STATEMENT FOR BERTRAND-MARC ALLEN

COMMITTEE ON COMMERCE, SCIENCE & TRANSPORTATION

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Thank you for the opportunity to address the competitive landscape with respect to commercial aviation, the U.S. Export-Import Bank, and our industry's international competition. These interconnected issues are of great importance not only to The Boeing Company but, as my testimony will show, to America's position as the world's leader in aerospace.

My name is Marc Allen, and I am president of The Boeing Company's product finance and aviation leasing unit, Boeing Capital Corporation (BCC). At BCC, our mission is to ensure every Boeing customer has the financing they need to buy and take delivery of Boeing's great American aerospace products. We do that through outreach to the financial markets, demonstrating the value of investing in aerospace assets. We do that through arranging financing for our customers from third parties, such as lessors, commercial banks, capital markets, and yes also the very important U.S. Export-Import Bank (Ex-Im). And lastly, we also execute our mission by directly providing customers with backstop financing commitments and other financing solutions, in effect serving as the lender of last resort.

Before serving at BCC, I had the privilege of serving in Beijing as president of Boeing China. And before that, I was Boeing's vice president of global law affairs and general counsel to the company's international operations. All three of these roles have deeply shaped my perspective on the topic of today's hearing. In my general counsel role, I led the Company's legal strategy for the United States' WTO case against the EU over illegal Airbus subsidies. In my Boeing China role, I got to experience firsthand the realities and importance of our Collaborate-and-Compete relationships, where engagement with respected partners equally blends with emerging marketplace competition. From each of these stops, I have developed a very personal awareness of the extent to which sovereign national interest is a reality – a high impact reality – for the modern world of global aerospace.

I am proud to be here on behalf of Boeing, our 168,000 employees and more than 15,000 U.S. suppliers that support 1.5 million jobs across the country. We are unique in that 80 percent of our commercial airplane products are sold overseas while 80 percent of our expenditures – just under $50 billion – are made within the United States. Or, put simply, Boeing is one of the few American companies that still employs large numbers of people in this country – at middle-class wages and benefits – to build things sold in large numbers outside this country.

I know the merits and track record of Ex-Im have been widely debated in recent weeks. There is probably little you have not heard on the subject. Today, I aim to focus my statement on aspects of global export credit assistance that has not received much attention, by:

- Providing broader strategic context about aerospace – and new, well-funded emerging players such as China that should inform your deliberations and decisions about Ex-Im's future;
- Discussing the critical role of the Bank in maintaining a functioning – and fair – market for commercial airplanes; and
- Finally, assessing some of the global consequences – for Boeing and the U.S. aerospace industry – of failing to re-authorize the Ex-Im Bank.

<u>A Global, National Competition</u>

As a starting point it's important to understand that aerospace is a unique industry on the global stage. The rest of the world, rising economic powers especially, regard aerospace as a matter of national interest. Aerospace is not considered just another industry that produces goods or services and thus jobs and economic growth. It is considered a matter of national prestige, national competitiveness and, for some, national dominance.

Furthermore, countries like Russia, China and Brazil have seen how aerospace helped make the United States the dominant economic and military power during the 20th Century. Likewise, they saw how Europe, with massive state support and direction – along with three export credit agencies – created and sustained an indigenous commercial aviation industry virtually from scratch during the 1970s. Airbus now enjoys the status of commanding up to one-half, or more, of the global market for commercial airplanes. This position used to be held by McDonnell Douglas, before its commercial airplane business collapsed in the 1990s in large part from the pressure introduced by an emergent Airbus. It is especially important to note – for those who say government export credit isn't needed and doesn't matter – that this period of decline coincided with McDonnell Douglas' devoting more and more of its dwindling capital to finance customer purchases of its aircraft rather than investing in new products. In the decision between being a bank or an aerospace innovator, it chose bank, and lost.

The airline business is part of this, too. Just as it is common around the world to see state ownership of aerospace manufacturers, it is equally common to see state ownership of aviation businesses, like airlines. For many nations, the movement of people and goods into and out of their borders is too important not to assure directly, regardless of the country's level of economic or rule of law development.

The takeaway is that in global aerospace markets, it is not so much companies that compete; as it is countries – and all their traditions, aspirations, and occasional grievances. Whether the players on the manufacturing side are Canada and Bombardier; Russia and UAC; China and COMAC; and on – it is broadly assumed around the world that national governments will support their domestic aerospace and aviation industries.

In the realm of national competition against state-sponsored aerospace entities – both established and emergent – the United States regularly finds itself on a playing field that is constantly subject to tilt pressures, in this way and that. The role of the United States thus must be, and has been, to lead the way in pressing for an even playing field. As a nation and an industry, we have done this by suing the European Union successfully in the World Trade Organization over the illegal Airbus subsidies. And we have likewise done it by prudently deploying Ex-Im for over 80 years now; the use of export credit assistance by the U.S. being comparatively minor by our competitors' standards. Yet the carefully targeted application of export credit has been extremely effective in addressing aspects of the otherwise uneven playing field.

<u>The Global Model for Aerospace Competition</u>

Having seen the economic and employment benefits Europe has achieved with aerospace using massive state support over the past four decades, several nations are attempting to repeat the playbook. Canada, China, and Russia are making significant efforts at developing new platforms to compete on the large commercial airplane market, with equally important investments being made in regional jet development in Brazil and Japan. These emerging players see no reason not to aim for the same glide path with their respective development efforts.

Canada and China are the two most advanced examples of this set, with Canada's Bombardier in flight testing for a new 150+ seater, the CSeries. China is not far behind Canada, with the first article of its similar sized plane, the C919, currently in final assembly. And meanwhile, its regional jet offering, the ARJ21, is in final stages of flight testing and certification before a scheduled Entry into Service in 2015.

The development of the C-Series and C919 are important for the global aerospace community. The Chinese aspiration, like the Europeans during the 1970s, is to develop a full family of airplanes – from regional jet to narrow-body to eventually wide-body airplanes that can compete with the full range of large commercial airplanes offered by Boeing. The path is undoubtedly a long one, as the technological barriers are high but hardly insurmountable. But every element of the Chinese government, industry, and national spirit are committed to the goal.

In keeping with this type of commitment and aspiration, many of the governments of the nations listed above deploy vast resources into and coordination across their countries' supply chains, research and development, financial systems, and domestic airlines. These efforts are all directed towards the ultimate objective of growing their domestic aerospace capability, capacity, and market share. We are all familiar with the billions that Europe poured into Airbus. We may be less familiar with the support that the Canadian government has provided Bombardier. And maybe even less familiar with the support the emerging competitors in China, Russia, etc. are getting from their states, though it too will rate in the tens of billions of dollars.

The emerging nations, of course, have the advantage today, unlike Europe before, of not having to start their programs from scratch. All are working hard, and with some success, to leverage the technology lessons-learned by Boeing, Airbus, and others. And they are constantly looking for global partnerships that can yield progress for them in terms of complementary transnational partnerships. So, for example, Russia recently signed with China a Memorandum of Understanding to forge a partnership to explore joint development of wide-body airplanes.

The complexity of the world we live in could not be made any clearer than by the fact that the very nations that aspire to emerge as successful aerospace competitors are also some of our most important customers and respected partners, whether that is China, Japan, Brazil, or Russia. Just as Boeing and McDonnell Douglas before faced the challenge of selling into the key market of Europe as Airbus emerged, so too will the current manufacturers face the challenge of selling into these markets as their own product offerings emerge. Yet, successful competition within these markets will be critical, just as our ultimate successful competition in Europe has been, to Boeing's long term staying power.

These realities were made real to me during my time living and working in China. There, Boeing is very much a partner with China, including with COMAC, even as we recognize that over the long term our airplanes will also have to compete with COMAC's. We looked for issues on which we could, together, make the pie bigger for us all, like initiatives on air traffic control and biofuels. For us, the model was simple: it was about compete AND collaborate. It was not one or the other. It was both. And it is notable that recently the leaders of our governments, too, have acknowledged this as the model for our broader relations. At July's Strategic & Economic Dialogue in Beijing Secretary of State John Kerry said it well, "We are determined to choose the path of peace and prosperity and cooperation, and yes even competition but not conflict. When the United States and China work with each other, we both stand to gain a great deal and that's why we are committed to a new model of relations of great-country relationship; a mutually-beneficial relationship in which we cooperate in areas of common interest and constructively manage the differences."

At Boeing we don't shy away from competition. In fact, we welcome it. Competition makes us better and benefits our customer and those whom they serve. What we want – just as every competitor wants – is just a fair chance and an even playing field. This brings us right to the heart of the discussion about the roles of export credit generally and the Export-Import Bank in particular.

Role of Export-Credit

As a company – and as a nation that cares about global competitiveness in aerospace – we are fortunate the majority of the emerging aerospace competitors have adopted an agreed approach to the use of export credit for airplane sales. Through the OECD, and via an OECD arrangement known as the Aircraft Sector Understanding (ASU), the aerospace nations have been able to agree on the most important mechanism for the control of export credit, which is price.

In 2011, in large part thanks to the good work of the U.S. government, a multilateral agreement was reached that has ensured that in aviation there is no such thing as "cheap export credit," a term often employed by critics of Ex-Im. Every banker, lessor, or capital markets player in-the-know will tell you that thanks to the 2011 ASU, export credit for airlines, at every credit level, costs the same or more than commercial bank credit. Standard & Poor's said it clearly in a recent report on Ex-Im: "the overall cost of ECA-supported financing, particularly for stronger airlines, is now equivalent to, or even higher than, that of alternative financing sources." And the leading independent academic source who conducted blinded bank bids to assure real world conditions in measuring price has published data showing the same.

The oft-heard complaints against Ex-Im that it allows foreign airlines to buy airplanes with "cheap credit" are without merit. In prior generations, that certainly may have been the case; but as explained above, the 2011 ASU assures it is not today and will not be again – the 2011 ASU requires quarterly resets to ensure the rates stay at or above the liquid market.

Since the complaint is also sometimes made that the supposed "cheap credit" gives foreign airlines who fly to the U.S. an advantage over U.S. airlines, it bears noting that U.S. carriers can and do borrow money domestically through the U.S. capital markets at even lower rates than the commercial bank credit at which the 2011 ASU is pegged. This provides U.S. carriers millions of dollars in advantage over foreign airlines who do not have the benefit of the geopolitical security, which a U.S. airline can offer the capital markets in any bond issuance.

Bottom line, there is no such thing as "cheap export credit" for airplanes.

So why then is export credit useful and relevant? We do not have to look far back in history to answer that question. Just compare what happened in our industry following the devastating attacks of 9/11 and the more recent global economic recession that began in 2008.

Taking the more recent first, after the recession, liquidity disappeared across all financial sectors. In aviation, many of our international airline customers still had strong demand for their product – travel. But they could not persuade financial institutions to lend to them; for the same reason so many Americans during that timeframe had a hard time getting a home loan. They had good earnings, strong credit histories, and reputable backgrounds; but we faced a liquidity crisis, and our banking system was not engaging in business as usual. In the midst of that crisis, if our customers had failed to show up with money to buy the planes they had agreed to buy from us 5 or 7 years earlier, U.S. aerospace would have had its own crisis, and inevitably, layoffs. Instead, strong U.S. leadership worked as intended. In the wake of the crisis, Ex-Im stepped forward, providing loan guarantees in support of roughly one-third of our airplane deliveries at that time. On those guarantees, Ex-Im made money that went to the American taxpayer via the U.S. Treasury.

Contrast that with what happened in the wake of 9/11. Following the attacks, the U.S. airlines faced their own crises. The U.S. government, recognizing our national sovereign interest in aviation, provided U.S. domestic carriers with billions of dollars in direct assistance. Yet the airlines, facing operational challenges and without liquid financing options to see them through, had to walk away from airplane deliveries they had previously agreed to take. Boeing in turn had to reduce production. More than 30,000 Boeing employees lost their job in the resulting layoffs. Countless more did in the supply chain.

The difference between the episodes is stark and summed up in a word: Jobs.

Returning to the first scenarios, the recent global recession, it is important to note that after the liquidity crisis was averted and the jobs were preserved, Ex-Im next acted perfectly in line with U.S. policy: walking back from aviation just as quickly as it had stepped forward during the crisis. This year, Ex-Im deliveries will be down from the one-third high water mark of the crisis, to roughly 10 to 15% of deliveries.

When I talk to the leaders of banks, leasing companies, and capital markets players, I hear a resounding message: 'This is how it is supposed to work.' They not only do not object to Ex-Im's participation at the 10 to 15% range; they endorse it. They do so for the simple reason that they know Ex-Im is good policy that helps them, helps growth, and helps stabilize markets. This is hardly the response you would expect if Ex-Im were "crowding out" commercial players from financing airplanes, as Ex-Im critics often contend.

The result of the 9/11 episode also had a lesson-learned for the U.S. airlines. They are now much more likely to demand airplane manufacturers provide them backstop lending commitments when they execute contracts for airplanes. They no longer just rely on the expectation financial markets will be there for them when they get down the road 5 or 7 years to the agreed deliveries.

Boeing, via BCC, can and does provide backstop financing to some of our customers – most particularly our U.S. and European customers who are not eligible for Ex-Im guarantees. But Boeing cannot provide backstop financing to all our customers. Boeing is and chooses to be an aerospace innovator, not a bank. We have seen firsthand the risks of the other strategy in our own and other industries. Anyone who desires the U.S. to maintain its lead in global aerospace should reject it. Our focus should be on innovation, not finance.

This is where Ex-Im comes in. Our U.S. airline customers are not the only ones to feel the pinch to have backstop lending commitments in place; our foreign airline customers equally feel it. They too need certainty that if the financial markets seize up when they come to pick up their airplanes in 7 years time there will be a backstop finance option for them. Ex-Im takes that concern off the table for them. In effect, it is providing them geopolitical risk insurance that no one but a sovereign nation can offer in any meaningful and consistent fashion.

This is why Europe has not one, but three, export credit agencies in place to support Airbus. Germany, France, and Great Britain all stand by to provide backstop ECAs to Airbus buyers.

<u>Role of U.S. Export Import Bank</u>

Ex-Im is a great and necessary equalizer. Ex-Im allows Boeing and thousands of companies in its supply chain to compete on the value of its products, rather than forcing important customers to choose between the world's most innovative aerospace product or the world's most secure backstop lending. When you consider that airplane purchases are regularly worth billions of dollars, which can make up a significant share of a carrier's market value, an airline CEO must be absolutely certain he will not land his company in default on such an obligation. And a backstop lending commitment is fundamental.

Because of the great interest the airlines naturally have in securing backstop lending, if the availability of U.S. export credit is in doubt, airplane customers can be expected to hedge their bets by building preference in their order backlogs to those planes – Airbus – that do have export credit guarantees. It is for this reason the Financial Times recently said an Ex-Im shutdown "would be a serious blow to Boeing and GE and a big boost to Airbus and Siemens... It would also make it harder for U.S. companies to compete against China."

The logic is simple. If the U.S. is not at the table to lead building partnerships with China and the other emerging producers, the effort to expand the current multilateral export credit regimes to them will fail; they will use export credit in predictable ways; the playing field will tilt.

Ex-Im is the tool the U.S. must use in order to sit at the table and persuade other countries to continue even-playing field habits in the use of export credit. The multilateral 2011 ASU agreement tells the whole story. By ensuring that export credit for airplanes is not "cheap credit," it has ensured there is no subsidy in play. It has ensured there is no unfair advantage for any country, or for any segment of the aviation industry. But that simple and powerful mechanism will fail if competitors do not join the multilateral agreement; or worse, if they leave it altogether.

Case in point is a recent letter from a European turboprop manufacturer, ATR, to the OECD. It complained China was selling a competing product, the MA600, using the Export-Import Bank of China to subsidize the sale. ATR's complaint suggests the financing was being used to subsidize up to 55% of the cost of the plane.

It is not hard to envision the future when countries with emerging airplane manufacturers that carry the aspirations of an entire nation enter the market with export credit support like that. The best response the U.S. has remains Ex-Im. Through the statutory authorizations, Ex-Im has authorities to match subsidization when necessary to ensure fairness. More importantly, by simply holding that authority, Ex-Im creates the incentive and leverage for other nations to enter into the existing multilateral agreements that ensure everyone's even playing field.

Russia is a good example. Though Russia has not yet joined the multilateral agreement, to date, it has implicitly been willing to abide by ASU terms by entering into working together relationships with European export credit agencies. This is and must remain the model for engagement. As former Deputy Secretary of Defense John Hamre recently noted in a compelling piece on the absurdity of abandoning Ex-Im, "Our domestic dispute over the proper role of government within American society is now causing America to retreat on the world stage." We cannot both retreat from Ex-Im and also lead the emerging aerospace economies into a disciplined multilateral order that uses prudent policy mechanisms to eliminate subsidies. To lead, we need Ex-Im.

<u>A World Without Ex-Im</u>

It does not take a creative mind to understand the dangers to an Ex-Im retreat are not singular. They are multi-dimensional. Who can believe, for example, that after an Ex-Im shut down, the Europeans (read: Airbus) will continue to abide by the terms of the 2011 ASU?

If Ex-Im goes away, it is predictable Europe and Airbus will abandon ASU terms and use export credit pricing to provide its aerospace industry an advantage over ours. If history is a guide, it will do so on its own. But even if Europe resisted the temptation, can we believe it would continue to resist in the face of the practices ATR is already complaining about from emerging competitors? The slippery slope is obvious; and U.S. aerospace interests will suffer as a result.

Over the span of two decades, illegal European launch aid – some $18 billion in net advantage according to the WTO – gave rise to Airbus and put McDonnell-Douglas out of the commercial airplane business. Consider the repeating scenario, as Europe races to protect or expand its market share from encroaching new competitors when it comes to export credit financing rates; and at the same time the U.S. Export-Import Bank is no longer available for American companies.

Export credit is not an unknown commodity to the world after all. Over 60 nations offer such programs. Germany, France, China, India, Italy, to name just a few use export credit at a rate that dwarfs US usage. They each provide multiples of three to five times more export credit as a share of GDP than the U.S. does through Ex-Im.

In the near term, to make up for Ex-Im's absence, Boeing would have to offer financing to many customers, effectively transforming ourselves – as McDonnell Douglas did two decades ago – from an aerospace innovation company to a finance company. So many workers and so many communities across this country that depend on Boeing would pay the price. This is not a scenario that would happen immediately – but we would get there eventually.

Already, the political attacks on Ex-Im have taken a toll on our customers. Some of whom have made or are considering multi-billion dollar commitments to Boeing are telling us they are worried credit assistance will not be available down the road. We are telling them not to worry; that the U.S. always does the right thing, after exhausting every other available alternative. We give them hope because we ourselves have hope. We know a majority of members of Congress, in both the House and Senate, support Ex-Im. We know that Congress will do the right thing. But believe me, there are days this debate makes us all wonder whether we will stick to a path of sustain global competitiveness, or take an unwarranted and unwise detour towards unilateral export credit disarmament.

<u>Conclusion</u>

Congress has an important decision to make in the coming weeks over the position of America in the great global aerospace competition that is already underway. This is a campaign among nations, even as it is waged by companies. At Boeing, we are not asking for any special favors, much less any advantages like those long enjoyed by Airbus, or now being enjoyed by our emerging competitors. The U.S. Export-Import Bank allows Boeing – as well as other U.S aerospace companies – the ability to market and sell our products on their merits in the face of state-subsidized competitors. Without this important leveling mechanism, Boeing and its extensive U.S. supply chain would be at a significant disadvantage in a global commercial airplane market we conservatively estimate to be worth $3.6 trillion over the next 20 years. Mr. Hamre said, "This is another example where America's domestic politics are causing us to retreat as a global leader." I do not believe it; but only because I am unwilling to allow myself to believe it. Mr. Hamre was right: we want the world to buy U.S. manufactured goods. We want to build long term strategic relationships with trading partners around the world. We want to lead progress towards open markets. Ex-Im is such an important tool for all of that. In the end, this Congress and our country have to decide together whether it is worth playing that role.

Thank you very much for this opportunity and I look forward to your questions.

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