

projects. Once these projects are started there is a built-in advantage in obtaining the business involved in maintaining and extending the system. Examples are projects involving installation of communication systems, transport systems, power systems, agriculture systems, etc.

Many countries will take extra financial risks for the opportunity of being first to install the initial major thermal power installations, or to install the first modern telephone communication system, because they know that this gives them a major advantage in obtaining all the on-going business involved in extending these systems. The EXIM Bank has been reluctant, in the past, to assume higher than normal risks to make it possible for American businessmen to take advantage of this type of market opportunity.

EXIM has also established informal ceilings on loans to various countries and has been reluctant to set aside the ceilings to approve additional financing even when it would confer a long-term commercial advantage on the American company and thereby improve the export position of the U.S.A.

3. Even those countries which are recipients of aid from the industrialized countries have a certain quantity of hard currency available to them with which to buy things they need wherever they chose. Such free foreign exchange is mostly derived from their exports or from the support their currencies receive through the bolstering effects of foreign aid. Most developing countries use their free foreign exchange to purchase what they want through world-wide tenders on reasonable commercial terms. EXIM Bank has sometimes refused to provide the commercial credits which would make it possible for U.S. companies to bid on these world-wide tenders on the grounds that the countries by being recipients of aid are thereby poor risks. This denies to U.S. companies the opportunity to recoup some of the dollar exchange which our own aid has generated. The establishment of the Special Fund contemplated in H.R. 16162 should make it possible for U.S. companies to obtain the financing they need to skim off the free foreign exchange expenditures of the developing countries and thereby improve materially our balance of payments position.

While H.R. 16162 does not provide for an Inter-Departmental Advisory Committee to the EXIM Bank with respect to the operations of the Special Fund, my understanding is that The Administration intends to establish such a committee. In the bill submitted by Senator Magnuson in 1965 a Special Advisory Committee was provided for in the legislation. While it is not urgent that there be legislative provision for the Advisory Committee, it is important that the agencies of the government understand that it is intended that the Special Fund be administered by EXIM Bank with the advice and surveillance of a committee, chaired by the Secretary of Commerce and composed of such other departments as: State, Treasury, Interior and Agriculture as appropriate to ensure that the Fund is administered for the purposes contemplated by the legislation. It would also be important to establish the point that all applications to EXIM that are turned down, even in the initial stages, should be subject to review by the Advisory Committee to ensure that the staff at the lower echelon of EXIM are not in effect precluding consideration of certain types of applications for approval under the authority of the Special Fund.

I would like to suggest that consideration be given by the House Banking & Currency Committee to an amendment to H.R. 16162 designed to strengthen the rediscounting facilities of the EXIM Bank. In 1966 a rediscounting arrangement was adopted in principle by EXIM but it has never been very effective. The other industrialized countries of the world have well developed rediscounting systems which make it possible for private banks to finance exporters on a competitive basis. The arrangements in the other countries are such that the private banks and exporters are assured an adequate supply of credit notwithstanding any credit tightening that may be applied to the domestic economy.

Moreover—and most important—the rediscounting arrangements of the other industrialized countries make it possible for the private banks to offer exporters credits at interest rates substantially below those prevailing in the domestic economy. Thus, in countries where the basic interest rates that prevail in the domestic economy are as high as 7% or 8% exporters are being financed at interest rate of 5¼% and 5½%. At the present time the lowest rates a U.S. company can offer overseas purchasers where EXIM is guaranteeing private bank credit would be 7½% to 8%.

The method by which this is done in other countries is that rediscount rates are established at whatever levels are necessary to permit private banks to offer