCED COMPETITION ⇒ TIGHTENED LENDING STANDARDS FORSMALLBUSINESSES

6 IN ASTUDYBYTHE FEDERAL RESERVE BANK IN KANSAS Cm, IT WASFOUNDTHESMALLER BANKSOWNED BYMULTI-BANKHOLDINGCOMPANIESANDOUT-OF-STATECOMPANIESTENDTO LENDASMALLERSHAREOFTHEIRFUNDSTOSMALLCOMPANIESINTHATSTATE.

7 BANKS' CONTINUED RELIANCEON EXPORTERS' FINANCIAL STRENGTH/WEAKNESS IRRESPECTIVE OF THE TRANSACTIONAL STRENGTH

8 TRADE FINANCE INTERMEDIARY DEVELOPMENT WILL ACCELERATE WHERE THE INTERMEDIARY TAKES SOME RISK -- I.E., NON-BANKNICHECOMPANIESOFFERING BOTHTRADE FINANCING AND TRADING WITH RISK ASSUMPTION WILL GROW

9 BROKERS AND PACKAGERS WILL CONTINUE TO POLLUTE TRADE FINANCE GROWTH AT THE SMALL TO MIDSIZED EXPORTER LEVEL DUE TO THE INTERNET

10 EXPORT-IMPORT BANK OF THE UNITED STATES ("EX-IM BANK")

- BUDGET REDUCTIONS HAVESEVERELYRESTRAINED EFFORTS TO SERVICE SMALL/MIDSIZED EXPORTERNEEDS
- OUTREACH PROGRAMSARE DOOMEDUNLESSBUDGEISARESIGNIFICANTLYINCREASED
- RISK-SHARING AT BANK AND/OR STATE LEVEL AN ABSOLUTE *MUST* -- GIVEN BUDGET PRESSURE
- UNABLETOSOLVEALLRISKPROBLEMS; I.E., BANKRISKASSESSMENTDEFICIENCY

SMALL-MIDSIZEDEXPORTERDILEMMA

1 Banks are not lenders to small to midsized businesses.

2 Banks are consumer-focused.

3 Banks have the “low hit ratio allergy” -- Excuse: “Deal is too small!"

4 Bank transaction orientation weak -- Unable to evaluate transactional risk.

5 Banks are risk averse -- will not measure risk.

6 Bank trade finance specialists = staff support to commercial loan officers -- only exist at large money center banks.

7 Segregation of fee and income generation within the bank -- results in internal squabbles delaying transaction processing.

8 Bank upper management doesn’t understand trade finance -- Cannot “train up” an organization.

9 Bank organizational structure outdated -- aimed at letters of credit, collections.

10 No downstreaming of knowledge to branch operations -- A significant result of bank merger activity.

11 Banks traditionally rely on sovereign risk and/or bank guarantees and/or Ex-Im Bank support.

12 Banks lack focus -- no productive efficiencies in any market niche.

CONCLUSIONS

- Small/midsize companies will continue to emerge at an accelerated pace into the global marketplace.

- Small/midsize companies DO NOT believe banks are a viable source of export capital.

- Large exporters will continue to enjoy the "feeding frenzy" of big banks for their trade finance business.

- Regional and/or local export finance "alliances" will emerge, through innovation by boutique export finance and trading companies, as a major source of export financing for small/midsize companies.

- Foreign banks will continue to take a larger share of the export financing market from domestic banks and will likely emerge as **true** export capital providers to small/midsize exporters -- most likely through the "alliances" -- simply because they are more innovative.

- Ex-Im Bank **must have** innovation developed with the small exporter sector to structure policies and programs which meet the needs of both the small exporter and its community banks.

- Ex-Im Bank, SBA, OPIC, etc. must have increased budget support from Congress to meet small exporter needs.

ROBERT E. DUNCAN

Bob Duncan has a background in international business spanning a 25-year career in both the corporate and financial sectors. His expertise in international trade and finance originated in his early career in the international trade area with Caterpillar Tractor where he acquired overseas experience in Southeast Asia, Latin America and Africa. It continued during his tenure at Kidde Credit Corporation, a subsidiary of Grove Manufacturing. As Vice President & Treasurer, he managed the commercial credit division, a US$500 million industrial finance / lcasing company. His strong credit skills were further developed in his tenure at US West as the credit administration head of that company's financial services company overseeing a $3 billion portfolio. In response to the growing market demand for international trade finance, Bob founded Leawood Export Finance in 1995. The Governor of Kansas appointed Bob to the State Export Loan Review Board. He has served on the Export-Import Bank of the United States Chairman's Advisory Council as the representative from small business and is currently serving his second term on the Chairman's Advisory Council for Sub-Saharan Africa. He is a graduate of the University of Arizona and the American Graduate School of International Management.

Robert Duncan founded Leawood Export Finance, Inc. in 1995 as an international trade and finance company modeled on the traditional trading companies of Europe, Japan and Latin America. The Company takes title to U.S. manufactured goods and exports them to foreign buyers using financing terms 95% insured and/or 100% guaranteed by Ex-Im Bank. Short term revolving lines of credit for up to one year are available for foreign companies buying raw materials, inventory and equipment supplies under Leawood's Multi-Buyer Insurance Policy. Sales of larger capital equipment products are eligible for medium term financing under the Master Guarantee Agreement (MGA) the Company has in place with Ex-Im Bank. (Leawood is one of the only non-bank beneficiaries of a direct MGA in the country.) During 1999, Leawood ranked in the top 100 of top bank/lender users of Ex-Im Bank programs (Chase Bank was ranked 1st). As an exporter, Leawood was ranked in the top 50 -just below Hewlett Packard, (Boeing Aircraft was ranked 1"). Therefore, Leawood is a supplier (the banks are not) and a lender (for products it sells) providing a broader range of trade finance not available from the banks. Leawood exports generic US. products whereas the U.S. exporting environment is generally product specific.

In 1994, Duncan formed Terramarr, Inc., which acquired the operating assets of an established El Paso, Texas-based supplier of medical products and supplies with a significant cross border business potential in Northern Mexico. After successful penetration into the cross border health care sector, it became apparent that the clean room and assembly operations in the large and growing *maquiladora* market headquartered in Juarez (directly across the river from El Paso), had significant demand for many of the same sanitary products sold to hospitals and clinics. Leawood and Terramarr have operations in Overland Park, KS; El Paso, TX; and Juarez, Chihuahua, Mexico encompassing 350 employees with 50 directly related to exporting. Annual revenues will reach $20 million in the current year.