ROBERT E. DUNCAN

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UNITED STATES TRADE DEFICIT REVIEW COMMISSION
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COMMENTS BY:
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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 116 bank/lender users, the top 31 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 31 banks
   - 48.4% of the total used by the Top 116 banks.
4. Even after Chase and Citibank are subtracted, the remaining 29 banks of the Top 31 represented an average transaction size of $13.3 million.
5. Of the Top 31 banks, 16 are foreign banks who utilized 28.1% of the support given to the Top 31 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 31 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 $11.4 billion total provided to the 116 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 50% 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 for small businesses.

6. In a study by the Federal Reserve Bank in Kansas City, it was found that smaller banks owned by multi-bank holding companies and out-of-state companies tend to lend a smaller share of their funds to small companies in that state.

7. Banks’ continued reliance on 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-bank niche companies offering both trade 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 have severely restrained efforts to service small/midsized exporter needs.
- Outreach programs are doomed unless budget is increased significantly.
- Risk-sharing at bank and/or state level an absolute must — given budget pressure.
- Unable to solve all risk problems; i.e., bank risk assessment deficiency.
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.
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