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3 HEARING ON ``STIMULATING THE ECONOMY THROUGH TRADE: EXAMINING

4 THE ROLE OF EXPORT PROMOTION''

5 TUESDAY, MARCH 17, 2009

6 House of Representatives,

7 Subcommittee on Commerce, Trade, and Consumer Protection

8 Committee on Energy and Commerce

9 Washington, D.C.

10 The subcommittee met, pursuant to call, at 10:05 a.m.,  
11 in Room 2322 of the Rayburn House Office Building, Hon. Bobby  
12 L. Rush (chairman) presiding.

13 Members present: Representatives Rush, Green, Braley,  
14 Butterfield, Matsui, Sutton, Stupak, Space, Radanovich,  
15 Gingrey, Sullivan, and Scalise.

16 Staff present: Angelle B. Kwemo, Counsel; Michelle Ash,  
17 Chief Counsel; Zahara Goldman, Professional Staff; Valerie  
18 Baron, Legislative Clerk; Jennifer Berenholz, Deputy Clerk;

19 Brian McCullough, Minority Senior Professional Staff; Will  
20 Carty, Minority Professional Staff; and Sam Costello,  
21 Minority Legislative Analyst.

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22           Mr. {Rush.} The subcommittee will come to order. This  
23 is a hearing conducted by the Subcommittee on Commerce,  
24 Trade, and Consumer Protection. The subject of this hearing  
25 is Stimulating the Economy through Trade: Examining the Role  
26 of Export Promotion. The chairman recognizes himself for 5  
27 minutes for the purposes of opening statement. I want to  
28 thank the members of the subcommittee for participating in  
29 our first trade hearing of the 111th Congress. Today the  
30 Obama Administration and Congress are revisiting our trade  
31 policies. It is essential that as American companies and  
32 workers are faced with unprecedented challenges that we  
33 recognize the importance of international trade as an  
34 essential component of our policy response to the global  
35 financial crisis.

36           Today's hearing will explore international trade as a  
37 tool to stimulate our economy and examine the role of exports  
38 in the growth of the U.S. economy. I also want to review the  
39 impact of government-sponsored export promotion programs and  
40 the effectiveness of assistance available to help U.S.  
41 businesses expand their market for U.S. products and  
42 services. In the past, Congress has addressed concerns about  
43 several important aspects of export promotions, specifically  
44 as it relates to interagency coordination, common goals,

45 small business assistance and enforcement of trade  
46 agreements. Some progress has been made since then, however,  
47 today's economic environment demands more progress.

48 In my home State of Illinois, Caterpillar, Inc. has  
49 recently laid off 16 percent of its workforce despite the  
50 fact that its world-class equipment is needed and necessary  
51 to support massive infrastructure projects from China to  
52 Africa. Sixty percent of its market is overseas with  
53 untapped potential in emerging and new markets. In the U.S.,  
54 exports support 6 million jobs in the manufacturing industry,  
55 and 1 million jobs in the agricultural industry. More than  
56 one in every five American factory workers owes his or her  
57 job to exports. These jobs pay 13 to 18 percent more, on  
58 average, than non-export-related employment.

59 Furthermore, in the recent months of stagnating domestic  
60 demand, most growth in manufacturing production was  
61 attributed to exports. The U.S. is the world's largest  
62 manufacturing country but, despite extensive engagement with  
63 the global economy, the U.S. has the smallest percentage of  
64 its Gross Domestic Product derived from exports in comparison  
65 to any other G-7 country. U.S. export promotions spending  
66 lags behind that of Spain, the UK, Italy, France, Korea,  
67 Canada and Japan. American exports in January, 2009, were  
68 down compared to January of last year. In addition, exports

69 accounted for only 13.1 percent of the U.S. economy. This  
70 certainly is not sufficient, especially now that the American  
71 consumer is spending less. We need to move to trade and  
72 exports to sustain economic growth. We cannot afford to be  
73 idle as our export numbers decrease.

74 I strongly believe that if we are serious about lowering  
75 our trade deficit and creating more jobs for Americans,  
76 export promotion must be a national priority. I commend U.S.  
77 businesses for their innovation, their strength and vision in  
78 this very competitive and perilous time. I also salute non-  
79 profit groups for their dedication and creativity in  
80 assisting U.S. businesses as they embark in new ventures. I  
81 also recognize the importance of public-private partnerships  
82 in fostering the spirit of American business globally. Today  
83 is the first of a series of hearings on trade-related  
84 matters. I thank all the members and witnesses for their  
85 participation. It is my desire that we all continue to work  
86 together on trade issues in a bipartisan fashion with the  
87 goal of helping to bolster America's economy.

88 [The prepared statement of Mr. Rush follows:]

89 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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90           Mr. {Rush.} With that, I yield back the balance of my  
91 time, and I recognize now the ranking member of this  
92 subcommittee from California, Mr. Radanovich.

93           Mr. {Radanovich.} Thank you, Mr. Chairman. Good  
94 morning, everybody. I do appreciate, Mr. Chairman, you  
95 calling this hearing to examine our trade promotion efforts.  
96 The global economy is suffering right now, and consumer  
97 spending and business investments have slowed worldwide  
98 exacerbating a clouded outlook for recovery. In such trying  
99 times, there is a temptation for countries to retreat into  
100 misguided protectionist trade policies and in order to find a  
101 path toward a more stable economy we must treat trade as an  
102 opportunity, not a threat. One simple approach is to  
103 continue to ensure free trade agreements remain a priority.  
104 Last year, we ran a \$21 billion surplus in manufacturing with  
105 our FTA partner countries.

106           America has also seen similar beneficial increases in  
107 surpluses with countries with which we have implemented trade  
108 agreements under the trade promotion authority. Trade  
109 agreements are growing in importance as international  
110 commerce becomes a more essential part of our economy and  
111 more Americans depend on trade for their livelihood.  
112 Particularly relevant today effective and efficient

113 international trade can serve as an important buffer for the  
114 economy when domestic growth slows. In fact, despite the  
115 declines in the last part of 2008, export growth surpassed  
116 the growth in GDP. We exported over 1 trillion in goods and  
117 services last year and had a surplus in services trade of  
118 approximately \$144 billion. The salient point here is  
119 America produces and exports world class goods and services  
120 and we have the potential to export much more if we are given  
121 the opportunity access additional markets.

122         After all, 96 percent of the world's consumers live  
123 outside of the United States. Often, the biggest barrier to  
124 improving trade is facilitating the connection between  
125 willing buyers and sellers. This is where the promotion of  
126 U.S. goods and services can be used to improve the prospects  
127 of our businesses, many of whom have little or no experience  
128 exporting their own goods. We have a number of federal  
129 agencies that assist our small and medium size businesses  
130 through the export process. Their services range from  
131 educating businesses on the basics of export trade through  
132 export assistance centers to more advanced services that  
133 introduce suppliers and buyers and provide market access  
134 guidance.

135         With these programs in place, we need to focus on  
136 improving the visibility of existing services and enhancing

137 their effectiveness. My home State of California is a  
138 leading exporter in many areas ranging from high tech to  
139 something more important to my constituents, which is  
140 agriculture. Agricultural issues are different than those  
141 faced by manufacturers. And I commend you, Mr. Chairman, for  
142 inviting the Foreign Agriculture Service to discuss their  
143 role in promoting our agricultural exports. Welcome, Ms.  
144 Hale.

145       Agriculture is a difficult business. Farmers are  
146 routinely subject to many factors beyond their control  
147 including the vagaries of weather, pest and disease control,  
148 international competitors, which are heavily subsidized, and  
149 foreign standards often subject to whimsical change. It is  
150 critical to note that specialty crop farmers and their  
151 association spend millions of their own money to promote  
152 their own products abroad. For instance, farmers with the  
153 California Apple Commission spent \$1.2 million just last year  
154 alone to market their own products abroad. When farmers  
155 decide to seek assistance through federal programs, they must  
156 still spend funds up front and wait for reimbursement from  
157 FAS, which is not guaranteed since their export strategy must  
158 be approved.

159       While I encourage and I support the efforts of increased  
160 exports, I am equally concerned that we not lose our export

161 partners that we already have. Going backwards by adding new  
162 barriers to trade is not helpful to anybody and reminds one  
163 of the primary concerns raised by fruit, nut, and vegetable  
164 growers in my district. In one example, Mexico has claimed  
165 the presence of pests in our own stone fruit for more than a  
166 decade. As a result, a plan negotiated by the Animal and  
167 Plant Health Inspection Service or APHIS which most fresh  
168 stone fruit growers must follow if they wish to ship to  
169 Mexico includes a dual regulation with the USDA inspectors  
170 and Mexican inspectors.

171       The growers must pay for the dual regulation unless they  
172 are approved to receive assistance from the government under  
173 one of the existing technical assistance programs that would  
174 help offset the cost of the Mexican inspectors. In addition,  
175 it is critical that our government continue to work to remove  
176 the non-tariff barriers thrown up to keep out our U.S.  
177 products. Some countries such as Taiwan have erected certain  
178 barriers based on questionable scientific evidence. The  
179 normally free flow of trade has ceased causing the good folks  
180 in my own region and others throughout the nation enormous  
181 frustration. This must not be tolerated, and I encourage our  
182 federal trade officials to work to remedy such problems.

183       I want to thank you, Mr. Chairman, for listening to my  
184 concerns. In a perfect world, we would not have to worry

185 about any trade barriers. My hope is that our officials will  
186 remain as vigilant in their negotiations with our trade  
187 partners to reduce such non-tariff trade barriers as they are  
188 in promoting our products. Thank you, Mr. Chairman. I yield  
189 back.

190 [The prepared statement of Mr. Radanovich follows:]

191 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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192           Mr. {Rush.} The chair thanks the ranking member. The  
193 chair now recognizes the gentlelady from California, my  
194 friend, Ms. Matsui, for 5 minutes for the purpose of opening  
195 statements. Two minutes. I am sorry. Two minutes.

196           Ms. {Matsui.} Thank you, Mr. Chairman, and thank you  
197 for calling today's hearing to examine the role of export  
198 promotion in today's economy, and I want to thank all the  
199 witnesses who are here today for sharing your expertise with  
200 us. In today's economic recession, many families in my home  
201 district of Sacramento are struggling to make ends meet. I  
202 have heard countless stories of people struggling to keep  
203 their homes, their jobs, and their way of life. Small  
204 businesses are also hurting as they try to make payroll,  
205 retain their employees, and expand their business. I am  
206 pleased that President Obama has announced a new proposal to  
207 immediately help small businesses obtain much needed capital  
208 or credit to keep their businesses afloat.

209           However, we should also be exploring other avenues for  
210 small businesses to grow, and that is why I am glad we are  
211 here today. This Congress needs to insure that companies  
212 have the tools to find new export opportunities for their  
213 products or services in existing foreign markets. Sacramento  
214 area small and medium-sized businesses export their products

215 and ideas in health care, education, clean energy and  
216 agriculture around the world. In fact, the Sacramento region  
217 exported more than \$3 billion in goods last year while the  
218 port of Sacramento handled 280,000 tons of exports last year.  
219 Yet, like in most communities our small businesses have not  
220 reached their export potential.

221 If we can provide a small business with a foreign market  
222 to increase their sales by as little as 5 percent it can mean  
223 the difference between closing their doors and staying open  
224 another year. The federal government in partnership with the  
225 private sector can do more. This is a time in which  
226 effective partnership is vital. I thank you, Mr. Chairman,  
227 for holding this important hearing, and I yield back the  
228 balance of my time.

229 [The prepared statement of Ms. Matsui follows:]

230 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
231           Mr. {Rush.} The chair thanks the gentlelady. The chair  
232 now recognizes the gentleman from Georgia, my friend, Dr.  
233 Gingrey, for 2 minutes for the purposes of opening  
234 statements.

235           Mr. {Gingrey.} Mr. Chairman, I want to thank you for  
236 calling this hearing today on an economic issue that could  
237 not be more timely in the face of our current economic  
238 struggles. The promotion of exports of American products is  
239 absolutely critical to our economic growth now more than  
240 ever. Put simply, the relationship between American exports  
241 and job growth is incredibly important as we see unemployment  
242 numbers continue to rise. In President Obama's inaugural  
243 address, he stressed the need to ensure that the federal  
244 government works efficiently, and I agree with him on that  
245 goal, particularly in this very important area. The over  
246 arching role that the federal government will play in export  
247 promotion will need to be reassessed. Currently there are a  
248 number of different federal agencies that are working in the  
249 realm of export promotion, yet there is a need to grow our  
250 export numbers in order to remain competitive in a global  
251 market place.

252           Furthermore, Mr. Chairman, the most direct way that the  
253 federal government can impact U.S. exports is through

254 existing and new free trade agreements. First, and let me be  
255 perfectly clear, free trade needs to be fair trade enabling  
256 domestic companies to benefit by the removal of foreign  
257 tariff barriers. This will increase the number of American  
258 exports and help us grow jobs right here at home. I am  
259 encourage that majority leader Steny Hoyer last week said  
260 that the House will potentially revisit the Colombia free  
261 trade agreement that was awarded during the 110th Congress.  
262 This free trade agreement was signed over 2 years ago. Mr.  
263 Chairman, another interesting component of this hearing that  
264 has a tremendous impact on U.S. exports falls squarely within  
265 the agricultural industry.

266 In my home State of Georgia agricultural exports account  
267 for approximately \$1.5 billion annually is a tremendous boost  
268 to the state's economy and it is imperative that the federal  
269 government remove technical barriers with trading partners so  
270 that Georgia farmers, as well as farmers across the country,  
271 California, as Mr. Radanovich said, will be competitive  
272 globally. Mr. Chairman, I again thank you for holding this  
273 important hearing on the promotion of international exports  
274 and trade. I look forward to hearing from the panel this  
275 morning, and I yield back.

276 [The prepared statement of Mr. Gingrey follows:]

277 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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278           Mr. {Rush.} The chair thanks the gentleman. The chair  
279 now recognizes the gentlelady from Ohio, Ms. Sutton, for 2  
280 minutes for the purpose of opening statement.

281           Ms. {Sutton.} Thank you, Chairman Rush, for holding  
282 today's hearing on trade and promoting exports. We all know  
283 that trade can benefit American businesses and workers. In  
284 fact, Ohio is the seventh largest exporting state in the  
285 nation, and it is the only state that has increased exports  
286 every year since 1998. However, there are real problems with  
287 our current trade policies that are no longer theoretical  
288 arguments. While I don't believe that trade in and of itself  
289 is what is costing us jobs, I do believe that our trade  
290 system and bad trade policies and bad trade deals can cost us  
291 jobs and have cost us jobs. And I also believe it doesn't  
292 have to be that way. You know, between 1994 and 2002 an  
293 estimated 525,094 U.S. workers were certified as eligible for  
294 the NAFTA transitional adjustment assistance.

295           Since 2000, over 1,087 factories, companies or  
296 operations in Ohio have shut down or had massive layoffs  
297 costing Ohio over 200,000 manufacturing jobs. Promoting our  
298 exports is only useful if production continues to take place  
299 in the United States. We must never lose sight that without  
300 our workers the U.S. would not have products to export.

301 Often when we speak up to address the flaws and the unfair  
302 trade practices that currently exist with so-called free  
303 trade and other trade arrangements, name calling ensues, and  
304 we are attacked with distractive tactics such as being  
305 labeled as protectionist or saying we are simply against  
306 trade. Well, that isn't accurate and it really doesn't serve  
307 our purpose well. We do not live in a perfect world, and we  
308 are certainly not operating under a perfect free market  
309 global system.

310         And while the trade deficit has narrowed during the  
311 current recession, China now accounts for more than 60  
312 percent of the U.S. trade deficit in manufactured goods. We  
313 must have trade policies that no longer leave American  
314 workers and businesses at an unfair disadvantage. We cannot  
315 sit quietly aside while others engage in unfair trade  
316 practices. And while we should help promote our exports, it  
317 is also imperative to promote domestic production as well. I  
318 look forward to this hearing and this panel and working on  
319 this very important issue.

320         [The prepared statement of Ms. Sutton follows:]

321 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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322           Mr. {Rush.} The chair thanks the gentlelady. Now the  
323 chair is privileged to recognize the gentleman from North  
324 Carolina, my friend, George Butterfield.

325           Mr. {Butterfield.} Thank you very much, Chairman Rush,  
326 and thank the five witnesses for coming out today to be a  
327 part of this very important hearing. Mr. Chairman, you told  
328 us that we were going to get into some real deep issues, very  
329 important issues, on this committee, and today is an example  
330 of heading in that direction, and so thank you very much for  
331 your leadership. I think about the world so often, and the  
332 world has just drastically changed when I was a youngster  
333 many years ago. I go around to different high school and  
334 middle schools in my district and talk about how the world  
335 has just literally transformed itself over the last 40 years.  
336 We are living in a global economy, and we cannot deny that,  
337 and that is a good thing. We can only benefit from increased  
338 export promotion. We are the world's largest exporter.

339           In just 5 years exports have increased from 9-1/2  
340 percent to almost 12 percent of GDP. This growth has  
341 sustained nearly 6 million jobs in manufacturing and 1  
342 million in agriculture jobs like those in my district. We  
343 have reaped the benefit of double digit increases in exports  
344 every year for the past 5 years but more can be done and more

345 must be done considering the state of our economy. And  
346 despite double digit gains, we could be exporting much, much  
347 more. Here is a statistic that might shock some of you.  
348 Companies that export represent less than 1 percent, 1  
349 percent of the U.S. business community. That means out of  
350 all the businesses that are located in this country, 99  
351 percent do not export, and 60 percent of these companies that  
352 do export only trade in one foreign market and one only.

353         This untapped potential could yield immeasurable  
354 benefits to the U.S. economy and could mean tens of thousands  
355 of jobs. I am confident that further exploring opportunities  
356 to increase exports would drastically change places like  
357 Rocky Mountain, North Carolina in my district where the  
358 unemployment rate is now nearly 14 percent. A plant just the  
359 other day, Cummings, laid off 390 employees, so that  
360 illustrates, Mr. Chairman, the importance of this hearing  
361 today. And I thank you for bringing us together. I yield  
362 back.

363         [The prepared statement of Mr. Butterfield follows:]

364 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
365           Mr. {Rush.} The chair thanks the gentleman. The chair  
366 now is privileged to recognize the gentleman from Michigan,  
367 my friend, Mr. Stupak, for 2 minutes for the purpose of  
368 giving the open statement.

369           Mr. {Stupak.} Mr. Chairman, I will waive and use the  
370 extra time for questions, please.

371           [The prepared statement of Mr. Stupak follows:]

372 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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373           Mr. {Rush.} The chair thanks the gentleman. Now it is  
374 my privilege to welcome this panel of experts to this  
375 hearing. I will introduce them starting from my left and the  
376 audience's right. At the conclusion of my introduction, I  
377 will swear them in because that is the new custom of this  
378 committee, swearing in before they provide their testimony.  
379 Beginning on my left we have with us today, Ms. Michelle  
380 O'Neill. Ms. O'Neill is the Acting Under Secretary for  
381 International Trade and International Trade Administration  
382 for the Department of Commerce. We have Ms. Suzanne Hale.  
383 Ms. Hale is the Acting Administrator for the Foreign  
384 Agriculture Service in the Department of Agriculture.

385           Next, we have Dr. Loren Yager. Dr. Yager is the  
386 Director of International Affairs and Trade at the Government  
387 Accountability Office, GAO. Next to Mr. Yager is Mr.  
388 Franklin J. Vargo. Mr. Vargo is the Vice President of  
389 International Economic Affairs for the National Association  
390 of Manufacturers. And then we have with us Ms. Liz Reilly.  
391 Ms. Reilly is Director of Trade Roots, which is a part of the  
392 U.S. Chamber of Commerce. I want to welcome all the  
393 witnesses, and we certainly sincerely are grateful to you for  
394 taking the time off from your busy schedule to appear before  
395 this subcommittee today.

396           As I said before, it is a new practice of this  
397 subcommittee to swear in the witnesses, so I will ask that  
398 you please stand and raise your right hand.

399           [Witnesses sworn.]

400           Mr. {Rush.} We will ask that you limit your opening  
401 statements to 5 minutes. We will begin with Ms. O'Neill.  
402 Ms. O'Neill, again, welcome, and please give us your opening  
403 statement.

|  
404 ^TESTIMONY OF MICHELLE O'NEILL, ACTING UNDER SECRETARY FOR  
405 INTERNATIONAL TRADE, INTERNATIONAL TRADE ADMINISTRATION,  
406 DEPARTMENT OF COMMERCE; SUZANNE HALE, ACTING ADMINISTRATOR,  
407 FOREIGN AGRICULTURE SERVICE, DEPARTMENT OF AGRICULTURE; LOREN  
408 YAGER, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT  
409 ACCOUNTABILITY OFFICE; FRANKLIN J. VARGO, VICE PRESIDENT,  
410 INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF  
411 MANUFACTURERS; AND LIZ REILLY, DIRECTOR, TRADERROOTS, UNITED  
412 STATES CHAMBER OF COMMERCE

|  
413 ^TESTIMONY OF MICHELLE O'NEILL

414 } Ms. {O'Neill.} Chairman Rush, Ranking Member  
415 Radanovich, and members of the committee, thank you for the  
416 opportunity to speak before you today about how export  
417 promotion strengthens and supports America's economy. As we  
418 have undoubtedly heard from the statements today, exporting  
419 is important to our economy. Last year alone it accounted  
420 for 13 percent of our gross domestic product and millions of  
421 jobs. I welcome the subcommittee's interest in this topic  
422 and look forward to outlining the International Trade  
423 Administration's efforts to promote U.S. exports.

424 The International Trade Administration is dedicated to

425 helping U.S. companies, especially small businesses, compete  
426 and win in the global economy. We have trade professionals  
427 based in Washington, in 109 U.S. communities, and in 77  
428 countries that provide trade promotion support to U.S.  
429 companies. We guide companies through every step of the  
430 export process from shipping and logistics to understanding  
431 foreign regulations to finding solutions when they encounter  
432 trade barriers. We provide a wide range of services  
433 including trade counseling, advocacy, and market research.  
434 In 2008 we supported more than 12,000 expert successes  
435 totaling \$67 billion in nearly 200 markets around the world.

436         We know that 97 percent of exporters are small and  
437 medium size businesses but they only account for 29 percent  
438 of the value of U.S. exports. We also know that of the 27  
439 million businesses in the United States less than 1 percent  
440 export, and of the companies that do export 58 percent export  
441 to only one market. For this reason, our efforts are focused  
442 on getting more companies to export for the first time and  
443 for those companies that are already exporting to expand to  
444 additional markets. To highlight the kind of work we do, let  
445 me use some recent examples. Last year our commercial  
446 specialist in the Dominican Republic learned that a Dominican  
447 distributor was looking for a company that provides fuel  
448 additives for cars. After reaching out to our entire

449 domestic network our Chicago office identified a small  
450 Chicago-based business that employs 150 workers, the Gold  
451 Eagle company. A commercial specialist in the Dominican  
452 Republic arranged a meeting with a Dominican company which  
453 resulted in Gold Eagle's first sale to the Dominican Republic  
454 valued at \$50,000.

455       Often times a company gets an inquiry for the first time  
456 through their web site from a foreign buyer and doesn't know  
457 what to do. Other times a company is considering expanding  
458 its sales beyond the U.S. market and isn't sure how to  
459 proceed. In both cases, the first stop for them could be one  
460 of our 300 trade specialists located in a nearby export  
461 assistance center or our Trade Information Center. The Trade  
462 Information Center provides a single point of contact for all  
463 federal government export assistance programs. Through its  
464 1-800 USA trade number, the Trade Information Center provides  
465 assistance ranging from helping fill out a certificate of  
466 origin finding out about export finance options or connecting  
467 with the company's local commerce export assistance center.

468       Last year, the Trade Information Center responded to  
469 36,000 inquiries, most of which were from small businesses.  
470 We also hold seminars around the country to educate U.S.  
471 businesses on a whole range of topics including the nuts and  
472 bolts of exporting, how to protect your intellectual property

473 rights abroad, and how to fill out export documentation.  
474 Through our strategic partners program, we are leveraging the  
475 client networks of trade associations, companies,  
476 universities and state and local governments to help small  
477 companies understand the benefits of exporting. Let me give  
478 you two recent examples of how we work with our partners. In  
479 the fall of 2008 one of our strategic partners, FedEx, led a  
480 Commerce Department certified trade mission to India to  
481 introduce 12 companies to business opportunities there.

482         Of these companies, two had never exported before and  
483 the other 10 had never exported to India. Our offices in  
484 India arranged over 300 appointments for the companies with  
485 potential buyers, agents, distributors, and Indian government  
486 decision makers. In another example, in September, 2007, the  
487 State of North Dakota's trade office in coordination with our  
488 offices in the former Soviet Union and in North Dakota  
489 brought over 100 foreign buyers to the big iron farm  
490 machinery show in West Fargo. In the 6 months following the  
491 trade show, U.S. companies exhibiting at the show sold  
492 approximately 14 million in U.S. farm machinery to visiting  
493 foreign buyers. In 2008 the state trade office was awarded a  
494 market development cooperator program grant for the state to  
495 establish an office in the Ukraine. Since then, we have  
496 worked together on trade missions to Taiwan, Ukraine, Russia,

497 Kazakhstan, Australia, and South Korea.

498         At times, U.S. companies will look to us to help them  
499 when a foreign government tenders through U.S. government  
500 advocacy. Our advocacy center insures that U.S. companies  
501 can compete fairly against foreign competitors that are  
502 receiving high level advocacy support from their governments.  
503 Other times the U.S. company may need assistance to overcome  
504 a problem they are facing in a foreign market. These  
505 problems could range from regulatory trade barriers to unfair  
506 trade practices. This is where our Trade Compliance Center  
507 comes in. The Trade Compliance Center staff works with  
508 foreign governments to find a solution so that the U.S.  
509 company has the best possible chance to sell its products and  
510 services in that market. For example, a 2000 amendment to  
511 the Kazak Customs Code required importers to provide  
512 additional documentation that is not normally required before  
513 releasing their goods. After direct discussions the Customs  
514 Department authorized the release of some 70 million worth of  
515 U.S. goods.

516         The Kazak government amended the code and deleted the  
517 section that required importers to provide the additional  
518 documentation to clear customs. In closing, the down turn of  
519 the world economy has affected all of our industries and  
520 their exports. In these times, our export promotion work is

521 even more important than ever for small businesses and to the  
522 long-term competitiveness of the United States. The  
523 International Trade Administration remains committed to job  
524 creation through exporting. Thank you.

525 [The prepared statement of Ms. O'Neill follows:]

526 \*\*\*\*\* INSERT 1 \*\*\*\*\*

|  
527           Mr. {Rush.} Thank you very much. Now we will have  
528 opening statement from Ms. Suzanne Hale. Ms. Hale, thank you  
529 so very much and the chair recognizes you for 5 minutes for  
530 the purpose of an opening statement.

|  
531 ^TESTIMONY OF SUZANNE HALE

532 } Ms. {Hale.} Chairman Rush, members of the committee,  
533 thank you for this opportunity to discuss how USDA's Foreign  
534 Agriculture Service supports agricultural exports. Exports  
535 are crucial to American agriculture. During these difficult  
536 times, agricultural trade is also important because it  
537 supports so many jobs off the farm. Twenty-five years ago,  
538 the value of U.S. agricultural exports was about \$35 billion  
539 a year. Last year, U.S. farm exports had tripled to a record  
540 \$115 billion. Even with the recent economic downturn fiscal  
541 year 2009 agricultural exports are forecast to reach 95.5  
542 billion, the second highest level ever. About 1/3 of U.S.  
543 agricultural production is exported. Every dollar of farm  
544 exports creates another \$1.40 in supporting activities to  
545 process, package, finance, and ship products.

546 U.S. agricultural exports mean U.S. jobs. USDA's  
547 economic research service calculates that in 2007  
548 agricultural exports generated 808,000 full-time American  
549 jobs. Our mission at FAS is to link U.S. agriculture to the  
550 world. The agency maintains a small Washington based staff  
551 and 97 offices around the globe. Our overseas network act as  
552 our eyes and ears as we work to reduce trade barriers and

553 approve market access. For example, our Cairo office was  
554 instrumental in opening the Egyptian market to U.S. cattle,  
555 and our staff in the Philippines recently resolved concerns  
556 over import quotas that would have severely limited our pork  
557 and poultry exports. Because of the current economic crisis,  
558 credit is tight in many key markets. Our export credit  
559 guarantee program, known as GSM-102, facilitates commercial  
560 sales of U.S. agricultural exports by providing credit  
561 guarantees.

562 In fiscal year 2009, FAS expects to provide \$5.5 billion  
563 in such guarantees. Over the past 2 years the program has  
564 facilitated \$2 billion in feed grain exports directly  
565 benefitting states such as Illinois, Iowa, Nebraska, and  
566 Minnesota. Wheat, poultry, and cotton sales have similarly  
567 benefitted from the program. FAS administers several market  
568 development programs including the market access or MAP  
569 program. Under the MAP program, non-profit commodity and  
570 trade associations pool their resources into technical  
571 expertise with USDA's to develop markets overseas. In 2008,  
572 FAS approved \$200 million in MAP funds to promote a wide  
573 variety of products including soybeans in Romania, beef in  
574 Taiwan, grapes in Australia, and pomegranates in Korea.

575 Investments in MAP programs produce results. For  
576 example, the Northwest Cherry Growers analysis shows that

577 cherry exports support an average of 31,000 jobs a year.  
578 Cherry exports supported by \$4.3 million in MAP funding over  
579 the past 5 years also generated an estimated \$131 million in  
580 federal and state taxes. Now that is a good return. The  
581 Foreign Market Development program develops, maintains and  
582 expands long-term export markets for U.S. agricultural  
583 products. For example, the U.S. Grains Council is  
584 undertaking a 5-year effort to help rebuild Iraq's poultry  
585 industry, an effort which has led to nearly \$4 million in  
586 sales of U.S. feed ingredients.

587       USDA's technical assistance for specialty crops program  
588 funds projects to remove the kind of technical barriers that  
589 were mentioned earlier. For example, the California Table  
590 Grape Commission used the program to fund fumigation  
591 research. This research helped increase grape sales to  
592 Australia from \$16 million in 2007 to \$52 million in 2008.  
593 The program has also been used to gain access for California  
594 nectarines in Japan and to harmonize organic standards with  
595 Canada. Emerging markets offer great potential for U.S.  
596 agricultural exports. A recent project funded under the  
597 emerging markets program provided minority producers of  
598 fruits and vegetables in Florida with training and other  
599 support that enabled them to make their first international  
600 sales.

601           The firms in that program now report \$25 million a year  
602 in exports. Our quality samples program enables U.S.  
603 agricultural trade organizations to provide small samples of  
604 agricultural products to potential importers in emerging  
605 markets. For example, exports of dried cranberries to Mexico  
606 increased 17 percent to \$15 million after samples were  
607 redistributed to Mexican bakers. FAS also links U.S.  
608 agriculture to the world by sponsoring trade and investment  
609 missions. In March, 2008, 17 U.S. agri-businesses met with  
610 more than 125 African counterparts through a trade and  
611 investment mission to western central Africa. The mission  
612 facilitated \$6.6 million in sales.

613           At FAS we take pride in our efforts to improve the  
614 competitive position of U.S. agriculture in the global  
615 marketplace. Agricultural trade means jobs, both on and off  
616 the farm. Agricultural trade remains a bright spot in the  
617 U.S. economy consistently producing a trade surplus. I look  
618 forward to answering any questions you may have. Thank you.

619           [The prepared statement of Ms. Hale follows:]

620 \*\*\*\*\* INSERT 2 \*\*\*\*\*

|  
621           Mr. {Rush.} Thank you very much. Our next witness is  
622 Dr. Loren Yager. Dr. Yager, we welcome you to this  
623 subcommittee hearing, and we would ask that you limit your  
624 remarks, your opening remarks, to 5 minutes, if you will.

|  
625 ^TESTIMONY OF LOREN YAGER

626 } Mr. {Yager.} Thank you, Chairman Rush, Ranking Member  
627 Radanovich, members of the subcommittee. Thank you for the  
628 opportunity to appear today to provide GAO's perspective on  
629 the role of exports in the U.S. economy. As Congress  
630 responds to the economic downturn it must consider the full  
631 range of tools available for further growth and create new  
632 jobs for U.S. workers. Some of these tools are related to  
633 promoting exports, which can have broad benefits to the U.S.  
634 economy. Trade enables the United States to achieve a higher  
635 standard of living through producing and exporting goods that  
636 are produced here most efficiently, and importing goods and  
637 services that are produced more efficiently elsewhere.

638 U.S. exports of manufactured goods grew by approximately  
639 50 percent from 2004 to 2008 to a level of \$1.1 trillion.  
640 These exports have come from every state. For example, in  
641 2008 Illinois exported 49 billion worth of manufactured  
642 goods. Similarly, California exported 127 billion of  
643 manufactured goods with an additional 8 billion in  
644 agricultural products. Because of the importance of trade to  
645 the U.S. economy, Congress has expressed longstanding  
646 concerns as to whether U.S. agencies are doing everything

647 possible to promote U.S. exports. I will briefly mention  
648 three policy areas in my statement today. First,  
649 coordinating export promotion programs. Second, effectively  
650 meeting the needs of small businesses, and, third, monitoring  
651 and enforcing trade agreements.

652         The first longstanding congressional concern I will  
653 discuss is the lack of effective coordination and follow up  
654 of trade promotion activities. Other witnesses have  
655 described the trade promotion coordinating committee and  
656 provided details on specific functions of the Commerce and  
657 Agriculture departments. In terms of coordination and follow  
658 up, we have reviewed the TPCC several times since its  
659 inception, and I testified in 2006 that the TPCC had improved  
660 on their follow up of key measures. For example, in the 2008  
661 national export strategy there is information regarding the  
662 status of priority initiatives identified in the prior year's  
663 annual report.

664         However, despite the importance of agency coordination  
665 the strategy still does not link the agency's individual  
666 goals to an overall government export promotion strategy.  
667 Promoting exports by small businesses has also been a long-  
668 term interest of the Congress as reinforced by the importance  
669 of small business in many of the opening statements. While  
670 many small businesses export it is widely recognized that

671 they face a number of challenges in exporting, and Congress  
672 had required that agencies focus a significant share of their  
673 efforts to small and medium size businesses. In 2006, I  
674 testified about the lack of systematic measures for small  
675 business participation in government export promotion  
676 programs.

677 More recently, we had a similar finding with regard to  
678 the export-import bank where a number of congressionally  
679 required measures lacked targets and lacked time frames. The  
680 third and possibly most important priority for the United  
681 States is ensuring that U.S. trading partners comply with  
682 trade agreements. Monitoring and enforcing these trade  
683 agreements, which number in the hundreds and cover the vast  
684 majority of U.S. exports. It is a key responsibility for  
685 numerous U.S. agencies. Congress has expressed longstanding  
686 concerns regarding a number of these issues of which I will  
687 mention two. The first is China's compliance with its  
688 commitments. Congress has been keenly interested in the  
689 extent to which China is complying with its obligations. As  
690 a result, we have conducted a number of studies examining  
691 U.S. government efforts to oversee China's compliance, and we  
692 have made recommendations to U.S. agencies to improve  
693 communication to key stakeholders such as the U.S. Congress.

694 A second point is the sufficiency of agency's human

695 capital. Effective monitoring and enforcement requires staff  
696 with expertise in trade policy, the foreign country, and the  
697 particular industry. However, we found that trade agencies  
698 have not always been able to get the right people in the  
699 right places. We recommended that key trade agencies develop  
700 better planning and training to equip staff to handle  
701 increasingly complex barriers to U.S. exports. Let me also  
702 mention that while in China last week, I heard a number of  
703 examples where having specialized U.S. government personnel  
704 in the embassy and in the consulates can assist U.S. firms.  
705 For example, in China patent and trademark office staff who  
706 are of particular interest to this subcommittee have been  
707 actively assisting U.S. firms better protect intellectual  
708 property, which, as you know, has been a big concern for U.S.  
709 firms, particularly in China. Chairman Rush, Ranking Member  
710 Radanovich, this concludes my remarks. I would be happy to  
711 answer any questions you have.

712 [The prepared statement of Mr. Yager follows:]

713 \*\*\*\*\* INSERT 3 \*\*\*\*\*

|  
714           Mr. {Rush.} The chair thanks the gentleman. The next  
715 witness is Mr. Franklin J. Vargo. We welcome you, Mr. Vargo.  
716 We ask that you limit your opening statement to 5 minutes.

|  
717 ^TESTIMONY OF FRANKLIN J. VARGO

718 } Mr. {Vargo.} Thank you, Mr. Chairman, members of the  
719 subcommittee. I am delighted to be here representing the  
720 National Association of Manufacturers. You know, 2/3 of  
721 everything America exports are manufactured goods so the NAM  
722 really cares about this. Exports, unfortunately, are like  
723 Rodney Dangerfield. They just don't get any respect. People  
724 don't see exports. They see imports and all the big box  
725 stores. Nobody sees exports. A lot of Americans don't even  
726 think we export anything even though we are one of the  
727 world's largest exporters, and we are the largest  
728 manufacturer in the world. We manufacture 1 out of every \$5  
729 of everything made in the entire world. A lot of people find  
730 that astonishing but it is nevertheless true. Now our  
731 exports of manufactured goods have amassed a trillion dollars  
732 and in recent years has been growing about 15 percent a year,  
733 as you noted, Mr. Chairman, one of the strongest parts of our  
734 economy. People think, wow, that is really good.

735 I look at exports and say, you know, we are not an  
736 export powerhouse. In fact, we are missing the boat on  
737 exports. Why do I say this? Because the NAM has started  
738 benchmarking our industry against industries around the

739 world, and we have looked at the 15 major manufacturing  
740 economies in the world that account for 80 percent of all the  
741 manufactured goods. When we look at our imports proportioned  
742 to the size of our manufacturing industry, it is not really  
743 out of line with the aggregate. When we look at our exports,  
744 we are dead last, number 15 out of the 15 countries.

745         The world average, all the countries in the world, when  
746 we look at the World Bank data and trade data, the average is  
747 twice what we export, twice. We are exporting half as much  
748 of our manufacturing output as the average country in the  
749 world. Now if we were exporting at the average, we would  
750 have another trillion dollars of exports. We wouldn't have a  
751 trade deficit. Why are we exporting so little? And I should  
752 note that before I came to the NAM, I had a lengthy career  
753 with the Department of Commerce in export promotion trade  
754 policy. And it has been a long-time observation that one of  
755 the most fundamental reasons we export as little as we do is  
756 we grew up as a continental economy surrounded by an ocean o  
757 both sides, natural resources, and large domestic market  
758 driven countries didn't grow up that way. Japanese countries  
759 didn't grow up that way. They knew they had to export in  
760 order to grow and survive.

761         We have to change the mentality of American companies.  
762 They are in a globalized world and they freely need to do

763 more. The second reason is that the dollar is the world's  
764 reserve currency and in my view at least for too many years  
765 that has led to an evaluation of the dollar against other  
766 currencies that are too high to reflect the competitiveness  
767 of our exports. Additionally, we face a lot of trade  
768 barriers around the world. We need to get those trade  
769 barriers down somehow, and that is why the NAM has favored  
770 bilateral free trade agreements, and without wanting to get  
771 into a debate over free trade agreements, I just want to note  
772 the fact that last year we had a manufactured goods trade  
773 surplus of \$21 billion with our free trade partners as a  
774 group, 6 billion of which was with GAFTA, which used to be in  
775 deficit before the agreement went into effect. With  
776 countries with which we don't have trade agreements, we have  
777 \$477 billion deficit with about 277 of that being with China  
778 with whom we have no trade agreement.

779 But having access to markets, being competitive, wanting  
780 to export is not enough. You got to market. Just like an  
781 individual company a country has to market its exports, and  
782 here I think we really do a very inadequate job. I look at  
783 Commerce is doing well with what it has got but I look at the  
784 resources. Last year, Commerce had about \$330 million for  
785 export promotion. The Department of Agriculture had twice  
786 that amount, 600 and some million or clearly our national

787 priority goes on promoting agricultural exports and not  
788 manufactured goods. And I don't want to stop promoting  
789 agricultural goods, you know. As Ms. Hale noted, 1/3 of our  
790 agricultural production is exported. That is great, and we  
791 need that, and I would like to see it go even higher but only  
792 1/5 of our manufacturing export production is exported, and  
793 if we could get that up to 1/3 by my back of the envelope  
794 calculation, we would pick up another 1.3 million jobs in  
795 America's factories, maybe a million and a half.

796         Now promotion programs work. The figures I have seen,  
797 and I believe they are reliable, at least 100 to 1. For  
798 every dollar you put in to export promotion you get at least  
799 \$100 in additional exports and that is a stream that goes  
800 into the future. Now if you and I could put that into our  
801 personal portfolios, we would all jump at it, so why doesn't  
802 the U.S. government? Because they don't know. So that is  
803 why this hearing is so important. I would like to ask that  
804 the World Bank document, export promotion agencies, what  
805 works and what does not, which says every dollar of export  
806 promotion produces \$300 of exports, I would like to ask this  
807 be put in the record of this hearing.

808         Mr. {Rush.} By unanimous consent, the document will be  
809 placed in the record.

810         Mr. {Vargo.} Okay. Thank you, sir. I don't want to

811 take anything away from the Agriculture Department. I admire  
812 their programs. I wish the Commerce Department could do  
813 more. I know that proportional to the amount of agricultural  
814 and manufactured exports because manufactured exports are 10  
815 times as large as agriculture. If Commerce really had the  
816 same proportional budget, it would have a \$6.4 billion export  
817 promotion budget, not 300 million. Now I know the department  
818 has a huge deficit and we have a huge stimulus program so  
819 here comes the NAM and says, you know, could we have another  
820 6 billion for export promotion, but the fact of the matter is  
821 these programs pay for themselves. They will generate a flow  
822 of tax revenue that will more than pay for it.

823         So again I am thrilled that this subcommittee is holding  
824 this hearing and look forward to working with you, Mr.  
825 Chairman, the members, your staff because we have to make the  
826 priority of exports more visible. We are either going to pay  
827 our way in the world or borrow our way, and we have already  
828 seen, we have got a \$5-1/2 trillion accumulated trade deficit  
829 already, thank you very much, so I would like us to exporting  
830 more and paying our way in the world. We can do it but so  
831 many small companies just don't have the time to fly over to  
832 Europe or fly over to China, and what do they do when they  
833 get there? You know, they need more help. The help they get  
834 is good, but it is much, much too small. Thank you, sir.

835 [The prepared statement of Mr. Vargo follows:]

836 \*\*\*\*\* INSERT 4 \*\*\*\*\*

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837           Mr. {Rush.} Thank you so very much. And now the chair  
838 recognizes Ms. Liz Reilly. Ms. Reilly, we recognize you for  
839 the purposes of an opening statement. Would you please limit  
840 your statement to 5 minutes, and thank you for your  
841 attendance here today.

|  
842 ^TESTIMONY OF LIZ REILLY

843 } Ms. {Reilly.} Thank you. Thank you, Chairman Rush,  
844 Ranking Member Radanovich, and other members of the  
845 committee. I greatly appreciate the invitation to speak to  
846 this subcommittee on this wonderful Irish day. The U.S.  
847 Chamber of Commerce is the world's largest business  
848 federation representing 3 million businesses and  
849 organizations. TradeRoots is the only sustained national  
850 trade education program dedicated to raising public awareness  
851 around the importance of international trade to local  
852 communities. Our partners include local chambers of  
853 commerce, trade associations, economic development groups,  
854 and federal agencies. Last year we hosted and visited over  
855 300 congressional districts where we talk about business and  
856 the importance of exporting and the resources that are  
857 available to do it.

858         Ninety-five percent of the world's population lives  
859 outside the United States. In these challenging economic  
860 times America must find a way to sell our things to these  
861 potential customers. Fifty-seven million Americans are  
862 employed by firms that engage in international trade. That  
863 is 1 in 5 factory jobs that depend on exports as well as 1 in

864 3 acres of American farms that are planted specifically for  
865 export. In 2008, the U.S. set a new record and exported  
866 nearly \$2 trillion of goods. That is over 13 percent of our  
867 GDP but it should be more. Most Americans, however, tend to  
868 regard international trade as the domain of large multi-  
869 nationals when in fact 97 percent of all exporters are SMEs.  
870 That is close to 240,000 companies and our overseas sales  
871 represent nearly a third of all U.S. merchandise exports.

872       America's small business people are the most innovative  
873 and hard working entrepreneurs in the world. We have told  
874 many of their success stories as part of our Faces of Trade  
875 series where we celebrate companies that are exporting made  
876 in USA products around the world. If more U.S. business were  
877 able to seize export opportunities, the gains could be  
878 immense. The World Bank site that Mr. Vargo just cited says  
879 that \$1 spent in export promotion brought a 40-fold increase  
880 in exports, and 40 to 1 is not a bad return on investment.  
881 To address this need, the U.S. Chamber proposes a doubling of  
882 federal expenditures on export promotion to small business.  
883 From Seattle to Savannah, many U.S. companies are just not  
884 aware of the government services that are available to help  
885 them break into these new markets. I have talked to so many  
886 who have never heard of the U.S. department export assistance  
887 centers or the foreign ag service or that Ex-I Bank exists,

888 let alone gives out loans.

889           And I don't think this is the fault of American business  
890 owners. Rather, I think it reflects the inadequate resources  
891 dedicated by the federal government to promote these services  
892 adequately. Some companies have had challenging experience  
893 with the commercial service offices overseas. Quality Float  
894 Works in Schaumburg, Illinois, was telling me that they  
895 normally fare very well until recently when the officers in  
896 Dubai were so understaffed that they were unable to assist in  
897 setting up business meetings. Other companies such as  
898 Askinosie Chocolate in Springfield, Missouri, have worked  
899 with their USEACs but they cannot afford a fee. With over 15  
900 percent of Askinosie's gross revenue coming from overseas  
901 markets, finding new one is imperative for their growth.

902           Additional funding for the Department of Commerce should  
903 eliminate or lower these Gold Key Service costs for small  
904 businesses. Closely affiliated with the USEACs are 60  
905 district export councils that combine the energies of more  
906 than 1,500 exporters. We recommend selecting an ex officio  
907 DEC member to participate on the President's export council  
908 in order to represent small business. Another exporter, York  
909 Wire and Cable of York, Pennsylvania, was recently telling me  
910 about the positive impact of Market Access Grants at the  
911 state level. Export-ready companies in good standing are

912 eligible for \$5,000 to explore new markets through trade  
913 shows, trade missions, and internationalizing their web  
914 sites. A similar grant system should be created at the  
915 federal level for companies around the country. Market  
916 Development Cooperator Program Grants, MDCP, are another  
917 effective tool for export promotion. TradeRoots was actually  
918 founded based on an MDCP Grant to educate small businesses on  
919 exporting and as a result of our grant we reached more than  
920 3,800 SMEs and helped generate more than \$9 million in U.S.  
921 exports.

922         We support continuing and expanding MDCP Grant funding.  
923 Additional way to promote U.S. exports would be for Congress  
924 to pass the pending trade agreements with Colombia, Panama,  
925 and South Korea. These accords would provide an estimated 42  
926 billion over 5 years for American workers and farmers. More  
927 than 25,000 SMEs are already exporting to these countries and  
928 this number could rise sharply with their implementation. A  
929 final priority should be to ensure adequate funding for  
930 programs dubbed trade capacity building. The United States  
931 spends more than 1.3 billion annually, which is important to  
932 maintain.

933         In closing, investing in export potential of America's  
934 small and medium-sized businesses is crucial to stimulating  
935 our economy. I greatly appreciate the opportunity to testify

936 today. The U.S. Chamber of Commerce stands ready to work  
937 with you on these and other important challenges in the year  
938 ahead. Thank you very much.

939 [The prepared statement of Ms. Reilly follows:]

940 \*\*\*\*\* INSERT 5 \*\*\*\*\*

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941           Mr. {Rush.} The chair thanks you so very much for your  
942 testimony, Ms. Reilly, and the chair thanks all the witnesses  
943 for their opening statements. The chair now recognizes  
944 himself for 5 minutes for the purpose of asking questions of  
945 this outstanding panel. I will begin with Mr. Vargo. Mr.  
946 Vargo, you mentioned in your testimony the importance of  
947 penetrating new and promising markets. In my home State of  
948 Illinois, Canada is the first trading partner, followed by  
949 Mexico and then China. There is an old adage that says never  
950 put all your eggs in the same basket. In the trade context,  
951 it means it would be wise to diversify our export clientele  
952 and not put all our exports in the NAFTA basket.

953           Mr. Vargo, I have two questions. Have you identified a  
954 region of great opportunities for U.S. businesses, and have  
955 you also identified a specific part or section that needs to  
956 be expanded in that particular market? How do you go about  
957 making such an assessment, and what specific change do you  
958 think the government needs to undertake to increase exports  
959 to these countries? That is about five questions rather than  
960 one.

961           Mr. {Vargo.} Thank you, Mr. Chairman. You are right.  
962 For your state and most others, NAFTA is the largest export  
963 market. Europe generally is number two. In our eyes, the

964 most rapidly growing area, it is taking some economic hits  
965 right now, is Asia, China and other parts of Asia, but over  
966 the longer term there is going to be an enormous amount of  
967 growth there, and we need to do more. Asia, it is culturally  
968 different from the United States. For most people, they  
969 don't know what to do when they get there. We need a lot  
970 more assistance.

971 I would also point to Europe. Why Europe? Because the  
972 European Union is a fairly easy market to sell to, and a lot  
973 of our companies, especially smaller companies, sell there  
974 already but they only sell to one or three markets in the  
975 European Union. Now if they can sell to Britain or Germany,  
976 they can sell to France, Italy, other countries, but they  
977 don't, and we don't have enough export promotion resources to  
978 make it easy for them to find customers and distributors in  
979 those markets, so I would pick those two markets. And what  
980 should we do? In China, I think, and some other Asian  
981 countries, I think American companies need more depth of  
982 assistance than they are getting. We had one of the commerce  
983 departments set up American trade centers in all major cities  
984 in China, physical facility with display space, temporary  
985 office space for companies. They can't do it. They don't  
986 have the resources.

987 In Europe some of the most effective components of sales

988 for American exports are what are called the FSMs, the  
989 foreign service nationals, who work for the commercial  
990 service. They know the local markets. Again, Congress  
991 doesn't have the money to hire enough. So I think it is  
992 doable, but it comes down to resources and the national  
993 priority. And, frankly, I just don't see a national priority  
994 for export expansion yet.

995 Mr. {Rush.} I want to ask Ms. O'Neill and Ms. Hale in  
996 the time I have left, which is about 1 minute and 15 seconds,  
997 what are your respective agencies doing to identify emerging  
998 markets and what are emerging markets as far as you are  
999 concerned? How would you define emerging markets?

1000 Ms. {O'Neill.} Thank you for the question, and I think  
1001 Frank went to a good bit of where we would say the largest  
1002 opportunity for exports, and that is in Asia. I think we  
1003 would probably define an emerging market as one where we  
1004 haven't had big U.S. export penetration yet, but that there  
1005 are also perhaps not the same legal and regulatory  
1006 infrastructure in the market and where are services on the  
1007 ground are particularly needed to help U.S. companies  
1008 navigate and identify opportunities in those markets. But I  
1009 would say our attention has shifted to Asia, India, where it  
1010 is more difficult for companies to do business.

1011 Ms. {Hale.} I think one of the key things in

1012 identifying emerging markets is a market where incomes are  
1013 increasing. We find that as incomes increase people eat more  
1014 meat. They eat more vegetable oil. There is a growing middle  
1015 class. People go out and eat fast foods and enjoy American  
1016 potato products. And so we are seeing a lot of growth in  
1017 Southeast Asia, also in Central America, and it is very often  
1018 related to growth in income.

1019 Mr. {Rush.} Now the chair recognizes the ranking  
1020 member, Mr. Radanovich, for the purposes of questioning for 5  
1021 minutes.

1022 Mr. {Radanovich.} Thank you, Mr. Chairman, and again  
1023 appreciate the panel members for your opening statements and  
1024 for being here today. I wanted to first ask Ms. Hale,  
1025 Ambassador, regarding the FAS and your recent reorganization,  
1026 can you explain to me how this reorganization has led you to  
1027 perform more efficiently for agriculture?

1028 Ms. {O'Neill.} I think one of the key things is that we  
1029 are better staffed now to address the kinds of technical  
1030 trade barriers that you mentioned before. We have an Office  
1031 of Science and Technical Affairs that works with our sister  
1032 agencies at USDA like the Animal and Plant Health Inspection  
1033 Service, the Food Safety and Inspection Service, to overcome  
1034 and remove some of these technical barriers to trade. We  
1035 also have an office that is doing more strategic planning on

1036 a country basis. We are better staffed to look at individual  
1037 markets and bring together all of the department's resources  
1038 in an integrated strategic plan, the kind that Dr. Yager was  
1039 talking about.

1040 And then we also have all of our trade assistants  
1041 programs in one area so we have good coordination between our  
1042 credit programs and our other marketing programs like the MAP  
1043 program.

1044 Mr. {Radanovich.} Thank you very much. Can you tell me  
1045 within your reorganization and such, is there an increased  
1046 effort on part of governmental staff in export promotion to  
1047 kind of replace some of the work that maybe commodity and  
1048 crop associations currently undertake?

1049 Ms. {O'Neill.} No, sir. We are partners. Everything  
1050 we do, we do with industry and industry contributes very  
1051 significant amounts of money for our programs. They are  
1052 putting more into the programs than what we are putting in to  
1053 them, and we rely on their technical expertise. They know--  
1054 they are the experts in how to run feed trials to show people  
1055 how to use soybean meal to improve their productivity. They  
1056 do things that our staff could just never do on our own, and  
1057 so that partnership has been very important over the years.

1058 Mr. {Radanovich.} Very good. Thank you very much. One  
1059 more question, and that is can you give me an idea on the

1060 Uruguay Round, what might have been new export markets that  
1061 have been opened up as a result of that?

1062 Ms. {O'Neill.} From the--goodness, that is a way back.  
1063 We are talking about--

1064 Mr. {Radanovich.} It is a little way back.

1065 Ms. {O'Neill.} Yes. I think one of the most important  
1066 accomplishments in the Uruguay Round was the TBT agreement,  
1067 the Technical Barriers to Trade agreement. That isn't  
1068 addressed to a specific market, but what that agreement did  
1069 was to make international standards the norm for addressing  
1070 technical issues. So we have the OIE is the Animal Health  
1071 Organization. KODAC sets food safety standards. There is an  
1072 SPS agreement that sets plant health standards. And what the  
1073 TPT agreement and the Uruguay Round did was make those  
1074 international standards WTO standards, and so we can use the  
1075 World Trade Organization's dispute resolution mechanism to  
1076 resolve cases when we have technical barriers to trade, and  
1077 that is a big improvement.

1078 Mr. {Radanovich.} Very good. Thank you very much,  
1079 Ambassador. Dr. Yager, welcome to the committee. I notice  
1080 that the TPCC consists of about 20 different agencies. Can  
1081 you give me a sense as to whether or not it is an advantage  
1082 to have 20 different agencies sharing the same goals or, you  
1083 know, maybe just having one single effort? Can you give me

1084 an idea what the advantages or disadvantages might be?

1085         Mr. {Yager.} Well, the TPCC was created, I guess, in  
1086 the early 1990's, and there were some questions from the  
1087 Congress at that time as to whether all the different  
1088 agencies that had a small piece of export promotion were  
1089 actually working towards the same goals, and so it has  
1090 existed for about 15 years. We do think there is a big  
1091 advantage in having an organization that brings together the  
1092 export promotion efforts of the different agencies. There  
1093 may be a large number of agencies, but realistically there is  
1094 only a few that do the broad percentage of the export  
1095 promotion efforts, so after you get through commerce,  
1096 agriculture, and the Export-Import Bank, which is also a  
1097 fairly large lender and provider of credit to U.S. firms many  
1098 of the other agencies are much smaller in terms of their  
1099 funding and the kinds of contributions they make to export  
1100 promotion.

1101         We do believe that getting together and having a single  
1102 report which they put out every year and trying to follow up  
1103 on that to show, for example, if they target big emerging  
1104 markets in one year, we think it is very valuable for them to  
1105 come back the next year and say we were successful, here are  
1106 some measures for how much we were able to accomplish in big  
1107 emerging markets, for example. We think that kind of follow-

1108 up is very important, so we do think it is a good idea to  
1109 have the trade promotion coordinating council.

1110 Mr. {Radanovich.} Very good. Thank you, Doctor, and  
1111 thank you for the time, Mr. Chairman. I am assuming there  
1112 will be a second round of questions?

1113 Mr. {Rush.} Yes, the chair does intend to engage in a  
1114 second round of questioning. Our next member recognized will  
1115 be Ms. Matsui of California for 5 minutes.

1116 Ms. {Matsui.} Thank you, Mr. Chairman. As you know,  
1117 California is home to one of the world's largest trade  
1118 markets, and there are a number of small and medium  
1119 businesses in California who export their brands and  
1120 services. But a lot of them have not reached their export  
1121 potential, as we know, and there are a variety of services  
1122 available, both by the government and by business  
1123 associations but a lot of the businesses are not aware of  
1124 this. Ms. O'Neill, I would like to ask about the budget  
1125 situation in the U.S. Commercial Service. When my office  
1126 called a local U.S. Commercial Service Expert Assistance  
1127 Center in my congressional district, I learned there was only  
1128 one staff person there responsible for 22 California  
1129 counties.

1130 Now our counties are pretty large in California, and  
1131 this one person coordinates all the outreach, the trade

1132 missions and consultations with individual companies. Now  
1133 over the last 5 years, the U.S. Commercial Service budget has  
1134 remained relatively stagnant. It looks like it will increase  
1135 this year maybe less than 1 percent. Is the Department of  
1136 Commerce asking for more resources?

1137 Ms. {O'Neill.} Thank you, and you are right. Our  
1138 largest presence in the states is in California and I will  
1139 certainly take back your concern about our staffing level in  
1140 your district. We look forward to working with the new team  
1141 as Governor Locke is hopefully confirmed soon. There have  
1142 been a lot of interesting ideas here today, and I certainly  
1143 look forward to working with Governor Locke and his team to  
1144 explore what might be possible in the export promotion front.

1145 Ms. {Matsui.} Mr. Vargo, do you see a similar situation  
1146 in other export assistance offices around the country?

1147 Mr. {Vargo.} Regrettably, yes. If there is one thing  
1148 that we could do up front, it would be to significantly  
1149 increase the staff of our district export offices so they can  
1150 get around more and work with companies. As I have noted,  
1151 the typical small business owner is worried about his line of  
1152 finance from his bank, keep holding on to his or her as  
1153 customers. They just don't have time to wander through the  
1154 Internet or fly over to China or France or somewhere. We  
1155 have got to have the commercial specialists go out and reach

1156 them, make it easy for them. If they make it easy for them,  
1157 they will do it. Believe me, they will do it. We have got  
1158 lots of examples. The resources just aren't there.

1159 Ms. {Matsui.} But can you tell me how you compare  
1160 America's export promotion policies to those in Canada and  
1161 Europe, Japan, and China?

1162 Mr. {Vargo.} Well, they take their export promotion  
1163 much more seriously than we do. They realize that this is  
1164 where their future is. This is where their growth has to be.  
1165 And we haven't gotten the joke yet frankly. We are missing  
1166 the boat. I am under oath so I won't say that I know for 100  
1167 percent this is positive. I hear that Canada has more  
1168 commercial officers around the world than the United States  
1169 does, and if that is true, that is ridiculous. Now I do know  
1170 that the Australian trade minister recently looked at the  
1171 Market Development Cooperator Program that principally the  
1172 Agricultural Department uses and the Commerce too a little  
1173 bit, and threw another \$100 million into it for Australia  
1174 because they see this as a way to expand their exports, so  
1175 other countries are really pushing hard, and we are missing  
1176 out.

1177 Ms. {Matsui.} I am concerned because I feel that trade  
1178 is very important and we have a huge trade deficit. As you  
1179 say, all of you say, that it would be important to get the

1180 export business moving along, and it seems to me that within  
1181 the last several years we haven't been doing that. We have  
1182 been reducing our resources to do that. And my sense is that  
1183 had we gone ahead and really funded or beefed up the  
1184 resources, we might have been able to encourage others to  
1185 actually get out there. I am wondering whether any of you  
1186 can answer this question. Has there been a change in the  
1187 type of assistance given?

1188 I think in Mr. Vargo's testimony he was saying that it  
1189 goes--there is not as much outreach and that the businesses  
1190 aren't getting as much assistance in the foreign offices as  
1191 they might be because they aren't staffed, and there might be  
1192 more trade favors and things of that nature more than  
1193 anything else. Can you comment on that and what direction  
1194 you think we should be going?

1195 Mr. {Vargo.} May I comment?

1196 Ms. {Matsui.} Yes.

1197 Mr. {Vargo.} Because our government witnesses may feel  
1198 a little constrained. The budget situation I believe is so  
1199 severe that offices are being closed in Europe, for example,  
1200 to be able to move commercial officers to China and other  
1201 parts of Asia. The worse thing is, I am not sure that they  
1202 actually have enough funding to fill those new positions, so  
1203 we may find they are cutting some positions and not filling

1204 others. And even if they are moving them, you know, that  
1205 still leaves Europe our second largest market with inadequate  
1206 resources. Could I put in one plug though for Mr. Chairman  
1207 and members of the committee? When Governor Locke is  
1208 confirmed as Secretary of Commerce, please bring him up here.  
1209 Share with him your views on expert promotion. Governor  
1210 Engler, our president, is going to go over and see Secretary  
1211 Locke as soon as he is confirmed on this. I would like to  
1212 have him hear from the subcommittee as well.

1213 Ms. {Matsui.} Thank you. That is it.

1214 Mr. {Rush.} The chair thanks the gentlelady. Your time  
1215 is up. Now the chair recognizes Mr. Scalise from Louisiana  
1216 for 5 minutes.

1217 Mr. {Scalise.} Thank you, Mr. Chairman. In Louisiana  
1218 our port systems actually have been doing very well. The  
1219 increase from 2007 to 2008 was about 38 percent, so we have  
1220 been promoting more exports--different exports, I am sorry,  
1221 but we have also been starting to prepare for the widening of  
1222 the Panama Canal coming up in the next few years, which gives  
1223 us a lot of opportunities to increase both imports and  
1224 exports. I want to get each of your takes if I could go down  
1225 the table starting with Ms. O'Neill on what things are being  
1226 done to prepare for the opportunities that would exist once  
1227 the Panama Canal is widened.

1228 Ms. {O'Neill.} As with all our free trade agreements,  
1229 we work very closely with USTR and the negotiators to  
1230 identify exactly where the market access opportunities are  
1231 and develop promotional materials around those opportunities.  
1232 You have hit the nail on the head. The Panama Canal activity  
1233 is going to be a key interest for a number of our companies,  
1234 and we look forward to getting the word out on the  
1235 opportunities there. Even independent of the agreement, we  
1236 continue to work with our officers on the ground in Panama  
1237 and with U.S. industry to make sure that we are well  
1238 positioned to take advantage of those opportunities.

1239 Mr. {Scalise.} Thank you. Ms. Hale.

1240 Ms. {Hale.} A lot of our corn and soybeans that are  
1241 exported to Asia go through the Panama Canal, and the  
1242 constraint now is the size of the canal. The ships that go  
1243 through there are called Panamax because it is the maximum  
1244 size that can go through the Panama Canal. And so with a  
1245 larger canal if we can increase the size of our ships, it  
1246 would make our shipping more efficient, keep our shipping  
1247 costs down and make us more competitive in Asia.

1248 Mr. {Yager.} One of the things that we are aware of in  
1249 doing the work on imports and trade is that the ports on the  
1250 West Coast, particularly the container ports of Los Angeles  
1251 and Long Beach in fact are dominant in terms of shipping many

1252 of the goods and services. I think the opening of the Panama  
1253 Canal offers an opportunity to have some of that trade  
1254 diverted to other ports on the eastern side of the continent  
1255 which I think would reduce some of the congestion. One of  
1256 the challenges that we have in the United States is port  
1257 infrastructure, as you probably know, and I think you have  
1258 been doing some things in New Orleans but some of the ports  
1259 on the West Coast are challenged due to the volume of trade,  
1260 particularly container shipping that is coming in, so I think  
1261 that will open up some options for eastern ports such as your  
1262 own.

1263 Mr. {Scalise.} Mr. Vargo.

1264 Mr. {Vargo.} Well, certainly the widening of the Panama  
1265 Canal I think will be good for the Louisiana ports and others  
1266 but in addition the project is one of the world's largest  
1267 construction projects and we want the American equipment,  
1268 American technology used there so the sooner we have that  
1269 trade agreement and get preferential access to that huge  
1270 construction project the better off we are. And I was very  
1271 encouraged that President Obama's trade policy statements  
1272 that he expected that this agreement could move relatively  
1273 quickly. We export about 5 billion a year to Panama already.  
1274 I would like to see that grow. In a good period downhill  
1275 with the wind behind its back, Panama will export as much to

1276 us in a year as China does every 6 hours so there is  
1277 certainly no threat there.

1278 Ms. {Reilly.} Thank you, and I would just have to echo  
1279 basically what the whole panel has said that the need to  
1280 widen the Panama Canal is very important to U.S. business,  
1281 obviously, to first get goods moving quicker, reduce  
1282 congestion, but as well as the project and expanding it  
1283 itself, that will allow--the free trade agreement will allow  
1284 U.S. companies access to bid on the expansion project.

1285 Mr. {Scalise.} Thank you. Ms. Hale, last year we had a  
1286 40 percent increase in agriculture exports. What was that  
1287 attributable to? Was there one thing or series of things?

1288 Ms. {Hale.} That is on a value basis and so part of the  
1289 increase was because of higher prices but we are also seeing  
1290 just across the board increase in demand. In CAFTA we have  
1291 seen a 30 percent increase in agriculture exports to Central  
1292 America with growing middle class. In places like China we  
1293 are seeing big increases in exports of products like soybeans  
1294 which are used for vegetable oil there, crushed there and  
1295 used for vegetable oil and then animal feed because  
1296 consumption of livestock products are increasing. So there  
1297 isn't one reason. It is a different reason in each market  
1298 but we are continuing to see good demand for U.S.  
1299 agricultural products.

1300 Mr. {Scalise.} Thanks. And then one final question in  
1301 my last few seconds for Ms. O'Neill. It does seem like we  
1302 got a surplus on exports of copyrighted material, music,  
1303 movies. Considering the problems with copyright  
1304 infringements in other countries on those types of products,  
1305 what is being done on our side to try to protect the  
1306 intellectual property from copyright of violations so that we  
1307 can even increase more of that margin?

1308 Ms. {O'Neill.} Just a great example of public-private  
1309 partnership, we have worked closely with the Chamber and  
1310 other multipliers to develop a program that we call Stop  
1311 Fakes. It is a combination of technical assistance to  
1312 companies that is helping them understand how to protect  
1313 their intellectual property before they go into foreign  
1314 markets, what resources are available to them once there are  
1315 challenges once they face a problem in a market. And then we  
1316 are also redoubling our efforts overseas to work with foreign  
1317 governments to improve their enforcement of their  
1318 intellectual property rights and make sure that U.S. products  
1319 and services are protected overseas.

1320 Mr. {Scalise.} Thank you. Thank you, Mr. Chairman.

1321 Mr. {Yager.} Mr. Scalise, if I could just briefly  
1322 answer that. I was in China last week actually looking at  
1323 the issue of intellectual property protection, and one of the

1324 things I can point out is that U.S. agencies in some cases  
1325 who have not had a presence abroad before such as a patent  
1326 and trademark officer now also putting some of their  
1327 specialists into key places like southern China where a lot  
1328 of the world's manufacturing takes place, so there is now a  
1329 PTO representative in southern China that helps U.S. firms  
1330 understand the legal system, communicate with the Chinese  
1331 government, and simply just be there to help U.S. firms think  
1332 about how to protect intellectual properties so that they  
1333 can--

1334           Mr. {Scalise.} Is the government cooperating, the  
1335 Chinese government cooperating?

1336           Mr. {Yager.} Yes, they are working more closely with  
1337 the Chinese government on that. It is a long-term effort  
1338 though. It doesn't happen overnight, but we think that that  
1339 specialized personnel does offer some advantages and can get  
1340 some results for U.S. firms.

1341           Mr. {Scalise.} Thank you.

1342           Mr. {Rush.} The gentleman's time is up. The chair now  
1343 recognizes the gentlelady from Ohio, Ms. Sutton, for 5  
1344 minutes.

1345           Ms. {Sutton.} I thank the gentleman and I thank you all  
1346 for your testimony. We are talking about exports now and I  
1347 appreciate that, but I do think that it is somewhat a mistake

1348 to try and isolate exports out of our international trading  
1349 system and just talk about it in a vacuum so bear with me and  
1350 if you don't have the responses today, that is okay, because  
1351 I am going to talk a little bit more about the  
1352 interconnectiveness of our system.

1353 I am going to begin by an article that I would like to  
1354 have permission to enter into the record from bloomberg.com.

1355 Mr. {Rush.} By unanimous consent, so ordered.

1356 [The information follows:]

1357 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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1358           Ms. {Sutton.} Thank you, Mr. Chairman. This article  
1359 was dated December 14, and it came in the wake of the passage  
1360 of the Peru free trade agreement, and I know, Ms. Reilly, you  
1361 talked about your hope and the hope of your association that  
1362 we might pass the Colombia free trade agreement so it is  
1363 relevant as we consider that possibility. Now we heard that  
1364 this trade agreement was, quite frankly, just a small piece  
1365 of trade, you know, in the scheme of things and not that big  
1366 of a deal, and we heard how it was gong to open up our  
1367 markets, and I am all for exporting American goods, but I am  
1368 not for exporting American jobs, and so I was struck right  
1369 after this Peru free trade agreement was passed that Peruvian  
1370 President Alan Garcia urged American companies to invest in  
1371 his country and said specifically come and open your  
1372 factories in our country so we can sell your own products  
1373 back to the U.S., Garcia told business executives today.

1374           Of course, where you have oil, mining, agriculture,  
1375 fishing, and manufacturing firms, he urged them to flock to  
1376 his nation of 29 million people which has a per capita income  
1377 of less than \$3,000 a year. So the point is not all jobs are  
1378 created equal. We talk about jobs a lot of times in these  
1379 discussions about trade but obviously we weren't just talking  
1380 about exporting to this market. We are also talking about

1381 trying to export jobs or at least we are not trying to export  
1382 jobs but there is certainly a reference to that. And I would  
1383 just like to hear from Mr. Vargo and Ms. Reilly, if I could,  
1384 about what you think about this.

1385         Mr. {Vargo.} I noted that article also, and certainly  
1386 everybody wants more foreign investment in their country. We  
1387 want it too. When we look at the record though, and I will  
1388 be happy to send you data that the Bureau of Economic  
1389 Analysis from the Commerce Department does, we have not seen  
1390 this large sucking sound and out flow of manufacturing  
1391 investment to countries with which we have free trade  
1392 agreements. About 75 percent or so of the foreign direct  
1393 investment from manufacturing goes to the industrial  
1394 countries, principally Europe. It does go to Canada, Japan,  
1395 and about 90 percent of the output there is for local  
1396 consumption, so one can read many different things into this,  
1397 and I would be pleased to meet with you and exchange views on  
1398 the data, but I would like to make sure that the data are  
1399 available.

1400         But when we look at, again, the record with our free  
1401 trade partners, we see that they have never been a large  
1402 percentage of our trade deficit, 10 percent, 5 percent,  
1403 something like that, and now they are as a group in surplus,  
1404 so certainly it is very good to be concerned and again we can

1405 have a variety of views but when I look at the data, and I  
1406 used to run the research office in the Commerce Department so  
1407 I never met a number I didn't like, I draw different  
1408 conclusions. But it is good to be vigilant and it is good to  
1409 ensure that our trade agreements do what we expect them to  
1410 do, and we have seen our exports increase more rapidly to  
1411 every country with which we have entered into a trade  
1412 agreement than before.

1413         On Colombia, for example, 2/3 of our imports from  
1414 Colombia are oil and other mineral fuels, and we would like  
1415 to have secure sources of energy close to our borders. I  
1416 thank you for the question.

1417         Ms. {Sutton.} And I look forward to following up  
1418 because I agree that numbers and data can say many things.

1419         Mr. {Vargo.} Right. Thank you.

1420         Ms. {Reilly.} And I would also say that I also saw that  
1421 article and know what you are referring to. Regarding Peru  
1422 specifically, our position is a little bit differently where  
1423 we look at the thousands of small companies that are already  
1424 exporting to Peru and the added tariff that was being put on  
1425 those goods which was an average of about 15 percent, so we  
1426 just look at those numbers and think about the potential of  
1427 once that agreement goes into place all the added value that  
1428 is going to come back to those companies here in the U.S. and

1429 be a benefit on the bottom line.

1430           Personally, I work with companies all around the country  
1431 and I have not yet heard of any that are planning on  
1432 relocating to opening to Peru in regards to this agreement.

1433           Ms. {Sutton.} I appreciate that, Ms. Reilly, and  
1434 actually that was just sort of an example to open up the  
1435 discussion. It really wasn't about Peru per se. And I look  
1436 forward to having more conversation as this hearing goes on.  
1437 Thank you.

1438           Mr. {Rush.} Thank you very much. The chair now  
1439 recognizes Mr. Stupak for 7 minutes for questioning.

1440           Mr. {Stupak.} Thank you, Mr. Chairman. Instead of  
1441 talking about trade promotion, I want to talk about trade  
1442 enforcement. In fact, Mr. Vargo, on page 5 of your testimony  
1443 you say top trade priority for the United States is opening  
1444 foreign markets for U.S. goods and services by insuring that  
1445 the U.S. trading partners comply with existing trade  
1446 agreements. I think it was Dr. Yager or Mr. Vargo.

1447           Mr. {Yager.} I believe it is in my statement.

1448           Mr. {Stupak.} Mr. Yager. So let me ask you this. On  
1449 trade agreements as a general rule can countries refuse to  
1450 allow products into their country if it is not safe or may  
1451 jeopardize the health of the people?

1452           Mr. {Yager.} I think the guidelines that are written in

1453 the trade agreements is that they have to be legitimate  
1454 concerns. They have to be technical concerns that also do  
1455 not discriminate against foreign products, and so if there  
1456 is--

1457 Mr. {Stupak.} Sure. Well, let us just take China since  
1458 that is our base trade agreement, like melamine, toys,  
1459 heparin, the drug for blood anticoagulant. It is all right  
1460 for the U.S. then to refuse products from China if we can  
1461 prove that there is concern about the health and safety of  
1462 the American people.

1463 Mr. {Yager.} Well, I think there are a number of steps.  
1464 I think you have also addressed some of these in prior  
1465 statements about the ability of the United States to, in  
1466 fact, put inspectors abroad, for instance, the Food and Drug  
1467 Administration to make sure that plants in China do get  
1468 inspected on a regular basis, so I think there are a variety  
1469 of ways that the United States can try to assure that the  
1470 goods that are coming in from--

1471 Mr. {Stupak.} Sure, but as a general rule a country can  
1472 resist a product if it threatens the health and safety of its  
1473 people.

1474 Mr. {Yager.} The United States can prevent products  
1475 from coming in if the kinds of efforts that take place are  
1476 not discriminatory.

1477 Mr. {Stupak.} Sure. So I was reading today in the  
1478 Congress Daily in the hill briefs that are on page 6 of  
1479 today's Congress Daily where President Obama has put a halt  
1480 to the program which allowed up to 500 Mexican trucks to move  
1481 across our border without the strict mileage limitations  
1482 because of the concerns for the health and safety of those  
1483 vehicles and drivers on our highways, and the Mexican economy  
1484 department has said that it will--it violates the North  
1485 America Free Trade Agreement and it is going to retaliate  
1486 with cancellation of truck access by U.S. trucks. Now how  
1487 does that jive with what we just said about it is supposed to  
1488 be fair and open if we have legitimate concern about these  
1489 trucks, Mexican trucks, that haven't passed muster since we  
1490 passed NAFTA, which I believe was about 1994 or '93, August  
1491 of '93, if I remember correctly. And after 16 years we still  
1492 don't feel these products are safe. So it would be in our  
1493 general rule, it would be illegal for Mexico to retaliate,  
1494 would it not?

1495 Mr. {Yager.} I don't know that case specifically, but I  
1496 do know prior that the Mexican government did, I think, win  
1497 the panel ruling that allowed them to gain access to U.S.--to  
1498 further U.S. markets through their trucking, so I would have  
1499 to look and do some more research on that, Mr. Stupak.

1500 Mr. {Stupak.} Let me ask you this then. Dumping,

1501 illegal dumping where you undercut the price and put your  
1502 surplus in another country, that has always been considered  
1503 illegal under all trade agreements, right? Can you explain  
1504 to me how back a year or so ago underneath new page in which  
1505 China and Indonesia and Korea were dumping treated paper--  
1506 excuse me, glossy paper, high gloss paper, in this country  
1507 illegally. The Commerce Department said it was illegal, and  
1508 we put tariffs in. They appealed to the ITC. The ITC  
1509 ruling basically said, well, true, particularly with the case  
1510 of China, they are dumping but it has a small effect on the  
1511 U.S. economy, therefore, the tariffs were taken off. Is that  
1512 now the standard for illegal dumping? Illegal dumping is  
1513 legal as long as it doesn't have a major impact on one's  
1514 economy?

1515 Mr. {Vargo.} Could I answer that?

1516 Mr. {Stupak.} Sure.

1517 Mr. {Vargo.} Actually the Nupage case wasn't dumping.  
1518 It was subsidies, and the NAM was instrumental in getting the  
1519 Commerce Department to agree that our countervailing duty  
1520 statues would be applied against subsidies so we--

1521 Mr. {Stupak.} Because of illegal dumping. China was  
1522 dumping here for less than the cost.

1523 Mr. {Vargo.} But the way the U.S. law is set up, and it  
1524 has been set up a long time ago, in order for there to be

1525 dumping or countervailing duties applied two things have to  
1526 happen. The Commerce Department has to find that they are  
1527 selling in the U.S. at less than they are selling at the  
1528 local market or the selling at less than the cost of  
1529 production. That is what commerce does.

1530 Mr. {Stupak.} And they found they were selling at less  
1531 than cost production?

1532 Mr. {Vargo.} They absolutely did. That is true. The  
1533 International Trade Commission then as part of the law, which  
1534 Congress passed a long time ago, said it has to find injury.  
1535 Was that industry injured, and in this case the ITC found no,  
1536 so it is not a change in practice. We can question the  
1537 decision but anyway they followed the practice. There has  
1538 been no change in practice, but let me just for the record  
1539 say the NAM strongly supports the application of U.S. dumping  
1540 laws and countervailing duties.

1541 Mr. {Stupak.} For most of us dumping is dumping whether  
1542 it costs one job or in this case in the paper industry 550  
1543 jobs. People lost their good paying jobs because of this  
1544 illegal dumping, so the wrinkle of this so-called economic  
1545 injury if you read the opinion of the ITC if the injury was  
1546 greater, more economic injury to the U.S. than it would have  
1547 been illegal. Most Americans are under the impression  
1548 illegal dumping is illegal.

1549 Mr. {Vargo.} But by U.S. law in order to be illegal it  
1550 has to have caused injury.

1551 Mr. {Stupak.} So if 550 people lost their job, it is  
1552 not injury?

1553 Mr. {Vargo.} I am not arguing, sir, on that case. I am  
1554 just telling what the law says.

1555 Mr. {Stupak.} So when did Congress pass that crazy law?

1556 Mr. {Vargo.} 1970s.

1557 Mr. {Stupak.} 1970s before we had the big explosion in  
1558 trade. Ms. Reilly, let me ask you this. You indicated that  
1559 we should pass the Korea free trade agreement, and coming  
1560 from Michigan, the auto state, in our automobile trade with  
1561 Korea, 87 percent of the deficit, trade deficit, between U.S.  
1562 and Korea, and U.S. Korea trade deficit is \$107 billion we  
1563 are in the hole, in 2006 South Korea sold over 700,000  
1564 vehicles here in the U.S. but the U.S. was only allowed to  
1565 get in 4,556 vehicles, so Korea, according to our research  
1566 uses tariffs, prohibitive and discriminatory taxes, and  
1567 regulations designed to keep our imports out so how is this  
1568 fair and free trade, why should we pass Korea trade agreement  
1569 when we can only get 4,500 of our cars into Korea but yet  
1570 they are allowed 700,000 in our country?

1571 Ms. {Reilly.} I appreciate your concern on that, and I  
1572 cannot speak to the specifics of the autos issue within that

1573 agreement but from a broader standpoint the reason that we  
1574 believe that we should pass the Korean agreement is because  
1575 Korea is our seventh largest trading partner in the world.

1576 Mr. {Stupak.} Even though they use tariffs,  
1577 prohibitive, discriminatory taxes and regulations to keep our  
1578 products out, we still should trade with them because they  
1579 are seventh largest?

1580 Ms. {Reilly.} They are seventh largest for those goods  
1581 as well as our sixth largest for agricultural goods so they  
1582 are a tremendous potential customer for our companies.

1583 Mr. {Stupak.} So when does wrong become right? We have  
1584 the health and safety of the American people. We have  
1585 discriminatory tariffs, regulations, taxes, illegal dumping,  
1586 but we all say that is okay. That is not fair and free trade  
1587 to a lot of us up here--

1588 Ms. {Reilly.} I don't think we are saying that that is  
1589 okay, and I think that there is a lot of things that go into  
1590 free trade agreements ,and I am not privy to those  
1591 discussions and those negotiations, but all of those things  
1592 ultimately come out. That is where they talk about the  
1593 importance of labor and environmental protection in these  
1594 countries, as well as patent protection, and IPR protections  
1595 for different products within these countries. There are a  
1596 lot that go into them, and while they do have certain flaws,

1597 we believe as a whole they are beneficial for--

1598           Mr. {Stupak.} Do you think we should continue trading  
1599 if these issues remain unresolved?

1600           Mr. {Rush.} The gentleman's time is up. We will have a  
1601 second round. The chair now recognizes the gentleman, Mr.  
1602 Braley, for 5 minutes.

1603           Mr. {Braley.} Thank you, Mr. Chairman, for holding this  
1604 important hearing. I want to follow up on Mr. Stupak's  
1605 questions because I think it is a very important conversation  
1606 to have. A lot of us up on this panel believe strongly in  
1607 the concept of free trade when it is married with the concept  
1608 with fair trade, but a lot of us see gross inequities in our  
1609 current trading system that imposes an unfair burden not just  
1610 on U.S. workers but on U.S. companies competing in a global  
1611 market place. I want to follow up on Mr. Stupak's point  
1612 about the Mexican trucking agreement, which many of us in  
1613 Congress fought to terminate despite strong objections from  
1614 the Bush Administration.

1615           And I sat in on the hearing in the Transportation  
1616 Subcommittee on Highways and Transit when we discussed that  
1617 agreement at length. And on paper it looked like it created  
1618 an equitable system because Mexico was required to comply  
1619 with the same requirements that U.S. trucking companies are  
1620 required to comply with to operate in this country. And, in

1621 fact, anyone like myself who used to be a commercial truck  
1622 operator was provided a little green handbook that the  
1623 Federal Motor Vehicle Safety Commission gives to every  
1624 licensed truck driver to understand the rules of the road and  
1625 also the rules of responsibility that go with operating a  
1626 commercial vehicle. And one of those includes maintaining a  
1627 driver's file so that anyone who causes damage whether  
1628 commercially or personally while operating that truck has a  
1629 source of accountability and that accountability is  
1630 verifiable in this country.

1631         And one of the concerns many of us had about that  
1632 Mexican trucking program is there was absolutely no  
1633 corresponding transparency on the other side of the border to  
1634 assure the safety of American citizens from the owners of  
1635 these Mexican trucks, and nobody from the Bush Administration  
1636 could identify a similar source of verifiable information  
1637 when these trucks crossed our border, so it was not a fair  
1638 competition. And the same point that Mr. Stupak was raising  
1639 is another concern. If you go back and read the Soviet  
1640 Constitution, you would swear that the Soviet Union was a  
1641 bastion of civil liberties and was doing everything to  
1642 promote freedom and liberty within its country.

1643         It is one thing to have words on paper. It is another  
1644 to have a commitment to enforce them. And for many of us the

1645 problem we have with the trading agreements that we have  
1646 right now is that on paper they look good, but our trading  
1647 partners do not have the same level of commitment to  
1648 enforcing their domestic laws on the other side, and we don't  
1649 feel that there is accountability in the ITC to enforce a  
1650 fair and reciprocal responsibility, so I would be interested  
1651 in hearing from this panel what changes you think could be  
1652 made to the current framework we operate in in a global  
1653 economy that accomplishes this dual goal of both a free  
1654 trading system and a fair trading system and brings people  
1655 together around a trade model that can accommodate all of the  
1656 interests that have been discussed.

1657       Mr. {Vargo.} Congressman, if I could provide a response  
1658 or at least some comments to that. I am not a trucking  
1659 expert but certainly the general rule is that we are able to  
1660 keep anything unsafe out of our country, and again I have not  
1661 examined this closely but it is my general understanding that  
1662 the record so far, the Mexican trucks has not shown they were  
1663 unsafe, but I don't want to engage in a debate and that the  
1664 principle I think is a good one. And the principal should  
1665 apply to other countries. To give you one egregious example  
1666 that the NAM has been involved in and that is the situation  
1667 of American poultry being kept under the European market.  
1668 Why is the NAM concerned about poultry? Well, it is a

1669 processed food. It is manufactured and under our statistical  
1670 system we have poultry producers in the NAM but it is a more  
1671 important principle.

1672 Here is an area where because American chickens are  
1673 dunked in a very mild chemical to make sure there is no  
1674 salmonella the European Union says, oh, we don't do that, we  
1675 won't take your poultry, even though the European  
1676 commissioner said, you know, there is no scientific basis for  
1677 this. Everybody knows that and we are going to stop this  
1678 practice, but there was a public outrage so the commission  
1679 said I am sorry, even though there is no scientific basis, we  
1680 have no basis at all for keeping your poultry out, we are  
1681 going to do it anyway. Well, that should not be. Now the  
1682 U.S. trade representative is preparing a trade case against  
1683 the Europeans and we need to pursue that aggressively. What  
1684 do we need to do? We need more resources.

1685 Certainly there are lots of instances where countries  
1686 are not doing everything they should, particularly in China.  
1687 We have talked about Chinese counterfeiting. When I talk to  
1688 our companies most of them say the situation is getting  
1689 worse, and when you take action on them. I would differ if  
1690 the feeling were generally all our trading partners are  
1691 cheating on us. From talking with our members companies  
1692 generally we don't see that. There are specific instances,

1693 and when there are instances, I think we need to move  
1694 quickly.

1695         Mr. {Yager.} Mr. Braley, if I could just point out the  
1696 last section of my written statement, we made 2 comments  
1697 about monitoring and enforcing trade agreements. The first  
1698 had to do with better communication. For example, we did a  
1699 report last year which took a look at the United States trade  
1700 representative's report on China's implementation of its W2  
1701 obligations, and we found it was quite difficult for  
1702 stakeholders to go through that report and really understand  
1703 the state of play within China so we recommended that there  
1704 be better communication, for example, from the key agencies  
1705 to stakeholders such as the Congress and they have a better  
1706 understanding of how things are going and ask more questions  
1707 and get more involved in the process of monitoring and  
1708 enforcement.

1709         The other point that I made in the statement had to do  
1710 with getting the right people in the right places because  
1711 many of the barriers that we do talk about are quite  
1712 technical and so the knowledge, for example, of the Chinese  
1713 legal system is important. We need to have the right people  
1714 over there that can help address those, ask the right  
1715 questions, and put the kind of pressure on the authorities  
1716 and in some cases provide technical assistance to them

1717 because there are also companies within China that would also  
1718 benefit from stronger intellectual property protection and  
1719 stronger safety rules, and we need to link up with those  
1720 like-minded companies in order to be successful so we made  
1721 some recommendations also on human capital planning to get  
1722 the right people in the right places.

1723 Mr. {Braley.} Thank you.

1724 Mr. {Rush.} The gentleman's time is up. The chair will  
1725 ask the panel if they would indulge us for one additional  
1726 round of questioning. We will limit the questions to 2  
1727 minutes so as not to infringe too much on your valuable time.  
1728 The chair recognizes himself for 2 minutes. I would like to  
1729 really point my questions to Ms. O'Neill and Ms. Hale.  
1730 Recently, Time magazine published an article written by a  
1731 gentleman, Alex Kerr, stating that among the 10 elements that  
1732 will shape the world tomorrow Africa as a business  
1733 designation ranks number six. It was the only continent  
1734 mentioned. What are your respective agencies doing to  
1735 identify opportunities for U.S. companies to export to areas  
1736 in Africa and to Latin America and how are these efforts  
1737 different from your past approach to these meetings, and how  
1738 would the new--China has paid some special attention to  
1739 Africa. It is Africa's third largest trading partner after  
1740 the U.S. and France, and how should this competition

1741 influence U.S. trade policy what we send to Africa? So that  
1742 is my three questions all within one general question. Would  
1743 you care to respond?

1744 Ms. {O'Neill.} Sure. Thank you very much. Since the  
1745 Congress' passage of the Africa Growth and Opportunity Act in  
1746 2000, we have been proud, the Commerce Department, to be one  
1747 of the co-hosts of an annual forum. The next one is in  
1748 August, 2009 in Kenya, and we have been actively  
1749 participating and this look at how to provide technical  
1750 assistance, better legal and regulatory infrastructure, how  
1751 to--I participated on a panel on expanding opportunities in  
1752 telecom and information technologies recently focused on  
1753 Africa. We also have 5 offices, Kenya, Tanzania, Ghana,  
1754 South Africa, and Nigeria. For the countries where we don't  
1755 have a physical presence, we work closely with the State  
1756 Department. We have a partnership post Memorandum of  
1757 Understanding that allows us to work with state econ officers  
1758 in those markets where there is demand for U.S. exports, U.S.  
1759 support, commercial support.

1760 We have a web site, [export.gov/africa](http://export.gov/africa). We are  
1761 partnering looking closely at the multi-lateral development  
1762 bank projects, and also providing training, trade promotion  
1763 coordinating committee training for the state officers on the  
1764 ground.

1765 Ms. {Hale.} We are doing some capacity building  
1766 projects. For example, we will bring government officials to  
1767 the United States so they can see how we regulate  
1768 biotechnology. That is very important to us because so much  
1769 of our agriculture production for corn and soybean products  
1770 are biotechnology. We also have a lot of food assistance  
1771 programs in Africa. The McGovern-Dole program is providing  
1772 food for school lunches. Also, I mentioned the trade mission  
1773 that we have. We also have scientific exchanges. I think it  
1774 is important that we are building relationships at all levels  
1775 among scientists, among businesses, among government  
1776 regulators that will support long-term trade relationships.

1777 Mr. {Rush.} The chair now recognizes the ranking  
1778 member, Mr. Radanovich.

1779 Mr. {Radanovich.} Thank you, Mr. Chairman. My first  
1780 question goes to Mr. Vargo. Welcome to the subcommittee. I  
1781 want to know how much additional trade revenue you think  
1782 could be brought in from the passage of pending free trade  
1783 agreements. There are three so far that are pending, Korea,  
1784 Panama, and Colombia.

1785 Mr. {Vargo.} Well, the average tariff on our  
1786 manufactured goods in those countries ranges somewhere  
1787 between 8 and 15 percent. And if we could get that down, we  
1788 would generally, I think, pick up 10, perhaps 20 percent more

1789 exports in those countries. We export, if I recall, about 5  
1790 billion to Panama now, maybe 11 billion to Colombia,  
1791 something like 30 billion to Korea so we want that business  
1792 and we want the agreements to be good. And tariffs are not  
1793 the only part of the agreement. Non-tariff areas are  
1794 important and other provisions of the agreements are  
1795 important.

1796         And I look at Colombia right now and I recognize that  
1797 the Congress and the Administration want to do something more  
1798 on the violence in Colombia, particularly that which affects  
1799 members of union, but from my point of view this is costing  
1800 us exports and jobs every day of delay because the Congress  
1801 has already voted--

1802         Mr. {Radanovich.} Mr. Vargo, I ask you to sum up real  
1803 quick because I want to try to get one more question.

1804         Mr. {Vargo.} I am done, sir.

1805         Mr. {Radanovich.} All right. Thank you very much. Ms.  
1806 Hale, during the last round, you were very good in answering  
1807 my Uruguay Round question, but I forgot to ask the second  
1808 part, and that was as far as specialty crop exports, they  
1809 were in surplus then, they are not now. Can you explain why  
1810 perhaps and give me an idea of what it would take in order to  
1811 bring an increase in exports of specialty crops?

1812         Ms. {Hale.} There are two important reasons why our

1813 specialty crop exports have been increasing. One is that  
1814 people see them as very healthful and in countries like  
1815 Europe and Japan people, U.S. nuts and fruits are in very,  
1816 very high demand. We are exporting 80 percent of our  
1817 almonds, for example. Our walnut exports are a billion  
1818 dollars a year. And the industry has done a good job of  
1819 promoting the health benefits. Another reason is that middle  
1820 income people are growing, and for a middle income family in  
1821 China an orange is a treat, a California orange.

1822         They will buy the orange, split it up. The whole  
1823 family, everybody, will take a piece of it and it is a  
1824 special treat. And we are seeing more consumers around the  
1825 world that are able to afford American fruits and American  
1826 nuts. And the industry has just done a good job promoting  
1827 them. An example is the emerging markets program. We just  
1828 did a promotion for using American fruits and nuts in moon  
1829 cakes. It is a billion dollar business in China, and  
1830 American dried fruits and nuts would be a good contribution  
1831 to Chinese moon cakes. So that kind of technical support in  
1832 our marketing program has been very important as well, so the  
1833 consumers are there and I think we got good marketing  
1834 programs to take advantage of the changes in the marketplace.

1835         Mr. {Radanovich.} Thank you very much. I yield back,  
1836 Mr. Chairman.

1837 Mr. {Rush.} The chair now recognizes Ms. Sutton.

1838 Ms. {Sutton.} Thank you, Mr. Chairman, and I will just  
1839 ask a couple of questions and then allow you to respond. Ms.  
1840 Reilly, in the last line of questioning you answered the  
1841 question I offered with a statement that included a reference  
1842 to when you were evaluating the Peru free trade agreement you  
1843 just looked at the benefit on the bottom line. And that is  
1844 an interesting remark to me, and I would just like to  
1845 understand better what your association's assessment  
1846 mechanism is on whether or not trade is working if it really  
1847 just encompasses the benefit on the bottom line, so if you  
1848 could just think about that for a moment.

1849 Mr. Vargo, following up on some of Mr. Stupak's  
1850 questions, you know, I heard you referencing that your  
1851 association is obviously against illegal dumping and  
1852 certainly for the imposition of tariffs where appropriate to  
1853 level the field. One of the things that is happening now is  
1854 that in this economic global downturn that we are  
1855 experiencing steel production in this country has been ramped  
1856 down because as one would when the market is down, one would  
1857 cut back on production. China is taking advantage in my  
1858 view, and certainly the data I will be happy to provide to  
1859 show you, and is ramping up production and exporting steel  
1860 into this country in this moment of global

1861 interconnectiveness and downturn. What should we do about  
1862 that?

1863         And then, finally, the very last question I want to ask  
1864 about is the drywall that we bring into this country from  
1865 China, and some of you have referenced that we don't have to  
1866 accept unsafe products into this country if we know that they  
1867 are unsafe. We know that some of the drywall imported from  
1868 China leaches formaldehyde. We know this. It has been  
1869 declared not only unsafe for, you know, some of our other  
1870 trading partners but China itself will not allow it to be  
1871 used in their own country and yet we have it being imported  
1872 into this country, and I would just like to know about your  
1873 thoughts on all of these things because again these go to the  
1874 issues that I am talking about about the comprehensive nature  
1875 of our system and how it is working and what we need to do to  
1876 fix it.

1877         Ms. {Reilly.} Well, first, to answer your question  
1878 regarding how do we assess the bottom line is we look at it,  
1879 and we look at the free trade agreements that have been  
1880 implemented thus far and the companies that were already  
1881 having duty free access to U.S. markets, selling their things  
1882 here with no taxes or tariffs on it, and us selling our goods  
1883 abroad with an average tariff or tax of about 15 percent. We  
1884 look at that, and we look at those numbers. When we look at

1885 Ohio specifically and how trade has worked, I look at  
1886 agreements like the U.S.-Chile agreement where 47 percent of  
1887 exports have increased to Chile from Ohio. For NAFTA  
1888 agreements it has gone up 138 percent.

1889 Even the agreement with Jordan, and I don't know what  
1890 Ohio is selling to Jordan, but it has gone up over 1000  
1891 percent, so those are the numbers that we look at regarding  
1892 that.

1893 Ms. {Sutton.} I guess I was just asking about whether  
1894 you look at anything besides numbers, and I appreciate that.  
1895 Thank you.

1896 Mr. {Vargo.} On steel and China, the NAM is a broad  
1897 association. We have members of industry associations like  
1898 American Iron and Steel Association and many others. Our  
1899 view is, as I said, we support the strong and effective use  
1900 of U.S. import law. We also believe it is very important  
1901 that the United States, everybody else, adhere as closely as  
1902 possible to the rules-based global trading system. I am very  
1903 pleased that President Obama stressed that several times in  
1904 his trade agenda. It is important that we have a stand still  
1905 on countries and not start putting on more trade barriers  
1906 because that is a road downward that will really hurt us as  
1907 well as everybody else.

1908 In the case of steel and China, absolutely, the steel

1909 industry should be able to avail itself of U.S. trade laws.  
1910 I know the Congress department already does special  
1911 monitoring of Chinese steel, and there are additional tools  
1912 that could be available but I will let our steel industry  
1913 speak for itself. On drywall as an illustration of unsafe  
1914 products coming into the United States, this is very  
1915 troublesome, and clearly we need to address this more  
1916 carefully than we have with having tighter inspection or  
1917 certification of products that are coming into the United  
1918 States.

1919         Again, you know, that is going to take resources. It is  
1920 going to take some more general agreement. I think we ought  
1921 to look at what other countries do because some other  
1922 countries I think have tougher requirements for getting into  
1923 their country than we do, and it might be useful for this  
1924 subcommittee to ask the GAO to look into that and see what  
1925 other countries are doing that maybe we ought consider doing  
1926 legally. I am not proposing we do anything funny here, but I  
1927 think some other countries just do a more careful job of  
1928 insuring the safety of what is coming into their country.

1929         Mr. {Rush.} The gentlelady's time is up. The chair now  
1930 recognizes the gentleman from Michigan for 2 minutes.

1931         Mr. {Stupak.} Thank you, Mr. Chairman. If we are  
1932 looking at the bottom line numbers, look at the bottom line

1933 numbers. Just take January alone. Our trade deficit is \$39  
1934 billion. From 2001 to 2008 the trade deficit cumulative is  
1935 \$3.83 trillion. Every one of these trade deficits means loss  
1936 in U.S. jobs. While Michigan is a manufacturing state, we  
1937 are a great state for exporting agricultural products. In  
1938 fact, we are one of the leading states for doing that, but it  
1939 doesn't offset the loss of jobs we have from manufacturing  
1940 because it is a higher value product as opposed to  
1941 agricultural products.

1942         So, again, I don't mind promoting trade but we have to  
1943 do enforcement. Mr. Vargo, you indicated in my first line of  
1944 questioning, talked about inspections and certifications.  
1945 And where I sit as chairman of Oversight and Investigations  
1946 and do the melamine, the heparin, and the toy investigations  
1947 and the illegal products coming into this country, I have  
1948 been toying with the idea and would like your comments on it  
1949 because you mentioned China's steel. In the early part of  
1950 this decade, the early 2000's, we were doing the standup for  
1951 steel because China was illegally dumping steel in this  
1952 country. That did have an impact and President Bush did put  
1953 some tariffs in which were modified, but we did have them.

1954         But our concern right now if you go back to safety is  
1955 whether it is drywall from China or whether it is steel or  
1956 cement it is an inferior product. The custom border patrol

1957 has indicated that they have a right to inspect the product  
1958 coming in and they find it to be not of sufficient strength,  
1959 and, therefore, they will tag it as being inferior but yet  
1960 the importer, the U.S. customer, still comes, grabs that  
1961 steel, takes that tag off, and sells it in the U.S. economy.  
1962 And we have seen schools collapse in California because of  
1963 inferior steel from China.

1964           So we are toying with the idea to introduce legislation  
1965 that will give the custom border control--not only continue  
1966 their inspection but reject it right there, not even allow  
1967 the U.S. customer to pick up that steel. Just send it right  
1968 back. Do you have any problems with that?

1969           Mr. {Vargo.} Well, you know, I try to stick to a policy  
1970 of speaking on things that I know something about. There I  
1971 don't. We do have a working group within the NAM looking at  
1972 unsafe products coming into the United States so with your  
1973 permission, I am going to take that point to our working  
1974 group and we will get an answer to you in writing.

1975           Mr. {Stupak.} Please do, because once these inferior  
1976 products get into the mainstream of Congress, there is no way  
1977 to recall them. Once they are in the building, they will rip  
1978 them out.

1979           Mr. {Vargo.} Understand. If I could just comment very  
1980 quickly on the overall trade deficit. You know, we had over

1981 a \$450 billion trade deficit in manufacturers last year, but  
1982 I just want to point out again that with our free trade  
1983 partners we had a surplus. All of our deficit was with  
1984 countries that have not lowered their trade barriers to us.  
1985 I don't want to get into a squabble--

1986 Mr. {Stupak.} Sure. Most of those countries like China  
1987 have a VAT. As their products come in, they put a value at a  
1988 tax on it which is illegal, and we are not doing anything to  
1989 enforce it.

1990 Mr. {Vargo.} Well, under world trade rules it is not  
1991 illegal and we don't have a VAT. Maybe we should.

1992 Mr. {Stupak.} Maybe we should have a VAT.

1993 Mr. {Vargo.} But if I could just make 1 point.

1994 Mr. {Stupak.} Sure.

1995 Mr. {Vargo.} We seem to be drifting more towards  
1996 talking about trade agreements, et cetera. Please don't  
1997 forget the central point here which is we under export. We  
1998 don't have enough export promotion so whatever other problems  
1999 we deal with, I hope that this subcommittee will really  
2000 press. We need to increase our exports.

2001 Mr. {Stupak.} But from where I sit as chairman of  
2002 Oversight and Investigations, I see trade agreements  
2003 jeopardizing the health and safety of the American people  
2004 because it is both ways, the products we receive, and we are

2005 not doing a good job here in this country.

2006 Mr. {Vargo.} Well, you might want to have a separate  
2007 hearing on this, but on export promotion whatever  
2008 disagreements we have help us promote exports. Thank you.

2009 Mr. {Rush.} The gentleman's time is up, and the chair  
2010 really wants to emphasize that is why we have two committees,  
2011 the Oversight and Investigations Committee, which the  
2012 chairman does an exceedingly good job. He has been keeping  
2013 the American people safe for as long as he has been chair of  
2014 that committee, and I really want to commend him, but we will  
2015 be--this committee is dedicated to promoting trade,  
2016 international trade, as a response to our economic problems  
2017 that we are facing as a nation. And so that is the purpose  
2018 of this hearing, and that will be the purpose of the  
2019 attention of this committee. I really want to thank all of  
2020 the members of the panel. You have really been a tremendous  
2021 asset to us here on the committee. Your testimony has been  
2022 most forthright and informative to us, and we certainly want  
2023 to let you know that we appreciate you taking your time from  
2024 your busy schedule to be with us today. And we thank you for  
2025 enlightening us with your testimony. The chair now calls  
2026 this committee to close. The committee right now is  
2027 adjourned.

2028 Right before we adjourn, the chair asks for unanimous

2029 consent to enter the statement of Mr. Dennis Slater. He is  
2030 the President of the Association of Equipment Manufacturers,  
2031 and without any dissent with unanimous consent to enter Mr.  
2032 Slater's statement into the record.

2033 [The prepared statement of Mr. Slater follows:]

2034 \*\*\*\*\* INSERT 6 \*\*\*\*\*

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2035           Mr. {Rush.}   The subcommittee now stands adjourned.  
2036           [Whereupon, at 12:04 p.m., the subcommittee was  
2037 adjourned.]