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3 HEARING ON ``MADE IN AMERICA: INCREASING JOBS THROUGH

4 EXPORTS AND TRADE''

5 WEDNESDAY, MARCH 16, 2011

6 House of Representatives,

7 Subcommittee on Commerce, Manufacturing, and Trade

8 Committee on Energy and Commerce

9 Washington, D.C.

10       The subcommittee met, pursuant to call, at 10:10 a.m.,  
11 in Room 2322 of the Rayburn House Office Building, Hon. Mary  
12 Bono Mack [Chairwoman of the Subcommittee] presiding.

13       Members present: Representatives Bono Mack, Blackburn,  
14 Stearns, Bass, Harper, Lance, Cassidy, Guthrie, Olson,  
15 McKinley, Pompeo, Kinzinger, Barton, Butterfield, Gonzalez,  
16 Dingell and Towns.

17       Staff present: Paul Cancienne, Policy Coordinator,  
18 Commerce, Manufacturing, and Trade; Robert Frisby, Detailee,

19 Commerce, Manufacturing, and Trade; Debbie Keller, Press  
20 Secretary; Brian McCullough, Senior Professional Staff  
21 Member, Commerce, Manufacturing, and Trade; Carly McWilliams,  
22 Legislative Clerk; Gib Mullan, Chief Counsel, Commerce,  
23 Manufacturing, and Trade; Shannon Weinberg, Counsel,  
24 Commerce, Manufacturing, and Trade; Andrew Powalenty;  
25 Michelle Ash, Democratic Chief Counsel; and Will Wallace,  
26 Democratic Policy Analyst.

|  
27 Mrs. {Bono Mack.} The subcommittee will come to order.

28 This is the second in our series of hearings aimed at  
29 fostering job creation across the United States and to make  
30 ``Made in America'' matter again.

31 Today, with Japan reeling from a catastrophic earthquake  
32 and tsunami and violent turmoil in the Middle East spreading,  
33 our Nation's trade outlook is more clouded than ever. As  
34 chairman of the subcommittee which has jurisdiction over  
35 trade issues, I am convinced that we can create tens of  
36 thousands of desperately needed jobs in our Nation by  
37 expanding U.S. exports through our free trade agreements.  
38 The chair now recognizes herself for an opening statement.

39 In 2007, Apple introduced its very first iPhone and  
40 Congress finally approved the United States-Peru Trade  
41 Promotion Agreement after years of give and take. Since  
42 then, there have been three new generations of iPhones, two  
43 iPads and several new nano iPods but not a single free trade  
44 agreement signed into law. Not one. So while American  
45 ingenuity zips along at millions of bits per second,  
46 America's trade policies are stuck in the fax age, and it is  
47 time for an upgrade. Our subcommittee has a unique  
48 opportunity to roll out a new model for the future and to  
49 demonstrate leadership on this critically important issue.

50 But time is running out.

51 America's \$46 billion trade deficit in January grew at  
52 the fastest rate in 18 years. While Washington rolls its  
53 eyes and wrings its hands, our competitors in Europe are busy  
54 signing on the dotted line and moving quickly into promising  
55 new markets. We simply cannot wait on the sidelines any  
56 longer, allowing ourselves to be benched by partisan  
57 politics. Today, we will hear what the Administration plans  
58 to do about the trade imbalance from Francisco J. Sanchez,  
59 Under Secretary of Commerce for International Trade.

60 Let me be clear: long-stalled trade promotion agreements  
61 with South Korea, Colombia and Panama should move forward  
62 immediately--all of them. Years of lost opportunities have  
63 only resulted in thousands of lost jobs all across the  
64 county. Let us make ``Made in America'' matter again by  
65 actually increasing jobs through expanded exports and trade.  
66 If you doubt that we can do it, then just consider the iPhone  
67 again. Today, Apple is the second most valuable company in  
68 the world, and yet at one point it was 90 days from  
69 bankruptcy court. Apple didn't turn around its fortunes by  
70 being timid and parochial. Instead the company was bold and  
71 innovative. Apple sold shares to rival Microsoft and agreed  
72 to make Internet Explorer its default browser. That is the  
73 kind of decisive, forward-looking thinking we need today when

74 it comes to our trade policies.

75         President Obama has vowed to double exports in 5 years,  
76 but that is simply not going to happen if we continue to  
77 allow free trade agreements to be held hostage by organized  
78 labor and to languish in limbo. It is disingenuous for the  
79 Administration to say: ``Let us work together to create new  
80 jobs, but not if it means passing all three trade agreements  
81 together.'' That is the kind of thinking that leads to a \$46  
82 billion U.S. trade deficit in January, and that is the kind  
83 of thinking that threatens the future prosperity of our  
84 Nation.

85         To date, the Administration has not offered any detailed  
86 plans for opening up trade with Colombia and Panama. We have  
87 gotten plenty of promises, but no plans. It is time to quit  
88 playing politics with our trade policies. Tens of thousands  
89 of new jobs hang in the balance, as well as tens of billions  
90 of dollars in new exports.

91         Today, American businesses are genuinely concerned and,  
92 I believe, rightfully so, that if the proposed the United  
93 States-Korea agreement is finally approved this year by  
94 itself, then separate trade deals with Colombia and Panama  
95 will be quietly forgotten, as a concession to organized  
96 labor. If that is not the case, Secretary Sanchez, then this  
97 is the Administration's golden opportunity to set the record

98 straight. Please tell us how the White House plans to deal  
99 with all three free-trade agreements. Today, you have a  
100 chance to make some news, and to give American businesses a  
101 reason to cheer. I have my fingers crossed, Mr. Secretary,  
102 but at the very least, let us make sure our signals are not  
103 crossed. Exactly what is the Administration's plan and what  
104 is the timetable for accomplishing it?

105         Recently, Secretary of State Clinton said, and I am  
106 quoting now, ``Our goal is to have all three pending  
107 agreements--Korea, Panama and Colombia--with their  
108 outstanding issues addressed and approved by Congress this  
109 year.'' And, yet, with the next breath, an Administration  
110 official warns that trying to pass all three free trade  
111 agreements together, and quoting again, ``is putting all  
112 three agreements at risk.'' Perhaps I lost the fax, Mr.  
113 Secretary, but how do you reconcile those positions?

114         It is my sincere hope that we can put politics aside,  
115 work out our legitimate differences and approve all three  
116 trade agreements this year. We simply cannot sit on the  
117 sidelines any longer while other nations gain footholds in  
118 promising, new global markets. Too much is at stake for us to  
119 fail.

120         [The prepared statement of Mrs. Bono Mack follows:]

121 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
122 Mrs. {Bono Mack.} I yield back my time and I would like  
123 to recognize the gentleman from North Carolina, the ranking  
124 member of our subcommittee, Mr. Butterfield, for 5 minutes.

125 Mr. {Butterfield.} Let me thank you, Chairman Bono  
126 Mack, for convening this very important hearing. This is a  
127 timely conversation and I am glad that we are finally having  
128 it.

129 A major part of our economic recovery is indeed  
130 increased exports. The President seems to get it. He  
131 clearly knows that increasing exports is key to the American  
132 economy returning to the pre-recession levels. To that end,  
133 during the State of the Union the President announced the  
134 goal of doubling U.S. exports by 2014, a goal that requires  
135 exports to grow to \$3.14 trillion at the end of that period.  
136 In March 2010, the President issued an Executive Order  
137 officially creating the Export Promotion Cabinet, which  
138 oversees the coordination and implementation of the National  
139 Export Initiative. We refer to it as NEI. The NEI brings  
140 together secretaries from seven federal departments as well  
141 as the heads of other federal entities. As Commerce  
142 Secretary Locke said recently, ``The NEI represents the first  
143 time the United States will have a government-wide export  
144 promotion strategy with focused attention from the President

145 and his Cabinet.''

146           Other nations have employed similar strategic  
147 initiatives to their benefit, and it is absolutely essential  
148 that the United States embrace the NEI by working towards its  
149 goal of improving advocacy and trade promotion, increasing  
150 access to export financing, removing trade barriers,  
151 enforcing trade rules and adopting policies that promote  
152 sustainable and balanced growth.

153           We have great potential to export more. With the  
154 world's population at nearly 7 billion people, 95 percent of  
155 those live outside of our country. The products they  
156 purchase and the equipment they use must come from somewhere  
157 else. There is no reason it shouldn't be from the United  
158 States. Recent data indicates that foreign markets are  
159 buying more and more U.S. goods. With only a year under  
160 NEI's belt, exports have grown 17 percent, let me repeat  
161 that, 17 percent, but more must be done. We must not focus  
162 solely on convincing foreign entities to purchase goods that  
163 we already make. Instead, we must also encourage American  
164 businesses to innovate and develop cutting-edge products that  
165 will be attractive to fast-growing foreign markets. We must  
166 make more in America. This is beginning to happen in areas  
167 like medical technology and green technology and agriculture,  
168 but innovation is just one part of the effort to increase

169 exports. Exposure to foreign markets is another equally  
170 important piece to this puzzle.

171         The ITA has been moving at a blazing pace to participate  
172 in trade and reverse trade missions to put American  
173 manufacturers in front of foreign buyers. Their efforts have  
174 paid off with ITA executing 35 trade missions in 31 countries  
175 involving some 400 U.S. companies within the last year,  
176 resulting in an anticipated \$2 billion in increased exports.  
177 It is my hope that small- and medium-sized enterprises across  
178 the United States, those same businesses that are the focus  
179 of NEI, will avail themselves of the tremendous opportunities  
180 to begin or increase exports to foreign markets. This could  
181 yield immeasurable benefits to the U.S. economy and could  
182 mean tens of thousands of new good-paying goods, dramatically  
183 transforming struggling communities like Rocky Mount, North  
184 Carolina, located in my Congressional district, where the  
185 unemployment rate is 12 percent. Just a small increase in  
186 exports could yield tremendous benefits for the American  
187 people and for industry across the country.

188         I want to thank the witnesses for being here today, the  
189 Under Secretary and the other witnesses. I read your  
190 testimonies last evening. I look forward to working with  
191 American businesses and my colleagues in a collaborative  
192 effort to increase American exports.

193           Thank you, and before I yield back, I want to read this  
194 note, Madam Chairman. Just go ahead and yield back? All  
195 right. I yield back. I saw the chairman emeritus down at  
196 the end of the panel. I wanted to see if he needed time, but  
197 they are going to work that out later. Thank you. I yield  
198 back.

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

200           \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
201           Mrs. {Bono Mack.} I thank the gentleman, and Chairman  
202 Upton yielded his 5 minutes for an opening statement to me in  
203 accordance with committee rules. As his designee, I now  
204 recognize Ms. Blackburn, the vice chairman of the  
205 subcommittee, for 2 minutes.

206           Mrs. {Blackburn.} Thank you, Madam Chairman. Welcome  
207 to our witnesses.

208           Earlier this year in his State of the Union, our  
209 President laid out an encouraging goal of doubling exports in  
210 the next 3 years. We all took note of that, and now all we  
211 need is leadership so that we can achieve that objective. It  
212 is important to my State of Tennessee. Leadership is needed  
213 by both the President and by both parties in Congress to  
214 finally step up and do what is best for the economy.

215           That being said, without strong intellectual property  
216 enforcement tools in place, no free trade or exporting policy  
217 will work. In my home State of Tennessee, there are  
218 countless companies, both big and small, that rely heavily on  
219 strong U.S. export policies for their livelihoods, among them  
220 Tom James Incorporated, Bridgestone, Swiftwick Socks, Cargill  
221 Cotton, Nucor Steel, International Paper, Eastman Chemicals,  
222 FedEx, Right Thought Pens and now Volkswagen is on the way.  
223 Those are just a few of the companies that are saying get

224 this intellectual property policy right. If IP cannot be  
225 protected, innovation and commerce is going to slow. If we  
226 are to continue as the world's leading innovator, if we are  
227 to reclaim the lead in green innovation, if we are going to  
228 truly spur small business growth, we must protect  
229 intellectual property with the same vigor as physical  
230 property. We need your leadership to do so. We need the  
231 leadership of this committee, and Madam Chairman, I yield  
232 back.

233 [The prepared statement of Mrs. Blackburn follows:]

234 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
235 Mrs. {Bono Mack.} I thank the gentlelady and would like  
236 to recognize the gentleman from Texas, Mr. Barton, chairman  
237 emeritus of this committee, for 2 minutes.

238 Mr. {Barton.} Thank you. If we are holding a hearing  
239 in this subcommittee, there must be a Cabinet Secretary  
240 testifying in another subcommittee. Last week, I believe we  
241 had the Secretary of Health and Human Services and you had a  
242 hearing, so this week we have the Secretary of Energy, the  
243 chairman of the Nuclear Regulatory Commission, and we have a  
244 hearing here. So it is no disrespect to you, Mr. Secretary,  
245 that given what has happened in Japan, a lot of our members  
246 are going to be downstairs with the NRC chairman and the  
247 Energy Secretary, but we are glad you are here.

248 We are all concerned about jobs and we are all concerned  
249 about job creation. I think both sides of the aisle agree  
250 with that. Unfortunately, my friends on the Minority seem to  
251 be able to only create jobs in the government sector, and  
252 those on my side would rather we create as many jobs as  
253 possible in the private sector. Hopefully we can reach  
254 agreement that that is the way to go in this hearing.

255 There are several things that we need to do. Number  
256 one, we need to enforce our existing free trade agreements.  
257 That is easier said than done, obviously. And number two, we

258 need to pass new trade agreements, and I think you are very  
259 well aware that the Senate has yet to take up several of  
260 those agreements but hopefully in the next month or so they  
261 will. I would like to see us pass a free trade agreement  
262 with Korea, with Colombia and also with Panama.

263 And with that, Madam Chairwoman, I yield back, but  
264 welcome, Mr. Secretary.

265 [The prepared statement of Mr. Barton follows:]

266 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
267 Mrs. {Bono Mack.} I would like to recognize the  
268 gentleman from Illinois, Mr. Kinzinger, for 2 minutes.

269 Mr. {Kinzinger.} Thank you, Madam Chairman, for the  
270 time and for holding this hearing, and thank you, sir, for  
271 coming in.

272 I want to say, you know, thank you to the Administration  
273 for the support on the Korean free trade agreement. I think  
274 that is going to be very important. In my district, the free  
275 trade agreement itself will support \$75 million in exports  
276 and nearly 300 jobs. More American goods in foreign markets  
277 means more American jobs back home, and removing export  
278 tariffs on agriculture, electronics and manufactured goods  
279 makes American products more competitive in the Korean  
280 marketplace and fuels both nations' economies. History has  
281 taught us that robust trade creates jobs and strengthens the  
282 economy. Our Nation cannot afford at this critical time to  
283 pass on opportunities to expand free trade.

284 I am very concerned with this Administration's failure  
285 to lead on two remaining free trade agreements with our  
286 allies and partners to the south, Colombia and Panama. These  
287 trade agreements serve as important milestones for the  
288 bilateral relationships with these countries and failure to  
289 take action puts American exports and jobs at risk. The U.S.

290 International Trade Commission believes a Colombian agreement  
291 alone could increase U.S. exports by \$1 billion. In Panama,  
292 companies like Caterpillar build and deliver the equipment  
293 that is developing the nation's infrastructure but do so  
294 under onerous rules and fees. Free trade agreements lower  
295 costs and benefit us all.

296       Although I am pleased with the Administration's actions  
297 on Korea, I do not believe we can allow a vote on the Korean  
298 free trade agreement without taking action on Colombia and  
299 Panama. We should not give the Administration a pass on  
300 future agreements with the passage of one agreement.

301       Thank you, Madam Chairman, and I yield back.

302       [The prepared statement of Mr. Kinzinger follows:]

303 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
304 Mrs. {Bono Mack.} The gentleman yields back, and the  
305 chair recognizes the ranking member, Mr. Butterfield.

306 Mr. {Butterfield.} Thank you, Madam Chairman. I have  
307 no further speakers except to say that the ranking member of  
308 the full committee, Mr. Waxman, was here earlier. He wanted  
309 to be here for this hearing and he especially wanted to  
310 welcome his constituent, Mr. Crouse, from Capstone Turbine,  
311 but Mr. Waxman had to leave for another hearing, and I ask  
312 unanimous consent that his statement, his opening statement  
313 that he would have given had he been here, be included in the  
314 record.

315 Mrs. {Bono Mack.} Without objection.

316 Mr. {Butterfield.} Thank you. I yield back.

317 [The prepared statement of Mr. Waxman follows:]

318 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
319 Mrs. {Bono Mack.} And we did see Mr. Waxman pop in  
320 briefly so I am sorry he had to leave but as Chairman Barton  
321 said, there are other things happening as well.

322 But we do have two panels before us today. Each of the  
323 witnesses has prepared an opening statement that will be  
324 placed into the record. Each of you will have 5 minutes to  
325 summarize that statement in your remarks.

326 On our first panel, we are fortunate to have the Hon.  
327 Francisco J. Sanchez, Under Secretary of Commerce for  
328 International Trade. We appreciate your being here very much  
329 today, Mr. Secretary, and would recognize you for 5 minutes.

|  
330 ^STATEMENT OF HON. FRANCISCO J. SANCHEZ, UNDER SECRETARY OF  
331 COMMERCE FOR INTERNATIONAL TRADE

332 } Mr. {Sanchez.} Thank you. Good morning. Chairwoman  
333 Bono Mack, Ranking Member Butterfield and members of the  
334 subcommittee, thank you for giving me the opportunity to  
335 speak to you today.

336 In his State of the Union address, President Obama told  
337 Americans that the future is ours to win. By understanding  
338 how the world has changed, we can create the environment that  
339 can expand the American economy. Great opportunities lie in  
340 the vast global market. Today, 95 percent of the world's  
341 customers live outside our borders. The International  
342 Monetary Fund forecasts that 83 percent of the world's  
343 economic growth during the next 5 years will happen outside  
344 the United States.

345 The nations of the world are giving rise to a new global  
346 middle class. They are a new marketplace for American  
347 exports, and one example of this is travel and tourism. Data  
348 released just this morning reveals a record-breaking 60  
349 million international visitors in the United States,  
350 shattering the previous record set in 2000. These travelers  
351 spent more than \$134 billion. That is a 12 percent increase

352 over 2009, generating a 50 percent increase for the travel  
353 trade surplus of \$32 billion. Travel and tourism is no small  
354 industry. These exports generate \$1.3 trillion for the U.S.  
355 economy, supporting 7.8 million jobs.

356 Through the National Export Initiative and its goal of  
357 doubling exports by 2015, we hope to support millions of jobs  
358 right here at home. U.S. exports of goods and services in  
359 2010 representing \$1.83 trillion increased nearly 17 percent  
360 over 2009. That is the largest year-to-year percent increase  
361 in more than 20 years.

362 As we search for ways to create jobs for American  
363 workers, increasing our Nation's exports must be a important  
364 tool in our toolbox. On average, manufacturing jobs  
365 supported by exporting pays up to 18 percent more than non-  
366 export-supported jobs.

367 The NEI is the United States' first Presidential-led  
368 government-wide export promotion strategy and it is good for  
369 American workers and companies alike. The NEI focuses on  
370 five areas: improving trade advocacy and export promotion,  
371 increasing access to credit, especially for small- and  
372 medium-sized businesses, removing trade barriers abroad,  
373 robustly enforcing our trade laws and pursuing policies to  
374 promote strong, sustainable and balanced growth.

375 Congress created the International Trade Administration

376 to promote American companies and workers abroad. During  
377 2010, ITA assisted more than 5,500 U.S. companies. Eighty-  
378 five percent of these were small- and medium-sized companies.  
379 ITA coordinated an unprecedented 35 trade missions to 31  
380 countries with nearly 400 companies participating. We  
381 recruited 13,000 foreign buyers to major U.S. trade shows and  
382 connected them with U.S. companies, resulting in  
383 approximately \$770 million in sales. In 2010, ITA also  
384 assisted U.S. companies competing for foreign government  
385 procurement contracts, winning projects valued at \$18.7  
386 billion in U.S. export content, and that supported an  
387 estimated 101,000 jobs. We successfully resolved 82 trade  
388 barriers in 45 countries, helping to ensure U.S. companies  
389 better access to overseas markets.

390 The Obama Administration is committed to aggressively  
391 enforcing our trade laws. In 2010, we had approximately 300  
392 anti-dumping and countervailing duty orders in place covering  
393 more than 120 products from 40 countries. We strive to make  
394 ITA the one point of contact in the Federal Government for  
395 companies who want to succeed abroad. The Administration is  
396 continuing our hard work to address outstanding concerns with  
397 the pending trade agreements and to improve those agreements  
398 and get them to Congress as they become ready.

399 As this subcommittee is aware and many of you have

400 already mentioned, the United States-Korea trade agreement is  
401 ready for consideration. President Obama is eager to see  
402 this agreement ratified as I know many of you are, and he  
403 requests that Congress approve this agreement.

404         With the same engagement and bipartisan cooperation as  
405 we have had on the Korea agreement, we will continue to  
406 address outstanding concerns relating to the Panama and  
407 Colombia agreements. Our goal is to have all three of these  
408 agreements with their outstanding issues addressed approved  
409 by Congress. We will not be left behind as others secure  
410 greater market share at the expense of American exports. To  
411 compete, we must access the world's fastest-growing markets  
412 and we must do so on a playing field that is both level and  
413 reflects our values as Americans. The NEI is the Obama  
414 Administration's commitment to help U.S. companies compete  
415 and win in an increasingly competitive global marketplace.

416         I thank you again for the opportunity to come before  
417 you, and I look forward to answering your questions. Thank  
418 you.

419         [The prepared statement of Mr. Sanchez follows:]

420 \*\*\*\*\* INSERT 1 \*\*\*\*\*

|  
421 Mrs. {Bono Mack.} Thank you, Mr. Secretary. The chair  
422 recognizes herself for 5 minutes for questions.

423 As you mentioned, the President's NEI is designed to  
424 double U.S. exports by 2014. First of all, a clarification.  
425 Is that 2014 or 2015?

426 Mr. {Sanchez.} It is 2015.

427 Mrs. {Bono Mack.} The President did say in his State of  
428 the Union 2014.

429 Mr. {Sanchez.} Well, then the President is right.

430 Mrs. {Bono Mack.} Good answer. But isn't that going to  
431 be very difficult to accomplish unless we enter into new  
432 trade agreements with countries like Korea, Colombia and  
433 Panama?

434 Mr. {Sanchez.} There is no question that one of the  
435 most important things we can do to achieve the doubling of  
436 exports is reducing barriers, and trade agreements play an  
437 important role in that. In fact, we have 17 trade agreements  
438 in place now. With those 17 countries, we actually have a  
439 trade surplus.

440 Mrs. {Bono Mack.} But if we focus on the three in  
441 question, I think that a number of members raised those three  
442 specifically, is the Administration committed to getting all  
443 three trade agreements completed this year?

444 Mr. {Sanchez.} They absolutely are completed. They are  
445 absolutely committed to getting all the issues resolved and  
446 getting them to Congress as soon as possible.

447 Mrs. {Bono Mack.} What is the timetable?

448 Mr. {Sanchez.} Well, let me just say what we have done  
449 to achieve that. Obviously, Korea is ready to come before  
450 you. With Colombia, we sent a team to Colombia a few weeks  
451 ago. There is a team now from Colombia meeting with folks at  
452 USTR. We are working very, very hard to work through the  
453 issues that we believe still need to be resolved with regard  
454 to their labor code and violence toward labor organizers, so  
455 I am very confident just from the activity that you have seen  
456 over the last 8 weeks that we will move forward on Colombia.

457 Mrs. {Bono Mack.} Thank you. Switching gears for a  
458 second, Mr. Secretary, U.S. creativity without a doubt is one  
459 of our Nation's greatest competitiveness advantages but we  
460 have ignored it for too long. Around the world, especially  
461 in places like Russia, online theft is undermining that  
462 competitiveness. Can you tell me what the Administration is  
463 doing to ensure that the government of Russia effectively  
464 responds to this threat before it joins the WTO?

465 Mr. {Sanchez.} Well, you are absolutely right.  
466 Intellectual property rights protections is one of the most  
467 important trade barriers that affect American

468 competitiveness, and we work on that issue across the world,  
469 and in Russia we work closely with the business community,  
470 and Russia recently passed a law that upgrades their  
471 enforcement of piracy and counterfeit products so we--

472 Mrs. {Bono Mack.} Is piracy up or down?

473 Mr. {Sanchez.} I am sorry?

474 Mrs. {Bono Mack.} Is piracy, is the rate of it up or  
475 down?

476 Mr. {Sanchez.} I don't know the exact rate of piracy  
477 with regard to Russia. What I can tell you is, though, with  
478 our encouragement and working closely with the business  
479 community, Russia has acted to expand and upgrade its  
480 enforcement. Now, the proof is in the pudding, and this  
481 happened in late November so it is too early to tell, but I  
482 can tell you that we are closely monitoring what is going on  
483 in Russia. We are working very closely with the business  
484 community, and if we don't see a problem, we will be sure to  
485 continuously raise this issue because it is very important to  
486 our competitiveness.

487 Mrs. {Bono Mack.} And also, a number of members on this  
488 committee, specifically Ms. Blackburn and myself, are very  
489 interested and very keenly aware and we will be watching. We  
490 really hold Russia's as well as China's feet to the fire as  
491 far as piracy goes.

492 But finally, I have three yes or no questions for you, a  
493 simple yes or no, good news. Is the free trade agreement  
494 with Colombia in trouble because of opposition from labor?

495 Mr. {Sanchez.} No.

496 Mrs. {Bono Mack.} What about Panama?

497 Mr. {Sanchez.} No.

498 Mrs. {Bono Mack.} Will the agreements again get done  
499 this year?

500 Mr. {Sanchez.} I am confident we will resolve these  
501 issues and get them to Congress.

502 Mrs. {Bono Mack.} Yes or no.

503 Mr. {Sanchez.} The issues will be resolved this year.

504 Mrs. {Bono Mack.} Thank you, and I yield back my time  
505 and would recognize the ranking member for 5 minutes.

506 Mr. {Butterfield.} Thank you, Madam Chairman.

507 Mr. Under Secretary, the National Export Initiative lays  
508 out what we call a bold goal to double exports in 5 short  
509 years. It outlines priorities and strategies for  
510 streamlining U.S. government export promotion activities.  
511 That is a promising set of ideas. As chairman of the Trade  
512 Promotion Coordinating Committee, the Department has Commerce  
513 has to coordinate approximately 20 separate agencies. Is  
514 that correct?

515 Mr. {Sanchez.} Yes, sir.

516 Mr. {Butterfield.} In export promotion ranging from DOE  
517 to the U.S. Trade Representative to the Department of  
518 Agriculture, and instead of tackling the problem, the NEI  
519 creates another layer called the Export Promotion Cabinet.  
520 Mr. Secretary, in approximately 90 days the President intends  
521 to recommend how we address some of these redundancies. He  
522 has promised to do that. He should be commended. Previous  
523 Administrations only have asked for generic reorganization  
524 authority but refuse to explain how such authority might be  
525 used. So far, it sounds as if the President will recommend  
526 specifics, and trade programs are a good place to start.  
527 Would you speak to that briefly, if you would, please?

528 Mr. {Sanchez.} Yes, Congressman. Let me first say that  
529 the President's Export Promotion Cabinet does not really add  
530 another layer of bureaucracy. In fact, it is requiring  
531 cabinets to pay attention to the importance of export  
532 promotion. So for many years the Secretary of Commerce and  
533 Secretary of State were the primary Cabinet members who when  
534 they went abroad would do commercial diplomacy. Under this  
535 Export Promotion Cabinet, any Cabinet member that goes abroad  
536 is also tasked with commercial diplomacy. In addition to  
537 this, Secretary of State Clinton has directed her ambassadors  
538 and said that your performance will be measured in part by the  
539 degree to which you do commercial diplomacy. So it is more

540 than anything putting emphasis on the importance of this.

541 Now, specific to the reorganization, as President Obama  
542 said, we can always do better and it is his goal to review  
543 how we do export promotion. As you pointed out, there are  
544 many agencies that have some role to play in export promotion  
545 and it is his goal to take a fresh look at that and see how  
546 we can best do that. Now, they are just now in the process  
547 of gathering information, interviewing both folks within the  
548 government as well as in the private sector that they serve,  
549 and my understanding is that they will have a recommendation  
550 to the President in about 90 days but it is still in the  
551 process of being formulated.

552 Mr. {Butterfield.} Thank you. Some people have  
553 suggested that in order to increase exports, the United  
554 States should focus on exporting more of the same goods and  
555 the same services that it already exports or more goods and  
556 services that U.S. manufacturers are good at producing right  
557 now. That probably sounds reasonable, but I am concerned  
558 that if that is all we do, we may be forgetting the most  
559 basic tenet of economics, that is, supply and demand. So Mr.  
560 Under Secretary, can you tell me what ITA is doing to ensure  
561 that U.S. manufacturers know what goods and services other  
562 countries really want? For example, does ITA regularly  
563 survey the domestic and import markets of other countries,

564 and if so, how do we go about this?

565           Mr. {Sanchez.} Thank you for the question. We are  
566 doing rigorous analysis both on the markets that offer the  
567 best opportunity for us, and that is a combination of  
568 emerging markets--China, Brazil, India--next-tier markets  
569 like Vietnam, Indonesia, Turkey, Colombia, Peru, but also  
570 focusing on mature markets, Canada and Mexico, for example.  
571 Forty-two percent of our exports go to countries within the  
572 Western hemisphere, so we are doing rigorous market analysis  
573 and then we are superimposing on that sector analysis within  
574 each of those markets to see where we get our best bang for  
575 the buck, and I would say as the chairwoman pointed out in  
576 her opening statement, it isn't just what we do best but it  
577 is the innovation that we create. Apple is a great example  
578 of innovation and practice and the very positive impact it  
579 can have on our economy, so we are focusing on those sectors  
580 that can have the highest impact in those markets where we  
581 see high growth and high opportunity.

582           Mr. {Butterfield.} All right. I have another question  
583 but maybe the next round. Thank you. I yield back.

584           Mrs. {Bono Mack.} Under the committee rules, the chair  
585 will now recognize Mr. Pompeo of Kansas for 5 minutes.

586           Mr. {Pompeo.} Thank you, Madam Chairman, and good  
587 morning, Secretary Sanchez.

588 Mr. {Sanchez.} Good morning.

589 Mr. {Pompeo.} You talked, when you were talking about  
590 the Colombia agreement as labor being the last sticking  
591 point. Is that correct?

592 Mr. {Sanchez.} Well, the issue was certain provisions  
593 in their labor code as well as concerns about violence toward  
594 labor organizers and in particular impunity toward those who  
595 commit acts of violence.

596 Mr. {Pompeo.} And would that be the same for the Panama  
597 agreement?

598 Mr. {Sanchez.} The Panama agreement, I think one of the  
599 issues remaining has to do with their labor code. It is an  
600 issue that we are working on closely with the Panamanian  
601 government and we don't see any big problem. We don't  
602 foresee any challenges in moving that forward.

603 Mr. {Pompeo.} We had a chance to talk just briefly  
604 before the hearing started this morning, and you talked about  
605 being an evangelist for trade.

606 Mr. {Sanchez.} Yes.

607 Mr. {Pompeo.} Kansas 4th Congressional district relies  
608 on enormous trade exports. We build airplanes and airplane  
609 components in south central Kansas and we export a lot of  
610 agricultural items as well. When you are out evangelizing,  
611 do you talk to organized labor about how important trade

612 agreements are to them? I know in our district that the more  
613 trade we have--our aircraft manufacturing plants have the IAM  
614 as their primary union and we have lots of union folks that  
615 are great folks in the 4th district. These trade agreements  
616 are critical to them. I hope that you are out there talking  
617 to them about that. Can you tell me what you tell them about  
618 the importance of trade?

619       Mr. {Sanchez.} Yes. I have reached out to labor and we  
620 do meet, and I talk about the impact of the existing  
621 agreements. As I mentioned earlier, we have 17 current  
622 agreements, and in the aggregate with those 17 agreements, we  
623 have a goods surplus, a significant surplus, and so overall  
624 they have been good. Now, I acknowledge that in certain  
625 sectors and in certain communities it isn't equally  
626 distributed and some of them may be hurt and so it is  
627 important that we support those communities when those things  
628 happen. But overall for our economy, trade agreements have a  
629 positive impact. And the other thing I tell them is that  
630 again as the chairwoman pointed out in her statement is that  
631 other countries are not waiting for us to sign agreements.  
632 Agreements are being signed by the EU, by South Korea, by  
633 other countries in Southeast Asia, by countries in South  
634 America, and so if we don't move, we get left behind, and  
635 that is not good for the American economy, not good for

636 American companies and certainly not good for American  
637 workers.

638         Mr. {Pompeo.} I appreciate that. I am glad to hear  
639 that from this Administration. I think that is an important  
640 message. I know, I hear from our agriculture folks already  
641 about the delay in Colombia impacting their ability to move  
642 crops into a market that they think they can be incredibly  
643 competitive in.

644         I guess my last comment is, you had mentioned a series  
645 80, I think it was, in your statement, trade barriers that  
646 you had knocked down. Can you give me a couple of concrete  
647 examples in the last 12 months, places and particular  
648 barriers that you all took on and were successful in helping  
649 us increase exports?

650         Mr. {Sanchez.} I don't have a specific one in mind but  
651 I can give you kind of an illustration. These are initiated  
652 by a company who is trying to get into a particular market  
653 and there might be a regulation that is overly burdensome,  
654 goes beyond just responding to the public benefits that they  
655 are trying to create with the regulation and creates a  
656 barrier, so we will work with that country, with that trading  
657 partner to put a spotlight on that and reduce it. We have  
658 done this in 45 different countries including countries like  
659 China, Brazil, Turkey and India. I will be happy to get more

660 specific ones to you in writing after the hearing.

661 Mr. {Pompeo.} I would appreciate that. We have got  
662 some issues with export controls as well. I know that is not  
663 directly tied to what you do, but I think you may be heading  
664 out my way before long and I would love to get a chance to  
665 spend a few minutes talking to you about that.

666 Mr. {Sanchez.} I will be well prepared with examples  
667 before I go out to see you.

668 Mr. {Pompeo.} Thank you very much, Mr. Sanchez.

669 Mr. {Sanchez.} Thank you.

670 Mrs. {Bono Mack.} Thank you. The chair would recognize  
671 Mr. Gonzalez for 5 minutes.

672 Mr. {Gonzalez.} Thank you very much, Madam Chair, and  
673 Mr. Secretary, welcome. I know that many of us supported  
674 your appointment, nomination and confirmation, so it is great  
675 to see you here.

676 Mr. {Sanchez.} Thank you.

677 Mr. {Gonzalez.} Nothing is an easy road in Washington.

678 Mr. {Butterfield.} Will the gentleman yield?

679 Mr. {Gonzalez.} Of course.

680 Mr. {Butterfield.} When I first met the Under  
681 Secretary, the first word that came out of his mouth was  
682 ``Charlie Gonzalez.'' I yield back.

683 Mr. {Gonzalez.} And the conversation continued

684 regardless.

685           Anyway, Mr. Secretary, well, first of all, I will get  
686 the parts and stuff out of the way because I know that my  
687 colleague from Texas, Mr. Barton, alluded to the creation of  
688 private sector jobs and it is not all created by the  
689 government. I will say this about the present  
690 Administration. In the past month, I think about 35,000-plus  
691 government jobs were lost and 200,000-plus private sector  
692 jobs were created. I will say this, and I think the record  
693 will bear me out, that this Administration's record as far as  
694 creating private sector jobs far exceeds that of the years  
695 2000 to 2008, but I must say that beating the number zero of  
696 net job creation between the years 2000 and 2008 shouldn't be  
697 all that hard to do, and we do have great challenges and I am  
698 hoping that we will get past all this and figure out how we  
699 are going to get out of this tremendous recession that we  
700 still find ourselves in.

701           In a minute we are going to have the second panel, Mr.  
702 Secretary, and a couple of those witnesses, maybe three--of  
703 course, we will have the chamber and we will have think tank  
704 but we are going to have businesspeople and they are going to  
705 obviously touch on what they sense or feel is the greatest  
706 challenge to them in finding markets and such. I have not  
707 read their testimony. I am just assuming that that will be

708 the crux of the subject matter. What is your estimation?  
709 What do you think it is? What do you think they are going to  
710 tell us in the next hour or so?

711 Mr. {Sanchez.} Well, I think what the American business  
712 community tells us every day is that they understand the  
713 importance of exports and they want to export more, and so in  
714 order to do that we have to reduce trade barriers. Now, we  
715 are doing that certainly with trade agreements, which are a  
716 very important tool, but we do it in a lot of other ways as  
717 well--harmonizing standards, regulatory cooperation, really  
718 putting a spotlight on corruption or the lack of intellectual  
719 property rights protection. These are issues that of vital  
720 concern to the business community. We work very closely with  
721 them to try to reduce these non-tariff barriers every day.  
722 So I think they will tell you that we need to get the three  
723 pending trade agreements completed. I think they will also  
724 tell you that the Trans-Pacific Partnership which will also  
725 expand and benefit us in the Asia Pacific region needs to get  
726 done, and we are on track. We are hoping to have the  
727 framework for an agreement on that in November, and they will  
728 also tell you we need to the base hits. You know, trade  
729 agreements you might think of as home runs. Base hits are  
730 working every single day resolving the trade barriers that  
731 Congressman Pompeo referred to that may affect one particular

732 sector or in some cases one particular company. It is  
733 working on those issues that I mentioned country by country.  
734 I have privilege of serving on the commercial dialog with  
735 Brazil and another commercial dialog with India where we  
736 raise these issues that create non-tariff barriers. Those  
737 are the base hits that we have to be hitting every day along  
738 with the bigger home runs like trade agreements.

739 Mr. {Gonzalez.} Thank you very much, and I would yield  
740 back the balance of my time.

741 Mrs. {Bono Mack.} I thank the gentleman. The chair  
742 recognizes the gentlelady from Tennessee, Ms. Blackburn, for  
743 her 5 minutes.

744 Mrs. {Blackburn.} Thank you, and thank you, Mr.  
745 Secretary.

746 Let us stay right there talking about these emerging  
747 markets--Brazil, China, India. Tell me what you are doing to  
748 help our businesses. In Tennessee, our exports have  
749 increased tremendously. You know that. You know that this  
750 is an issue that is important to us just like the  
751 intellectual property protections are important to us and so  
752 since you raised Brazil, which is a market that we have our  
753 eyes on, talk to me about what ITA is doing on a daily basis  
754 to help businesses take advantage of opportunities that are  
755 there or to seek out and know where they can be competitive.

756 How are you helping them target and drill down on these?

757       Mr. {Sanchez.} Thank you, Madam Congresswoman. Brazil  
758 is a very important market for us. It is one of our targeted  
759 emerging markets. We have a team of trade specialists in  
760 country in Brazil as well as our domestic network that work  
761 with companies around the country to take advantage of the  
762 opportunities that exist. Let me give you a few in the  
763 infrastructure space. As you well know, Brazil is going to  
764 be host to the Olympics as well as the World Cup. It is  
765 estimated that Brazil will spend over \$200 billion in  
766 infrastructure, and American companies are well positioned to  
767 support Brazil as they grow in that space. So we are working  
768 closely with the business community promoting that. We have  
769 trade missions there. We have information available through  
770 our portal, our web portal, Export.gov, and we will continue  
771 to focus on that. So on export promotion, we are  
772 disseminating information, taking trade missions, extending  
773 gold key services, which is a customized service that is  
774 extended on a fee basis for companies that want to go down  
775 there and have appointments already made for them so they can  
776 hit the ground running. So we are doing a lot on the export  
777 promotion side.

778       Mrs. {Blackburn.} So you are facilitating the  
779 information dissemination and the awareness as well as the

780 onsite, in-country relationship?

781 Mr. {Sanchez.} Yes, ma'am. We are doing both.

782 Mrs. {Blackburn.} All right. Let me switch gears,  
783 since I just have a little bit more time left. I want to  
784 look at the export initiative.

785 Mr. {Sanchez.} Yes.

786 Mrs. {Blackburn.} And ask you a little bit about what  
787 steps the bureau is taking to make certain that we avoid  
788 duplication and redundancies and duplication of efforts among  
789 other federal agencies. You know this is something that we  
790 want to make certain we clean up a lot of the bureaucratic  
791 operational processes, so as we look at this, and you know  
792 Congress has not appropriated funding for this yet, what are  
793 you doing that is going to ensure that you get rid of some of  
794 these redundancies before you stand it up?

795 Mr. {Sanchez.} Well, let me highlight three things.  
796 First, we have the trade promotion coordinating committee,  
797 and that trade promotion coordinating committee has as its  
798 membership all of the agencies that have some role, even if  
799 it is a very small role, in export promotion. We meet  
800 regularly. We talk about what we are doing. We look for  
801 places to collaborate and cooperation. So for example, under  
802 that effort, we recognize that our best use of the trade  
803 specialists that we have both domestically and

804 internationally are for companies that are export-ready,  
805 companies that have already dipped their toe in the water and  
806 are exporting, although they may only be exporting to one  
807 market or two markets. So we have begun to focus on those  
808 companies. Now, there are a lot of companies that have  
809 never--

810 Mrs. {Blackburn.} So you are focusing more on enabling  
811 growth rather than enabling entry?

812 Mr. {Sanchez.} ITA is focused on that. SBA through  
813 this effort of making sure that we weren't doing duplication  
814 and maximizing our resources, we work with SBA who now takes  
815 the lead on companies that have never exported before.

816 Mrs. {Blackburn.} Okay.

817 Mr. {Sanchez.} So on the trade promotion coordinating  
818 committee is one. Number two, within ITA, we have looked at  
819 how we can streamline our own efforts and make it tighter, so  
820 we have a unit of manufacturing and services. Their mandate  
821 was quite broad and we are looking at now streamlining that  
822 and focusing it just on sectors that have export potential,  
823 and then more broadly, as Congressman Butterfield alluded to,  
824 the President has directed his team to look at how we do  
825 export promotion and trade policy and see if we can't do it  
826 better, more effectively and more efficiently. So on three  
827 levels we are actively--

828 Mrs. {Blackburn.} Do you feel like that in that  
829 process--and my time is nearly up. Do you feel like in that  
830 process you are picking winners and losers, or no?

831 Mr. {Sanchez.} No, that is not our job. It isn't our  
832 job, but it is our--

833 Mrs. {Blackburn.} Okay. My time is expired. I yield  
834 back.

835 Mrs. {Bono Mack.} The chair recognizes the chairman  
836 emeritus of the full committee, the distinguished John  
837 Dingell.

838 Mr. {Dingell.} Madam Chairman, thank you for your  
839 kindness, and I really much appreciate you holding this  
840 hearing. It is important leadership in a very important  
841 area. Thank you.

842 I have an excellent opening statement which I have  
843 inserted in the record, and I hope everybody will read it and  
844 find it both enlightening and enjoyable.

845 [The prepared statement of Mr. Dingell follows:]

846 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
847           Mr. {Dingell.} Now, Mr. Secretary, thank you for  
848 appearing before the committee today. I have a number of  
849 questions to ask you which though I think the best answer is  
850 a yes or no, and I will try and see that you have them in  
851 writing so that you may later make such additional comments  
852 as you find necessary. I want to tell you, I am a particular  
853 admirer of your department, particularly your Foreign  
854 Commercial Services Agency and the market access and  
855 compliance operation that you have down there. These are  
856 very important to us in our trade, and I hope my colleagues  
857 on the committee will inform themselves of the work that they  
858 do in increasing American exports and improving our trade  
859 posture.

860           President Obama recently announced that the KORUS FTA  
861 will create 70,000 jobs in the United States. Korean  
862 President Lee Myung-bak has announced that the deal will  
863 create 335,000 jobs in Korea in the next 10 years. Do you  
864 agree with these estimates? Yes or no.

865           Mr. {Sanchez.} First of all, I just want to say thank  
866 you for the kind comments about the International Trade  
867 Administration. I can't speak to the estimates by the Korean  
868 president, but yes, I do agree with the estimates and the  
869 impact on the U.S. economy.

870 Mr. {Dingell.} You have no reason to challenge either  
871 set of figures?

872 Mr. {Sanchez.} I have no reason to challenge, and I  
873 can--

874 Mr. {Dingell.} Thank you, Mr. Secretary. The  
875 International Trade Commission's 2007 report on KORUS FTA as  
876 amended in March 2010 indicated that the U.S. motor vehicles  
877 and parts trade deficit with Korea would increase between 1  
878 billion and 1.3 billion annually if FTA was implemented.  
879 Does the Department of Commerce estimate this as well? Yes  
880 or no.

881 Mr. {Sanchez.} I would need to look at that. I can't  
882 answer that.

883 Mr. {Dingell.} But you have no reason to challenge  
884 those numbers at this time?

885 Mr. {Sanchez.} Not at this time.

886 Mr. {Dingell.} I am troubled by the KORUS FTA's  
887 country-of-origin rules. Is it true that such rules permit a  
888 product from Korea with a minimum 35 percent Korean content  
889 to be considered as having originated in Korea for U.S.  
890 tariff purposes? Yes or no.

891 Mr. {Sanchez.} I am not familiar with that provision so  
892 I can't--

893 Mr. {Dingell.} I believe it is so. Do you have any

894 reason to challenge it?

895 Mr. {Sanchez.} Not at this time.

896 Mr. {Dingell.} All right. Mr. Secretary, for the sake  
897 of argument, is it possible if that be true that a Korean  
898 product with 65 percent Chinese content could be imported to  
899 the United States under the KORUS FTA's favorable tariff  
900 conditions? Yes or no.

901 Mr. {Sanchez.} If that provision is in place, I suspect  
902 that would be true.

903 Mr. {Dingell.} Now, Mr. Secretary, I note that KORUS  
904 FTA as amended last December includes a provision that allows  
905 United States to snap back its tariffs on automobiles and  
906 light trucks if Korea violates the terms of FTA. Is it true  
907 that the agreement does not allow the United States to snap  
908 back to its original 25 percent tariff on light trucks? Yes  
909 or no.

910 Mr. {Sanchez.} Mr. Chairman, I am not familiar with  
911 that provision but I have no reason to challenge your  
912 statement.

913 Mr. {Dingell.} Mr. Secretary, I appreciate your  
914 courtesy and the way you are responding. Further, Mr.  
915 Secretary, is it true that the snapback provision would allow  
916 Korea to reimpose an 8 percent tariff on U.S. vehicles while  
917 the United States would be allowed to impose a tariff of only

918 2.5 percent on Korean passenger vehicles? Yes or no.

919 Mr. {Sanchez.} Once again, I am not familiar with that  
920 specific provision but have no reason to challenge your  
921 statement.

922 Mr. {Dingell.} Mr. Secretary, I appreciate your  
923 courtesy. Finally, Commerce will bear significant  
924 responsibility in enforcing the terms of KORUS FTA. Will you  
925 commit that the Department of Commerce will do so vigorously,  
926 vigilantly and fairly?

927 Mr. {Sanchez.} Yes.

928 Mr. {Dingell.} Mr. Secretary, I want to thank you again  
929 for your appearance here. I want my colleagues to know the  
930 very great importance of the department of which you are part  
931 and the extraordinary good work that you do in stimulating  
932 our trade efforts abroad, particularly the assistance that  
933 you give to small businesses and middle-sized businesses as  
934 they seek to increase their exports and that your services in  
935 this particular area are extraordinary.

936 Madam Chairman, I think it would be useful if this  
937 committee were to take a look at that because they do superb  
938 work in these areas and they do not have the funds and the  
939 resources they need for producing the kind of benefits that  
940 they can produce if we provide them support. Again, Madam  
941 Chairman, I thank you for your courtesy and for your wisdom

942 in this matter. Thank you.

943 Mrs. {Bono Mack.} I thank the gentleman, and the chair  
944 recognizes the gentleman from Illinois, Mr. Kinzinger, for 5  
945 minutes.

946 Mr. {Kinzinger.} Thank you, Madam Chairman. Again, Mr.  
947 Secretary, how are you?

948 Mr. {Sanchez.} Good.

949 Mr. {Kinzinger.} You have obviously heard this today.  
950 You know where we are coming at on this. One of the reason  
951 disappointments I have had is just, I think, the feeling that  
952 there is no real hurry to do anything in Colombia or Panama  
953 or really this idea that we can't find out exactly what it is  
954 but there is a hesitancy. I don't know if it is an attempt  
955 to satisfy base. I don't know what is going on but there is  
956 really a hesitancy to do it, and I can tell you in my own  
957 life, prior to coming here I was and remain in the reserves,  
958 a pilot with the military, and I actually have been involved  
959 in some joint operations in the south and I can tell you they  
960 are a very strong ally of the United States, specifically,  
961 Colombia I am talking about now, Panama as well, but a very  
962 strong ally of the United States, and one of my concerns as  
963 we continue to kind of just limp along or dilly-dally and we  
964 don't pass this agreement which was negotiated years ago now,  
965 I am afraid that we begin to lose that support in Colombia

966 where the people begin to wonder, you know, what is the  
967 hesitancy. You know, every moment that goes by that this  
968 agreement is not in place that we are unable to export in a  
969 very strong way to these nations, other countries like China,  
970 European nations are very quick to come in and pick up that  
971 vacuum, pick up that slack. So I really feel that every  
972 moment that goes by not in Colombia specifically I am talking  
973 about now we are losing potentially the support of the people  
974 as they wonder what is happening and we lose market export  
975 opportunities, not to mention the fact the role that a free  
976 trade agreement or really a leveling of the playing field for  
977 us, what a free trade agreement would do in terms of just  
978 generally national defense, continuing to build that alliance  
979 in an area of the world where frankly American interests have  
980 begun to be challenged by many fronts and especially on the  
981 eastern front of Colombia. So that is a concern I have.

982         Let me ask you a few questions, and I guess I will start  
983 with one first. You testified that the Korean free trade  
984 agreement represents \$10 billion in exports and 70,000  
985 American jobs. In both that and the one with Panama and  
986 Colombia that have been sitting on the table, have there been  
987 any estimates so far about how much really has been left on  
988 the table by our failure to implement these trade agreements  
989 over the last few years, how many potentially the export

990 amount we have lost or how many jobs have not been created  
991 because this has been sitting on the table for so long?

992       Mr. {Sanchez.} I know that with the Colombia trade  
993 agreement, I can say forward leaning. I can't speak to years  
994 past but forward leaning it is estimated to increase exports  
995 by about a billion dollars to that country, Panama, I think  
996 slightly less than that. But let me just say, Congressman,  
997 that I agree with you completely in how important moving  
998 these trade agreements is. As with you, I have a history  
999 with Colombia as a businessman and I recognize Colombia not  
1000 only as a good friend and an ally but as a strong commercial  
1001 partner, so it is important to move forward on this.

1002       Mr. {Kinzinger.} Well, and so I think that is good  
1003 because from what I am hearing from you, it sounds like we  
1004 are going to have enthusiastic cooperation from the  
1005 Administration here very soon over passing all three of these  
1006 trade agreements, which I think would be great for the  
1007 American economy and I look forward to working in a  
1008 bipartisan way with the Administration on that.

1009       In your opinion, what are the biggest impediments right  
1010 now to our global competitiveness for our business and our  
1011 exports?

1012       Mr. {Sanchez.} Well, let me put them in two categories.  
1013 One is domestic. Only 1 percent of American businesses

1014 export. Compare this to Germany, 12 percent of their  
1015 business is exports. So one challenge we have is getting the  
1016 word out to American business, particularly small- and  
1017 medium-sized companies, that we can no longer look at our  
1018 market as a community, a state or--

1019 Mr. {Kinzinger.} Well, I think business knows that. I  
1020 think we need to get that out continually and I would love to  
1021 hear the Administration continue to talk about this to  
1022 organized labor, to the American people about the importance  
1023 of trade. Go ahead.

1024 Mr. {Sanchez.} Well, I think a lot of American business  
1025 does but I want to see more American businesses exporting,  
1026 and then within that 1 percent, 58 percent of those companies  
1027 only export to one market. So we need to do a better job of  
1028 selling our goods and services abroad.

1029 Mr. {Kinzinger.} Well, let me ask you something because  
1030 I am almost out of time. What about corporate tax rates?

1031 Mr. {Sanchez.} I think we need to look at everything  
1032 that can have an impact on our competitiveness.

1033 Mr. {Kinzinger.} Well, what about corporate tax rates  
1034 specifically?

1035 Mr. {Sanchez.} I think corporate tax rates should be  
1036 looked at. I think they should absolutely be looked at as--

1037 Mr. {Kinzinger.} Would you support reducing corporate

1038 tax rates so that we could reduce our costs overseas and be  
1039 more competitive in the export market?

1040 Mr. {Sanchez.} Well, I certainly support a review of  
1041 what we need to do.

1042 Mr. {Kinzinger.} All right. Thank you, sir.

1043 Mr. {Sanchez.} Thank you.

1044 Mrs. {Bono Mack.} The chair recognizes the gentleman  
1045 from New York, Mr. Towns, for 5 minutes.

1046 Mr. {Towns.} Thank you very much, Madam Chair. Let me  
1047 thank you and the ranking member for having this hearing. I  
1048 think it is a very important hearing and you are doing it in  
1049 a very timely fashion, and I like that as well.

1050 Let me ask you, since it is our job to analyze how trade  
1051 barriers are hurting American industry, will you develop an  
1052 analysis of the impact that the current visa processing  
1053 procedures and visa interview delays in key growth markets  
1054 like Brazil, China and India are having on travel to the  
1055 United States and provide it to this committee?

1056 Mr. {Sanchez.} Congressman, you raise an important  
1057 issue. I am happy to provide information that could be  
1058 useful to you and to this committee. What I can say about  
1059 that issue is that my boss, Secretary Locke, heard an earful  
1060 from American business all over the country. He then raised  
1061 this with Secretary of State Clinton. He also heard about

1062 concerns when people come to our borders and entry points so  
1063 from those conversations a working group has been established  
1064 between Commerce, State and Homeland Security to focus on  
1065 visa and entry issues. We use that working group to gather  
1066 information from the business community and make sure that  
1067 State Department and Homeland Security knows about these  
1068 issues. We also use it as dissemination of information to  
1069 the business community. So we are aware that this is a  
1070 problem that we can solve ourselves and we are working on it  
1071 and working very closely with State and Homeland Security.

1072 Mr. {Towns.} So you don't need the Congress to do  
1073 anything?

1074 Mr. {Sanchez.} Well, I wouldn't say that. What I would  
1075 say is that we will provide you any useful information that  
1076 we have gathered, particularly in the last year and a half  
1077 that we have been working closely with those two agencies on  
1078 this issue.

1079 Mr. {Towns.} In your testimony, you said that you will  
1080 use all the tools in your toolbox. What tools do we have in  
1081 that box?

1082 Mr. {Sanchez.} Well, we have a lot of tools. On the  
1083 export promotion side, we took 35 trade missions last year, a  
1084 record-setting number. We had 400 companies participate in  
1085 it. We also have an international buyers program where we

1086 bring--last year we brought 13,000 foreign buyers to our  
1087 shores to trade shows and we connected them with American  
1088 businesses where sales were made. We provide market  
1089 analysis. We have a gold key service, which is a fee-based  
1090 service for companies that want us to help them identify the  
1091 right distributors or potential buyers, and we arrange their  
1092 meetings for them in country so that is on the export  
1093 promotion side, a sample of services.

1094 On the policy side, we focus on non-tariff trade  
1095 barriers and try to work with the business community on  
1096 identifying them, putting a spotlight on those barriers and  
1097 then working with our trade partners to reduce them.

1098 Mr. {Towns.} In your testimony, you also indicated that  
1099 ``we are doing our part to keep America globally competitive  
1100 and implement President Obama's National Export Initiative.''  
1101 What are some of the things you are actually doing?

1102 Mr. {Sanchez.} Well, one is certainly reducing trade  
1103 barriers abroad. The more barriers we can reduce, the more  
1104 competitive we will be. On the domestic side, the President  
1105 is committed to the R&D tax credit and making that permanent.  
1106 One of the greatest competitive advantages we have around the  
1107 world is we invest more in research and development than any  
1108 other nation in the world. We need to continue to do that,  
1109 and the R&D tax credit will go a long way to helping that

1110 happen.

1111 Mr. {Towns.} Before I yield back, let me thank you for  
1112 the work that you are doing.

1113 Mr. {Sanchez.} Thank you, Congressman.

1114 Mr. {Towns.} I really, really appreciate it, and I  
1115 think that you are moving in the right direction. If there  
1116 is anything that we need to do on this side of the aisle, I  
1117 think you just need to voice it because I think more and more  
1118 people are beginning to realize how important it is to  
1119 improve in terms of our trade and strengthen our relationship  
1120 across the board and realizing that there is a correlation  
1121 between unemployment and crime. We have to recognize that,  
1122 and I think that more and more people realize it and that we  
1123 hope to be able to remove those trade barriers and be able to  
1124 move forward.

1125 On that, Madam Chair, I yield back.

1126 Mr. {Sanchez.} Thank you.

1127 Mrs. {Bono Mack.} I thank the gentleman. The chair  
1128 recognizes Mr. Guthrie for 5 minutes.

1129 Mr. {Guthrie.} Thank you, Madam Chairman.

1130 Thank you, Mr. Secretary, for coming today. I  
1131 appreciate that. I know you mentioned tourism earlier, and  
1132 that is a great industry. We have people coming here. I  
1133 think it is important. I guess I didn't think of it so much

1134 as exports, but it is great when people are here, and when I  
1135 hear somebody walking around with a foreign accent out here,  
1136 I will stop and talk to them because I proud to show off our  
1137 great capital city to them and appreciate them being here.

1138         But I was thinking I remember being in another country,  
1139 somewhere I won't mention, but standing in this grand  
1140 marketplace, great buildings, a castle, the whole, just  
1141 fantastic, and they were talking about the great ships that  
1142 came in and out of the harbor, and it dawned on me as I was  
1143 standing there. I said you know what their biggest industry  
1144 now is selling the history of when they were a great power,  
1145 and that is something that we need to make sure--I mean, that  
1146 was their number one industry was people coming to see the  
1147 great buildings built when it was a great power, and we have  
1148 to be mindful as we are here, and in Brazil, Brazil in the  
1149 late 1990s, I believe it might have been the mid-1990s to  
1150 late 1990s, had financial issues, deficit problems, and took  
1151 some tough medicine. They were willing to take the tough  
1152 medicine, and the president at the time, Cordoza, led that  
1153 effort. They had the same kind of federal system we have.  
1154 And look where they are now. I think the benefits of that  
1155 have paid off tremendously. It is a wonderful country, a  
1156 great place to be, 180 million people, maybe somewhere around  
1157 that.

1158 Mr. {Sanchez.} I think over 190.

1159 Mr. {Guthrie.} Over 190 million now. But I do know  
1160 there are trade barriers between Brazil. I know the  
1161 President is either going or is there.

1162 Mr. {Sanchez.} Yes.

1163 Mr. {Guthrie.} What is going on with Brazil in  
1164 particular?

1165 Mr. {Sanchez.} Well, it is certainly one of our  
1166 targeted emerging markets. As you have pointed out, many,  
1167 many years ago Brazil was called the sleeping giant. Well,  
1168 it has awoken and it is a tremendous opportunity for American  
1169 business, but also has challenges both tariff and non-tariff  
1170 barriers. As I mentioned earlier, I have the privilege of  
1171 co-chairing the commercial dialog with Brazil. That is the  
1172 vehicle we use to raise trade issues, and so we have done  
1173 everything from trying to get them to open up their express  
1174 delivery service. Express delivery is very important for our  
1175 small- and medium-sized companies who don't have their in-  
1176 house logistics operations, and we made progress there. We  
1177 are working with them on harmonizing standards in a number of  
1178 sectors but in particular in alternative energy because we  
1179 see a great opportunity to boost our efforts there. We are  
1180 working closely to bring our smart grid technology to Brazil,  
1181 so we are working on a number of fronts to create

1182 opportunities, and as I mentioned earlier, we are doing a lot  
1183 of export promotion in the infrastructure area because Brazil  
1184 will be making significant investments in that sector over  
1185 the next 6, 7 years.

1186         Mr. {Guthrie.} And that is all good. Also, just the  
1187 product manufacturing to ship in is something that is  
1188 interesting. On the export initiative that is coming out of  
1189 the White House, is it solely focused on tariff barriers or  
1190 are you trying to make ways to business more competitive? I  
1191 know you talked about the research credit, but when you talk  
1192 to businesses now, they are just concerned about the  
1193 regulatory environment. We had an issue yesterday we were  
1194 hearing in the full committee about energy costs that could  
1195 come because of the way the EPA is regulating. I know in  
1196 Kentucky manufacturing, energy, that gives us competitive  
1197 advantage in Kentucky compared to other countries because we  
1198 have low energy prices, and a lot of businesses are just  
1199 concerned not just about getting into countries and finding  
1200 out opportunities but being competitive because of the  
1201 regulatory structure that is coming down. I don't know if  
1202 you guys are looking. Is this just a Commerce Department  
1203 initiative or are you looking at--

1204         Mr. {Sanchez.} No, the National Export Initiative is a  
1205 government-wide initiative specifically on regulations. The

1206 President has directed his Administration to look at  
1207 regulations and how they affect our competitiveness, and  
1208 Commerce participates in that review. We don't get involved  
1209 in every regulatory review but those that have significant  
1210 economic impact, and then finally, looking at regulations  
1211 abroad that affect our competitiveness is something we take a  
1212 very active role in as well.

1213 Mr. {Guthrie.} And I am just about out of time. The  
1214 three trade initiatives together we have discussed today, if  
1215 they were moved in together, I don't know if you said it or  
1216 maybe I read the Administration says that would put all three  
1217 in jeopardy if they moved together. Do you find that to be  
1218 the case if we were to approve all three at the same time?

1219 Mr. {Sanchez.} You know, I am not aware of who said  
1220 that but what I can tell you is this. I know we have one  
1221 that is ready to go now, and as Ambassador Kirk said I think  
1222 in recent testimony, if we are a company and we have a  
1223 product ready to go, we ought to take that product to market.  
1224 So we are going to do that. The other two, I think we are  
1225 close. We are working very, very hard. There has been a lot  
1226 of activity with both Panama and Colombia. I know the  
1227 President is committed to getting them to Congress and so I  
1228 would say let us finish up the work we have to do on these  
1229 other two. We are working them. There have been meetings.

1230 In fact, there are meetings going on I believe today with  
1231 Colombian officials and U.S. officials, and let us move with  
1232 the product we have ready, which is Korea.

1233 Mr. {Guthrie.} All right. Thanks. I will yield back.

1234 Mr. {Sanchez.} Thank you, Congressman.

1235 Mrs. {Bono Mack.} The chair recognizes Mr. Harper for 5  
1236 minutes.

1237 Mr. {Harper.} Thank you, Madam Chair.

1238 Good to see you, Mr. Sanchez.

1239 Mr. {Sanchez.} Thank you, Congressman.

1240 Mr. {Harper.} Thank you for being here. I know you  
1241 would rather be getting a root canal right now than having to  
1242 come join us, but we thank you for your time and patience  
1243 with us today.

1244 Mr. {Sanchez.} So far it just feels like filling a  
1245 cavity.

1246 Mr. {Harper.} That is good. Well, hopefully it won't  
1247 get any worse than that.

1248 Mr. Sanchez, I wanted to talk to you about an issue that  
1249 I believe just happened very recently, perhaps yesterday,  
1250 when the Commerce Department announced the final  
1251 determination in an administrative review of the anti-dumping  
1252 duty order against frozen fish fillets from Vietnam. Of  
1253 course, this announcement, as you know, represented a

1254 reversal from a preliminary determination that your agency  
1255 announced I believe just last September. This decision seems  
1256 to be at odds with your stated mission of improving the  
1257 competitiveness of U.S. industry and taking appropriate steps  
1258 against unfair trade. What is most concerning to me is the  
1259 apparently perhaps political nature of the decision your  
1260 agency announced yesterday. I understand that just after  
1261 last September's preliminary determination, the Vietnamese  
1262 significantly stepped up the diplomatic pressure on the  
1263 Commerce Department. Further, I understand that this  
1264 diplomatic pressure culminated with a meeting only a few  
1265 weeks ago very late in the administrative review process  
1266 between you and the Vietnamese government. I also understand  
1267 that when the U.S. industry requested a meeting with you to  
1268 present their side of the case, you were personally  
1269 unavailable or unable to make room on your schedule. And  
1270 then I also understand that in just a couple of weeks,  
1271 perhaps in early April, you plan to lead a trade mission to  
1272 Vietnam, and I believe that is a good thing. You know, that  
1273 is certainly an important thing for you to do, to lead a  
1274 trade mission to Vietnam. However, I am concerned that this  
1275 recent decision perhaps may have been political in nature and  
1276 that it has been made to the detriment of a U.S. industry and  
1277 of course thousands of workers in that industry. So I would

1278 ask if you could help this committee better understand how  
1279 the department reached this final decision.

1280       Mr. {Sanchez.} Congressman, I take my role as enforcing  
1281 our trade laws very, very seriously. I think it is one of  
1282 the most important things we can do is to make sure we are  
1283 creating a level playing field at home for American business.  
1284 I can assure you, I can look you and this committee in the  
1285 eye and say that this decision was made based on the statute  
1286 that we have to follow and based on the facts in the record.  
1287 Politics played zero role in this decision. In this  
1288 particular case, a preliminary decision was--because Vietnam  
1289 is a non-market economy, we have to look at other markets to  
1290 determine our evaluation of whether or not there is dumping  
1291 going on. In the preliminary finding, we looked at the  
1292 Philippines. Subsequent to that preliminary finding, we  
1293 reviewed the record, and based on the information in the  
1294 record determined that Bangladesh was a more appropriate  
1295 market, analogous market. This was based on what was brought  
1296 in by the petitioners as well as those defending, that is,  
1297 the Vietnamese, and based on that, it was determined by our  
1298 staff that Bangladesh was the more appropriate market. Upon  
1299 doing that, that changed the calculation.

1300       But let me just close by saying enforcing our trade laws  
1301 is absolutely critical. I do that with great pride. There

1302 were no political considerations taken in making this  
1303 decision. We followed the statute and we used the facts as  
1304 were presented.

1305 Mr. {Harper.} When this change was made, when you were  
1306 looking at the surrogate market economy, so previously, let  
1307 us say back to September of 2010, before that which country  
1308 was used?

1309 Mr. {Sanchez.} I believe it was the Philippines.

1310 Mr. {Harper.} And then the change was made, was that  
1311 September of 2010 that the change was made?

1312 Mr. {Sanchez.} You can't hold me to the dates.

1313 Mr. {Harper.} But the change was made to Bangladesh?

1314 Mr. {Sanchez.} Correct.

1315 Mr. {Harper.} Did you get a pushback from the  
1316 Vietnamese government on making that change?

1317 Mr. {Sanchez.} I got no pushback on any change, and if  
1318 we had gotten a pushback, it wouldn't have made a difference.  
1319 The only thing that would make a difference is the facts that  
1320 are presented to us, what makes the most sense as we apply  
1321 the statute.

1322 Mr. {Harper.} You understand our concern, though?

1323 Mr. {Sanchez.} I absolutely understand.

1324 Mr. {Harper.} The appearance and the timing and some of  
1325 those events that took place, we just needed to get a better

1326 explanation on that.

1327 Mr. {Sanchez.} I understand.

1328 Mr. {Harper.} With that, I yield back.

1329 Mrs. {Bono Mack.} I thank the gentleman. The chair  
1330 recognizes Dr. Cassidy for 5 minutes.

1331 Dr. {Cassidy.} Hello, sir.

1332 Mr. {Sanchez.} Hello, Congressman.

1333 Dr. {Cassidy.} I am struck as I look at--can you just  
1334 speculate on the potential benefits to our export of products  
1335 such as rice if we complete that Colombia free trade  
1336 agreement?

1337 Mr. {Sanchez.} I can't speak specifically to rice but I  
1338 can speak without any hesitation that the trade agreement  
1339 would be very, very good for American business, and the  
1340 President fully supports getting that completed and getting  
1341 it to Congress. I can tell you that I would like to see it  
1342 completed because it will help me in my job doubling exports  
1343 by 2014, as the President pointed out.

1344 Dr. {Cassidy.} Now, there has been concern from some  
1345 folks that Colombia's human rights record is such that we  
1346 should not have that free trade agreement. Do you have any  
1347 assessment of that?

1348 Mr. {Sanchez.} Well, my understanding is that the  
1349 issues that we are focused on are certain provisions in the

1350 Colombia labor code and concern about violence toward labor  
1351 organizers and the impunity that happens when violence  
1352 occurs, that people literally have gotten away with murder.  
1353 What I can say is that the Colombian government is a strong  
1354 collaborator in confronting these issues and working with us  
1355 to address those concerns. We have been meeting with them.  
1356 There has been a lot of activity over the last 6 weeks, I  
1357 would say, and I think that both the Colombian government and  
1358 our team are committed to working through the concerns we  
1359 have, finding a solution and getting this to Congress as soon  
1360 as possible.

1361 Dr. {Cassidy.} Not to put words in your mouth, but it  
1362 is my general sense that there has been dramatic improvement  
1363 in that record over the last decade.

1364 Mr. {Sanchez.} I think there has been. I have a  
1365 personal history with Colombia and I would agree with you. I  
1366 think there have been improvements and I am particularly  
1367 impressed with the Santos administration, the current  
1368 administration that has taken great steps to focus  
1369 particularly on this issue that concerns us. In addition to  
1370 that, the vice president of Colombia was a 20-year labor  
1371 leader and he is a strong proponent of the free trade  
1372 agreement.

1373 Dr. {Cassidy.} So some of the criticism was that the

1374 violence was particularly directed towards labor unions so  
1375 the fact that he is a labor leader and also a leader in their  
1376 government I presume is particularly significant.

1377         Mr. {Sanchez.} Well, I think he is a strong voice to  
1378 underscore that he is going to pay attention to the concerns  
1379 that we have raised, and they actually have taken a lot of  
1380 steps since August when they took--

1381         Dr. {Cassidy.} Let me interrupt, just because I have  
1382 limited time.

1383         Mr. {Sanchez.} Sure.

1384         Dr. {Cassidy.} Now, what I am about to ask is kind of  
1385 sociological in nature so you may defer. It is my general  
1386 impression, though, that as countries become bigger trading  
1387 partners, they become more prosperous, and as they become  
1388 more prosperous, there are more employment opportunities for  
1389 folks rather than to be a mule to bring cocaine across the  
1390 border. So do you know if there is a body of literature that  
1391 suggests that as a country becomes more prosperous, they are  
1392 less likely to resort to international criminal activity?

1393         Mr. {Sanchez.} I am not familiar with any body of  
1394 literature that focuses on that but what I can tell you is  
1395 that I believe that a Colombia trade agreement will be good  
1396 for our country.

1397         Dr. {Cassidy.} Now, let me ask you, changing subjects,

1398 my district, Louisiana Baton Rouge area, has a lot of  
1399 petrochemical plants. When I was looking over our exports to  
1400 Korea, and we have apparently lost many of our petrochemical  
1401 imports to China. Now, is that a function of China just  
1402 having proximity? Is it a function of China, you know, not  
1403 having the same environmental regulations and so that they  
1404 can lower the cost of production because they can potentially  
1405 pollute with impunity or is it because no, these tariffs are  
1406 actually the barrier, and if we eliminate these tariffs,  
1407 whatever else is there we will overcome it?

1408 Mr. {Sanchez.} I believe it is probably a combination  
1409 of many of the things that you mentioned. What I do know is  
1410 by ratifying this agreement, we will put our American  
1411 companies in a much better competitive position and I believe  
1412 it will help and benefit companies in Louisiana as well as  
1413 other States around the country.

1414 Dr. {Cassidy.} It has been my general impression that  
1415 if we do a value-added product, oftentimes the Chinese don't  
1416 do that well. They do the commodity generic product but the  
1417 value-added they don't, but of course, the value-added is the  
1418 most value.

1419 Mr. {Sanchez.} Well, what I would say, and I think we  
1420 will agree on this, is that when you lower barriers both  
1421 tariff and non-tariff, we can compete with anybody in the

1422 world, and I believe that those companies in Louisiana will  
1423 be well served by the Korea trade agreement.

1424 Dr. {Cassidy.} I will add to that, our workers can out-  
1425 compete with anybody.

1426 Mr. {Sanchez.} I agree with you.

1427 Dr. {Cassidy.} I yield back. Thank you.

1428 Mr. {Sanchez.} Thank you, Congressman.

1429 Mrs. {Bono Mack.} The chair recognizes Mr. McKinley for  
1430 5 minutes.

1431 Mr. {McKinley.} Thank you, Madam Chairman.

1432 Sorry I am late. We have a meeting downstairs going and  
1433 I am splitting my time.

1434 Mr. {Sanchez.} I heard I have competition.

1435 Mr. {McKinley.} I have a series of things. I am coming  
1436 from the northern section of West Virginia, and you have a  
1437 representative there in our district that is helping out, but  
1438 I have had conversations with him and he is very frustrated  
1439 with what is happening long term. The last American  
1440 manufacturer of china is existing in the northern district,  
1441 Homer Laughlin China, and he is holding on. He has got 900  
1442 union jobs and he is struggling, and he is looking for help  
1443 and apparently we can't help him with the tariffs. He is up  
1444 against all the countries that we have free trade with and he  
1445 is losing. He can't keep up.

1446 Mr. {Sanchez.} In the Chinese market, or you are  
1447 talking about generally?

1448 Mr. {McKinley.} All his china. He makes Fiestaware.  
1449 It is one of his main products that you will see across  
1450 America is Fiestaware, but he is competing with India,  
1451 Vietnam, Indonesia, Japan, China, and he is struggling, and I  
1452 don't have answers for him. But when I asked him what could  
1453 we do to help, he said just give me some tariff protection  
1454 and I can compete with them. But with the fact that he has  
1455 to work with so many of the EPA requirements for air and  
1456 water quality against people that are not and paying a living  
1457 wage, it is very difficult for him. So I would like to have  
1458 some direction how we could help Homer Laughlin China to get  
1459 through all this because I have seen the demise. In the  
1460 northern section of West Virginia, we had a chemical industry  
1461 which was very vibrant, now gone. The glass industry, we had  
1462 Fenton, Fostoria, Viking Glass, all gone because of imports.  
1463 I don't want to see Homer Laughlin go the same way. In fact,  
1464 we are trying to hold on to those. So I am hoping you can  
1465 see there is a general problem I have with free trade, where  
1466 we are going with that. We have a steel industry that they  
1467 used to have 30,000--we had two steel companies, Weirton  
1468 Steel and Wheeling Pittsburgh Steel with 30,000 steelworkers  
1469 just 15, 20 years ago. Now we have less than 2,000, and when

1470 you speak to them about it, it is all about imports where  
1471 China and Japan have dumped their steel in America but it is  
1472 so costly and so time-consuming to get litigation, they just  
1473 give it up, so we are down now to 2,000 with the prospects of  
1474 them finally just shutting the doors after a long and very  
1475 illustrious history and full employment where families have  
1476 been counting on that. And then we have Marble King down in  
1477 Paden City, West Virginia, the largest manufacturer of marble  
1478 products in the country. She is struggling against imports  
1479 that are coming in that are unfairly priced and she has been  
1480 told by everyone she has to take it before whatever, is it  
1481 the WTO or what? She can't afford to do that. She is just a  
1482 small operation.

1483         What are small companies supposed to do? Do we have a  
1484 mentality that if you are a U.S. Steel or Weirton Steel you  
1485 can handle it but these small companies are struggling.  
1486 Homer Laughlin has just 900 employees. They are struggling.  
1487 What can we do to help them?

1488         Mr. {Sanchez.} Well, Congressman, in that particular  
1489 case, if you will get me contact information, I will make  
1490 sure that our team--

1491         Mr. {McKinley.} Could you have your staff contact us?

1492         Mr. {Sanchez.} I would be happy to, and we will reach  
1493 out to them--

1494 Mr. {McKinley.} They said they have reached out and  
1495 they are hearing nothing back, so--

1496 Mr. {Sanchez.} Well, count on it. We will reach out to  
1497 them and we will sit down with them and see how we can be of  
1498 help. For the broader issue, there is no question that some  
1499 communities are disadvantaged by trade agreements. Those  
1500 communities, we need to give them help and we have programs  
1501 in place. The Trade Adjustment Assistance Program, one that  
1502 President Obama is promoting from our department is the  
1503 economic adjustment assistance program that helps workers,  
1504 companies and communities. We can't leave communities behind  
1505 as we pursue these agreements.

1506 Mr. {McKinley.} We feel left behind.

1507 Mr. {Sanchez.} And so we need to make sure that we are  
1508 doing everything we can to help as the world marketplace  
1509 changes and affects some communities very positively and  
1510 others quite negatively. So any way that we can help your  
1511 community, count on us to be there to do that, and our staff  
1512 will reach out to your staff specifically to work on helping  
1513 this company that you mentioned.

1514 Mr. {McKinley.} Thank you very much.

1515 Mr. {Sanchez.} Thank you, Congressman.

1516 Mrs. {Bono Mack.} All right. The chair would like to  
1517 recognize Mr. Olson for 5 minutes.

1518 Mr. {Olson.} Thank you, Madam Chairman.

1519 Sir, I am from Texas, and I want to ask you about the  
1520 beef industry and the impact of the Korean free trade  
1521 agreement upon that industry. As you know, Texas produces 14  
1522 percent of the total U.S. cattle and 16 percent of the total  
1523 U.S. beef cows, and under this free trade agreement, we are  
1524 slapped with a 40 percent tariff before this beef from Texas,  
1525 American beef, reaches Korean soil, and that is not  
1526 something--we need to get rid of that tariff. I mean, I  
1527 understand that the agreement does get rid of that, and I ask  
1528 you to stick to that because it is important for our country.

1529 Also, Australia is very close to finalizing their  
1530 agreement and they are a large beef producer as well, and  
1531 could I go back to the beef producers in my State and tell  
1532 them that this Administration is going to fight for them to  
1533 end that 40 percent tariff and get American beef in South  
1534 Korea?

1535 Mr. {Sanchez.} Congressman, what I can tell you is that  
1536 one of the reasons that we didn't bring the Korea trade  
1537 agreement forward sooner is that we were working on that very  
1538 issue, so we are very much aware of the impact of tariffs on  
1539 the beef industry. It is probably still not perfect but it  
1540 is far better, and we will continue to fight once it is  
1541 ratified to make sure the implementation of this agreement

1542 makes good on the commitments that were made on beef.

1543           Mr. {Olson.} Yes, sir, I appreciate that, and as I  
1544 understand it, the original tariffs were put on our beef  
1545 because of mad cow disease, and obviously that is not a  
1546 factor right now. That was something that was a viable  
1547 argument maybe 5, 10 years ago and so again it is very  
1548 important for my beef producers back home that we have a fair  
1549 market there in Korea. It is a big market and we want that  
1550 market to be a U.S. market, not an Australian market.

1551           Mr. {Sanchez.} Got it.

1552           Mr. {Olson.} Thank you, sir.

1553           Mr. {Sanchez.} Thank you, Congressman.

1554           Mr. {Olson.} I yield back my time.

1555           Mrs. {Bono Mack.} All right. Seeing no other members  
1556 present, I would like to just thank you very much, Mr.  
1557 Secretary, for your time today. You have been very gracious,  
1558 and just to say to you that it is our plan to work with you  
1559 and Secretary Locke and the successor, whoever might have  
1560 that next post to move our country forward and really make  
1561 ``Made in America'' matter again. So thank you for your  
1562 time.

1563           At this point we are going to take about a brief little  
1564 maybe 2- or 3-minute recess as we reset the table, and again,  
1565 thank you. We are hope you are back again soon and often.

1566 Mr. {Sanchez.} Thank you very much for the opportunity  
1567 to be with you. I really appreciate it and look forward to  
1568 working with all of you and expanding export of American  
1569 products and services. Thank you.

1570 Mrs. {Bono Mack.} Thank you.

1571 On our second panel, we have, as you can see, five  
1572 witnesses. Our first witness is Robert W. Holleyman, II,  
1573 President and Chief Executive Officer of the Business  
1574 Software Alliance. Welcome. Our second witness is--oh,  
1575 okay, not in order, but another witness is Daniel Ikenson,  
1576 Associate Director of the Center for Trade Policy Studies at  
1577 the CATO Institute. Welcome. Also testifying today is John  
1578 Murphy, Vice President, International Affairs for the U.S.  
1579 Chamber of Commerce. We also have Jack J. Pelton, President,  
1580 Chairman and CEO of Cessna Aircraft Corporation, and finally  
1581 we have James Crouse, Executive Vice President of Sales and  
1582 Marketing for the Capstone Turbine Corporation.

1583 Welcome to each of you. You will each be given 5  
1584 minutes to make your testimony. To keep track of time, there  
1585 are timers on either side. If you need to slide them down so  
1586 you have a better view of them, feel free to do that. When  
1587 you see the yellow light, you are down to 1 minute, and when  
1588 it hits red, if you could briefly sum up your remarks, I  
1589 would appreciate it very much. So we are going to recognize

1590 Mr. Holleyman first for 5 minutes. Welcome.

|  
1591 ^STATEMENTS OF ROBERT HOLLEYMAN, II, PRESIDENT AND CHIEF  
1592 EXECUTIVE OFFICER, BUSINESS SOFTWARE ALLIANCE; JOHN MURPHY,  
1593 VICE PRESIDENT, INTERNATIONAL AFFAIRS, U.S. CHAMBER OF  
1594 COMMERCE; JACK J. PELTON, PRESIDENT, CHAIRMAN AND CEO, CESSNA  
1595 AIRCRAFT COMPANY; DANIEL IKENSON, ASSOCIATE DIRECTOR, CENTER  
1596 FOR TRADE POLICY STUDIES, CATO INSTITUTE; AND JAMES CROUSE,  
1597 EXECUTIVE VICE PRESIDENT OF SALES AND MARKETING, CAPSTONE  
1598 TURBINE CORPORATION

|  
1599 ^STATEMENT OF ROBERT HOLLEYMAN, II

1600 } Mr. {Holleyman.} Thank you very much, Madam Chairman,  
1601 Mr. Ranking Member, members of this subcommittee. It is  
1602 indeed a pleasure to be with you today.

1603 This is all about creating jobs and what is the link  
1604 between U.S. export policy and American jobs, and the  
1605 software industry certainly knows from experience how to do  
1606 that and we think there are some lessons that can apply to  
1607 the broader economy.

1608 Software contributes a \$36 billion trade surplus to the  
1609 United States. We employ nearly 2 million Americans at twice  
1610 the national average wage. And there is one simple thing  
1611 that would allow us to contribute even more and have broader

1612 impacts on the U.S. economy, and that is to reduce software  
1613 theft. For us, the challenge is not how to encourage  
1614 businesses in other countries to use American software. They  
1615 are already using it in overwhelming numbers. But too often  
1616 they are not paying for it, and so stopping illegal software  
1617 use will certainly create jobs for the software industry but  
1618 it will also create jobs in the rest of the American economy,  
1619 and let me explain that.

1620         Software is an essential tool of production, and nearly  
1621 every company and business in every sector relies on software  
1622 to create products and to do business. That includes  
1623 everything from manufacturing to transportation to financial  
1624 services. In the United States, 80 percent of businesses pay  
1625 for their software, in contrast, in countries like China,  
1626 where 80 percent of the businesses do not pay for their  
1627 software. The result is an unfair competitive advantage.  
1628 For companies who are operating in countries that use  
1629 software to run their operations but don't pay for it, then  
1630 they have an ability to undercut U.S. companies who do by and  
1631 large pay for their software, and this unfair competition  
1632 undermines U.S. products, U.S. sales, U.S. exports and  
1633 displaces U.S. jobs far outside of the software industry.  
1634 More than \$50 billion of software is installed illegally  
1635 around the world, and this problem is fastest growing in

1636 large, emerging markets like China where the PC market is  
1637 exploding and the software sales are not tracking.  
1638 Microsoft, one of our members, commissioned a study by  
1639 Dartmouth economists, who estimated that eliminating piracy  
1640 in China for Microsoft products alone would create as many as  
1641 60,000 new jobs throughout the U.S. economy, and of course,  
1642 this would be expanded significantly when extended to other  
1643 companies.

1644         The United States government has a variety of trade  
1645 tools at their disposal to secure better protection overseas,  
1646 and we believe they must be used. But to maintain our  
1647 leverage in negotiations with trade partners, we also have to  
1648 lead by example in this countries. Federal agencies already  
1649 require the use of legal software within the Federal  
1650 Government but we must also extend this to the next logical  
1651 step to ensure that federal contractors are also using legal  
1652 software. The U.S. Intellectual Property Enforcement  
1653 Coordinator, Victoria Espinel, is exploring that very idea  
1654 and others as part of her joint strategic plan on IP  
1655 enforcement, and Madam Chairman, I want to thank you for your  
1656 role and cosponsorship in helping create through the IP Act,  
1657 the PRO-IP Act, that position which has been enormously  
1658 important domestically and internationally.

1659         But this Congress with the Administration has an even

1660 more important role: that is, to keep up the pressure on  
1661 every country that is using illegal software because it not  
1662 only hurts the software industry but it hurts more businesses  
1663 more broadly, and I would use China as the recent example  
1664 where Congress weighed in quite strongly about the unfair  
1665 competitive advantage that exists because of the use of  
1666 illegal software in that country where President Obama raised  
1667 directly with President Hu Jintao that issue on multiple  
1668 meetings. We now have good commitments in place but  
1669 unfortunately, I will report, that we have not yet seen any  
1670 measurable increase in sales of legitimate software by our  
1671 companies as a result, and I think we know and share with  
1672 you, as we do with the Administration, that the ultimate test  
1673 is not the commitments but the ultimate test is whether we  
1674 see increased sales and exports of U.S. software in these  
1675 high-value markets that will benefit not only software jobs  
1676 but it will better level the playing field between all  
1677 sectors of the U.S. economy.

1678         So thank you for this opportunity to testify.

1679         [The prepared statement of Mr. Holleyman follows:]

1680 \*\*\*\*\* INSERT 2 \*\*\*\*\*

|  
1681 Mrs. {Bono Mack.} Thank you.

1682 Mr. Murphy, you are recognized now for 5 minutes.

|  
1683 ^STATEMENT OF JOHN MURPHY

1684 } Mr. {Murphy.} Good afternoon. Madam Chairman Bono  
1685 Mack, Ranking Member Butterfield, it is a pleasure and a  
1686 welcome opportunity for me to testify before this  
1687 subcommittee today.

1688 For the U.S. Chamber of Commerce, no priority facing our  
1689 Nation is more important than putting Americans back to work.  
1690 With nearly 9 percent of the workforce unemployed, the  
1691 biggest policy challenge we face over the next decade is to  
1692 create the 20 million jobs that we need to replace the jobs  
1693 lost in the recession and to meet the needs of our growing  
1694 workforce.

1695 With booming demand overseas for U.S. goods and  
1696 services, we believe that trade can play a vital role in  
1697 reaching this goal. The opportunities are immense. Already,  
1698 more than 50 million Americans are employed by firms that  
1699 engage in international trade. One in three manufacturing  
1700 jobs depends on exports, and 1 in 3 acres on American farms  
1701 is planted for hungry consumers overseas. Nor is trade just  
1702 for big companies. More than 97 percent of the quarter-  
1703 million U.S. companies that export are small- and mid-sized  
1704 firms, but for companies large and small, the chief obstacle

1705 to reaching the goal of doubling U.S. exports by 2014 is the  
1706 complex array of foreign barriers to American exports. Those  
1707 barriers are alive and well. For example, Colombia's  
1708 effective tariff on imports from the United States averages  
1709 14 percent for manufactured goods and is even higher for  
1710 agricultural products. By contract, the average U.S. tariff  
1711 last year imposed on imports from Colombia was one-tenth of 1  
1712 percent.

1713         Historically, the only way the U.S. government has ever  
1714 enticed a foreign government to open its market to American  
1715 exports is by negotiating free trade agreements to eliminate  
1716 them on a reciprocal basis. This is just what will be  
1717 achieved by the FTAs with Colombia, Panama and South Korea.  
1718 These are pro-growth agreements that will create good  
1719 American jobs, bolster important allies and confirm American  
1720 leadership around the world.

1721         Such agreements have a proven record of success.  
1722 Between 2003 and 2008, for example, U.S. exports rose by 79  
1723 percent, their fastest growth in nearly two decades. It is no  
1724 coincidence that this period also saw the U.S. implement free  
1725 trade agreements with 10 countries and saw earlier agreements  
1726 such as NAFTA attain their full implementation with the  
1727 elimination of all tariffs on U.S. goods entering Canada and  
1728 Mexico.

1729           Recognizing these benefits, countries are rushing to  
1730 negotiate new trade accords but America is being left behind.  
1731 According to the World Trade Organization, there are 283  
1732 regional trade agreements in force around the globe today but  
1733 the United States has just 11 such agreements covering 17  
1734 countries. There are more than 100 such agreements currently  
1735 under negotiation among our trading partners. Unfortunately,  
1736 the United States is participating in just one of these.

1737           The United States is standing on the sidelines while  
1738 other nations clinch new trade deals. For example, the  
1739 European Union has ratified an FTA with South Korea. Canada  
1740 has done so with Colombia. Both of those agreements are  
1741 expected to enter force by July 1st. If Washington delays  
1742 further, U.S. exporters will be put at a marked competitive  
1743 disadvantage in Colombia, Panama and South Korea. According  
1744 to a study by the U.S. Chamber, the United States will more  
1745 than 380,000 jobs and \$40 billion in export sales if it fails  
1746 to implement the pending trade agreements while the European  
1747 Union and Canada move forward with their own agreements.  
1748 Unfortunately, this is already happening. The U.S. share of  
1749 Colombia's import market for agricultural products fell from  
1750 about three-quarters in 2008 to about one-quarter last after  
1751 Bogotá implemented a new trade deal with its South American  
1752 neighbors.

1753           In the interest of time, I will simply refer the  
1754 committee to my written testimony where I have also addressed  
1755 the importance of defending intellectual property at home and  
1756 abroad, and I would like to associate myself with the remarks  
1757 of Mr. Holleyman in that regard.

1758           It is also important to modernize export controls s the  
1759 Obama Administration has begun to do in a very positive  
1760 initiative. It is also critical to develop a tax system that  
1761 incentivizes investment and job creation here in the United  
1762 States.

1763           In conclusion, the United States needs a laser-like  
1764 focus on opening foreign markets. We need to approve the  
1765 pending trade agreements and negotiate more of them including  
1766 the Trans-Pacific Partnership and an ambitious Doha Round  
1767 agreement. Also, Congress should renew the traditional trade  
1768 negotiating authority that every President since FDR has  
1769 enjoyed. If we stand still on trade, we fall behind. At  
1770 stake is the standing of the United States in the world and  
1771 our best hopes for escaping high unemployment, massive  
1772 deficits and exploding entitlements.

1773           The U.S. Chamber of Commerce looks forward to working  
1774 with the members of the committee to forge a trade agenda  
1775 that will create jobs, opportunity and growth here in the  
1776 United States. Thank you.

1777 [The prepared statement of Mr. Murphy follows:]

1778 \*\*\*\*\* INSERT 3 \*\*\*\*\*

|  
1779 Mrs. {Bono Mack.} Thank you.

1780 Mr. Pelton, you are recognized for 5 minutes.

|  
1781 ^STATEMENT OF JACK J. PELTON

1782 } Mr. {Pelton.} Chairman Bono Mack, Ranking Member  
1783 Butterfield and members of the subcommittee, my name is Jack  
1784 Pelton. I am Chairman, President and CEO of Cessna Aircraft  
1785 Company. Cessna is the world's largest general aviation  
1786 manufacturer in the world based on sales units, and since its  
1787 inception in 1927, Cessna has delivered more than 192,000  
1788 airplanes virtually to every country in the world. Cessna is  
1789 also one of the 70 member companies of the General Aviation  
1790 Manufacturers Association, which represents the world's  
1791 leading manufacturers of generation aviation aircraft  
1792 engines, avionics and components.

1793 General aviation is an important contributor to the U.S.  
1794 economy. It supports more than 1.2 million jobs, is  
1795 providing more than \$150 billion in economic activity, and in  
1796 2010 generated \$5 billion in exports. We are one of the few  
1797 remaining manufacturing industries that still provides a  
1798 significant trade surplus for the United States. These  
1799 exports accounted for 62 percent of the billings generated by  
1800 general aviation manufacturers, significantly up from 50  
1801 percent of the billings attributed to exports in 2009.

1802 Cessna, like many other companies, is coping with the

1803 realities of a weak economy. Since late 2008, we had to lay  
1804 off nearly 8,000 employees out of our 16,000 that we employed  
1805 before the recession. The three major manufacturers in  
1806 Wichita alone have been experiencing significant declines in  
1807 sales in recent years. In 2010 alone, Bombardier Learjet was  
1808 down 29 percent, Hawker Beechcraft was down 22 percent and  
1809 Cessna was down 28 percent. We do believe the market is  
1810 stabilizing as we see an increase in orders in some segments  
1811 of our industry.

1812         The tax bill that was passed in 2010 will be very  
1813 helpful to our industry by extending the research and  
1814 development tax credits and allowing 100 percent expensing  
1815 for capital investments like aircraft, avionics, engines and  
1816 cabin equipment.

1817         Cessna fully supports the current efforts to reform,  
1818 streamline and overhaul the export licensing and policy  
1819 framework. As an aircraft manufacturer, we have found that  
1820 we have a generally positive export environment for our  
1821 physical products: aircraft spares, ground support  
1822 equipment. However, ITAR in many cases is a problem for our  
1823 utility and special missions aircraft sales. These aircraft  
1824 do not contain sensitive military systems and are  
1825 functionally equivalent to commercial aircraft and do not  
1826 provide significant military or intelligence impact yet many

1827 of our export existing controls and policies have slowed our  
1828 globalization and have slowed our sales efforts.

1829         Due to the high standards we adhere to in the United  
1830 States, manufacturers cannot sell aircraft or major aircraft  
1831 parts unless they are certified by the Federal Aviation  
1832 Administration. This means that the financial health and  
1833 competitiveness of the U.S. manufacturers in the global  
1834 market depends in large part on the ability of the FAA to do  
1835 its job. Unfortunately, we are concerned that the FAA will  
1836 be unable to meet certification requests by manufacturers in  
1837 the United States unless the FAA is provided adequate  
1838 resources and implements new processes and procedures to  
1839 streamline the certification process. We believe it will not  
1840 be able to keep up with the demand by manufacturers and this  
1841 will severely diminish the competitiveness of the U.S.  
1842 industry and its ability to bring new products to the global  
1843 market and create new jobs in the economy.

1844         There is, however, a mechanism already in place that can  
1845 help manage the resource demands on the FAA. For aircraft  
1846 certification, the FAA established organization designation  
1847 authorization, referred to as ODA, in 2006. This allows the  
1848 FAA to delegate routine certification tests such as the  
1849 review and approval of thousands of individual drawings and  
1850 tests. More of the U.S. manufacturers have invested in the

1851 development of the ODA system that has been approved by the  
1852 FAA but unfortunately the certification process efficiencies  
1853 have yet to be realized by our industry.

1854         Aircraft financing in this new economic climate remains  
1855 a challenge. The availability of credit continues to be a  
1856 constraint on exports, and Cessna has worked very hard to  
1857 create a \$500 million facility backed by the Export-Import  
1858 Bank of the United States. This facility has assisted Cessna  
1859 with exports over the past couple years when liquidity in the  
1860 market has been very tight. We do applaud the Export-Import  
1861 Bank for working with us to deliver creative solutions that  
1862 support our export needs.

1863         Madam Chairman, if government and industry work together  
1864 on the issues discussed here today, then we will help ensure  
1865 that our country stays ahead of the pack economically and  
1866 technologically in the years ahead. Thank you for the  
1867 opportunity to be here today.

1868         [The prepared statement of Mr. Pelton follows:]

1869 \*\*\*\*\* INSERT 4 \*\*\*\*\*

- |
- 1870 Mrs. {Bono Mack.} Thank you, Mr. Pelton.
- 1871 Mr. Ikenson, you are recognized for 5 minutes.

|  
1872 ^STATEMENT OF DANIEL IKENSON

1873 } Mr. {Ikenson.} Good morning, Chairman Bono Mack,  
1874 Ranking Member Butterfield and members of the committee. My  
1875 name is Dan Ikenson. I am an Associate Director at the  
1876 Center for Trade Policy Studies at the CATO Institute. I am  
1877 pleased to be here today to share my views on manufacturing,  
1878 jobs and trade.

1879 Expanding trade has been an important source of U.S. job  
1880 growth historically. In the quarter-century between 1983 and  
1881 2007, as real GDP more than doubled and the real value of  
1882 U.S. trade increased fivefold, the U.S. economy created 46  
1883 million net new jobs. That is 1.84 million net new jobs per  
1884 year. And just to be clear, when I say expanding trade, I  
1885 mean expanding exports and imports. It is important to note  
1886 that it is exports and imports that support U.S. jobs up and  
1887 down the supply chain through various channels. I think  
1888 people generally understand that exports contribute to  
1889 economic growth, which is essential to job creation, but many  
1890 of them make the mistake of concluding that if exports help  
1891 grow the economy and create jobs, then imports must shrink  
1892 the economy and cost jobs. Trade is thus viewed as a  
1893 competition between our producers who employ us and their

1894 producers, who employ them. I think that is the wrong way to  
1895 look at trade.

1896         In the 21st century, it is inaccurate to characterize  
1897 international trade as a competition between us and them  
1898 because of foreign direct investment, joint ventures and  
1899 other equity-sharing arrangements. Quite often, we are they  
1900 and they are we. Just apply that question to the U.S. auto  
1901 and steel industries. As a result of the proliferation of  
1902 disaggregated transnational production and supply chains, we  
1903 and they often collaborate in the same endeavor. There is  
1904 competition between supply chains but success first demands  
1905 cooperation within those supply chains, and this reality I  
1906 think demands policies that are welcoming of imports and  
1907 foreign investment.

1908         A recent study by the Asian Development Bank Institute  
1909 found that just a tiny fraction of the cost of producing the  
1910 Apple iPhone is Chinese value added. The only Chinese input  
1911 is labor, which is used to assemble the components  
1912 manufactured in other countries. The value of that labor  
1913 accounts for about \$6.50, or 3.6 percent of the \$179 it costs  
1914 to produce the total iPhone. The other 96.4 percent of the  
1915 total cost is components produced in other countries  
1916 including the United States. Most of the iPhone's value,  
1917 however, accrues to Apple, which reaps the lion's share of

1918 the approximately 100 percent markup, and that markup goes to  
1919 retailers, distributors, marketers and other firms in the  
1920 supply chain as well as to Apple, which distributes some to  
1921 shareholders and retains some for research and development  
1922 which supports engineering and design jobs higher up the  
1923 value chain so as to continue the virtuous circle. So even  
1924 though only about \$6.50 of that iPhone is Chinese value, the  
1925 entire \$179 cost is chocked up as an import from China  
1926 because that was the product's final point of assembly. That  
1927 added \$1.9 billion to the U.S. trade deficit with China in  
1928 2009.

1929         But should we lament a trade deficit in iPhones or any  
1930 other products assembled abroad, particularly when those  
1931 products comprise U.S. value added and support high-paying  
1932 U.S. jobs? Legions of American workers and their factories,  
1933 offices and laboratories would be idled without access to  
1934 foreign workers and foreign factories. Without access to  
1935 lower-cost labor, countless ideas hatched in U.S. labs which  
1936 became viable commercial products that support hundreds of  
1937 thousands of U.S. jobs in engineering, design, marketing,  
1938 logistics, retailing, finance, accounting and manufacturing  
1939 might never have made it beyond conception.

1940         Countless U.S. jobs up and down the value chain depend  
1941 on imports from China but imports support U.S. employment

1942 through many other channels as well. According to the Bureau  
1943 of Economic Analysis, intermediate goods and capital  
1944 equipment accounted for 55 percent of the U.S. import value  
1945 last year. These are products purchased by producers, not  
1946 consumers, so imports help reduce the cost of production,  
1947 enabling producers to better compete and support U.S. jobs  
1948 and wages. The 45 percent of imports that are consumer goods  
1949 support U.S. jobs in logistics, transportation, wholesaling,  
1950 retailing and aftermarket services industries, and by helping  
1951 to keep prices lower and quality higher, imports allow  
1952 consumers to have more resources with which to purchase other  
1953 products and services, both of which support U.S. jobs.

1954         The Obama Administration, as we heard this morning, has  
1955 offered an answer to the question implicit in this hearing.  
1956 Its National Export Initiative aims to double U.S. exports in  
1957 5 years by reducing and eliminating various administrative,  
1958 regulatory and financial obstacles faced by U.S. exports.  
1959 That plan includes some laudable components which I fully  
1960 support. The idea of streamlining export controls makes a  
1961 lot of sense and it is likely to lead to export growth.  
1962 Wrapping up the three pending bilateral trade agreements, the  
1963 Doha Round, the Trans-Pacific Partnership agreement, those  
1964 will clearly all lead to increased exports.

1965         But there are other aspects of the NEI that I find

1966 troubling. First of all, it completely ignores the import  
1967 side of the equation. It is silent on the fact that U.S.  
1968 exporters are producers before they are exporters and as  
1969 producers they do a lot of importing, and there are many  
1970 other ways to reduce their costs including through  
1971 streamlining of various regulations.

1972           Mrs. {Bono Mack.} Can you please wrap up? You are over  
1973 the limit.

1974           Mr. {Ikenson.} Yes. I will just conclude by saying a  
1975 serious plan to boost U.S. economic growth and hiring should  
1976 start by identifying all policies, regulations, practices and  
1977 conditions that impede U.S. competitiveness not just those  
1978 obstacles that confront U.S. companies as exporters. Thank  
1979 you.

1980           [The prepared statement of Mr. Ikenson follows:]

1981 \*\*\*\*\* INSERT 5 \*\*\*\*\*

|  
1982        Mrs. {Bono Mack.} Thank you.  
1983        Mr. Crouse, 5 minutes.

|  
1984 ^STATEMENT OF JAMES CROUSE

1985 } Mr. {Crouse.} Thank you for the opportunity. I am Jim  
1986 Crouse with Capstone Microturbine manufacturing in  
1987 Chatsworth, California.

1988 A microturbine is a small combustion turbine used to  
1989 generate electricity at the location of an end-use customer.  
1990 Capstone turbines are used as range extenders in hybrid  
1991 electric vehicles as well as stationary power for a host of  
1992 customers from hotels to hospitals to industrial customers on  
1993 a global basis. As the leading manufacturer of microturbine  
1994 energy systems, Capstone has valuable insight into what it  
1995 takes to compete globally in a growing industry characterized  
1996 by technological change and innovation.

1997 Although we were invited to testify on behalf of the  
1998 chairwoman and ranking member, our power generation systems  
1999 can be found in almost every State in the United States.  
2000 Customers use our systems mainly to save money by increasing  
2001 their energy efficiency. By utilizing exhaust from the  
2002 turbine to make hot or chilled water, businesses can cut  
2003 their energy costs by up to 50 percent. The use of both  
2004 electricity and thermal energy simultaneously from a single  
2005 fuel source is called combined heat and power, or

2006 cogeneration. Some of our systems also provide cooling,  
2007 known as CCHP.

2008           Microturbines produce very little criteria pollutants as  
2009 well as very little greenhouse gases. Capstone's unique  
2010 technology makes clean, efficient combustion possible. We  
2011 are able to use fossil fuels including abundant natural gas  
2012 in a clean, efficient manner. Other systems that we  
2013 manufacture burn biogas or methane from landfills or  
2014 digesters. In these applications, we are renewable energy.

2015           Our customers can be found all over the world in a  
2016 variety of industries. Oil and gas companies use our product  
2017 to power their installations, oftentimes in remote locations.  
2018 Oil and gas customers prize reliability, and a microturbine  
2019 is highly reliable since it has only one moving part, does  
2020 not require lubrication or coolants and has only one  
2021 maintenance interval per year. Additionally, generating  
2022 power with microturbines can eliminate the need for air  
2023 permitting as we design our product to meet the most  
2024 stringent air standards in the world: California Air  
2025 Resources Board standards.

2026           Our CCHP and CHP customers typically are commercial  
2027 businesses such as industrial plants, hotels, hospitals and  
2028 retailers that use our product to increase their efficiency  
2029 and reduce their cost, making them more competitive in both a

2030 local and global market. Microturbines are installed in  
2031 hybrid buses, trucks, and we have recently been installing  
2032 microturbines in marine applications both here in the United  
2033 States and in Europe.

2034 Capstone employs approximately 200 highly skilled  
2035 American workers in its manufacturing facility in Los  
2036 Angeles, and with over 120 patents, Capstone is a technology  
2037 innovator. We produce about 80 percent of the world's  
2038 microturbines. Most of the balance is also manufactured in  
2039 the United States by Ingersoll Rand. This is not a product  
2040 that we are buying from China. This is a product we are  
2041 selling to China. We have a good and strong business in  
2042 China.

2043 We export because of a variety of reasons. That is  
2044 where the markets are. We sell in over 50 countries both  
2045 developing and developed countries on six continents. In  
2046 many cases, overseas markets are stronger than our domestic  
2047 markets. Europe is a particularly strong market for  
2048 Capstone, in part because of feed-in tariffs that exist  
2049 there.

2050 Capstone Turbine sees value in adopting long-term energy  
2051 policy here in the United States. We believe that a strong  
2052 domestic policy will only strengthen our export business.  
2053 According to Oak Ridge Laboratories, the CHP could provide 20

2054 percent of the U.S. generating capacity by 2030, generating  
2055 \$234 billion in new investment and create 1 million highly  
2056 skilled jobs. CO2 emissions could be cut by more than 800  
2057 million tons per year, the equivalent of taking half of the  
2058 U.S. passenger fleets off the road.

2059 Energy efficiency combined heat and power makes sense  
2060 regardless of where you stand on climate change. Efficiency  
2061 is good. Saving money on your energy is good. It makes us  
2062 more competitive.

2063 Capstone Turbine has received several grants in research  
2064 and development from the Department of Energy. However, lack  
2065 of long-term energy policy that promotes energy efficiency  
2066 and distributed generation in combined heat and power--sorry.

2067 Mrs. {Bono Mack.} You can complete your sentence.

2068 Mr. {Crouse.} So Capstone strongly believes that a  
2069 strong domestic policy is important. We have a bill  
2070 currently that was introduced by Linda Sanchez, and would  
2071 love to see that bill move forward to grow our business  
2072 domestically, to see our international business grow as well.  
2073 The two are tied together, domestic and international.

2074 [The prepared statement of Mr. Crouse follows:]

2075 \*\*\*\*\* INSERT 6 \*\*\*\*\*

|  
2076 Mrs. {Bono Mack.} Thank you.

2077 The chair will recognize herself for the first 5 minutes  
2078 of questioning, and I will begin by commenting on your  
2079 testimony, Mr. Crouse. As a resident of California, almost  
2080 lifelong--we moved from Cleveland before I was 2 but I don't  
2081 admit that very often--but it is surprises me. California,  
2082 you mentioned CARB and what we live under, the most stringent  
2083 regulations of any State, I would say, in the country, yet  
2084 you only sell 5 percent of your total sales in California,  
2085 and to me, that leads really to my question, which is for Mr.  
2086 Ikenson.

2087 In your testimony, you mentioned that you are frustrated  
2088 that NEI is absolutely doing nothing to deal with the burdens  
2089 on business. I think you were trying to get into that when  
2090 you ran out of time. Can you go into a little bit more?  
2091 Your exact words are: ``The NEI is silent on the significant  
2092 obstacles to U.S. competitiveness at home and abroad.'' Can  
2093 you expand?

2094 Mr. {Ikenson.} Sure. Well, in fairness, it is called  
2095 the National Export Initiative, so limiting the concern to  
2096 exports is, I suppose, understandable, but it really should  
2097 be broadened. I wish it were called the National Economic  
2098 Initiative in which--I mean, if we are really concerned about

2099 our exporters, we need to recognize first that they are  
2100 producers, and as producers, they rely on imported raw  
2101 materials that account for a lot of the costs, and they also  
2102 are confronted with lots of regulations. Those burdens are  
2103 immense. Having a free trade agreement with Korea is an  
2104 excellent idea. It is clearly going to lead to export  
2105 growth, but cutting a tariff, a foreign tariff, by 5 percent  
2106 is a good thing but what about cutting your costs, your  
2107 domestic costs by 10 percent because the regulatory burden  
2108 has subsided.

2109         There was a survey of about 13,000 business executives  
2110 that was conducted by the World Economic Forum recently, and  
2111 it found that there were 52 countries that have less  
2112 burdensome regulations than the United States, and we operate  
2113 in a global economy here. Governments, enterprises are  
2114 competing for investment, capital investment and investment  
2115 in human talent. There is a competition in policy, and I  
2116 think we are sort of missing the boat here. We have the  
2117 highest corporate tax rate in the world. We have the  
2118 regulatory burdens. Infrastructure is in disrepair. We  
2119 don't have a policy that welcomes high-skilled immigrants.

2120         Mrs. {Bono Mack.} Let me just jump in here if I can. I  
2121 know in your written testimony you write that the U.S. has  
2122 the highest corporate tax rate among all OECD countries. How

2123 would you recommend reforming corporate taxes?

2124           Mr. {Ikenson.} Well, I am not really an expert in the  
2125 tax field, but there has been a lot of tax competition  
2126 globally over the past decade or so. We need to streamline  
2127 the tax system. A lot of U.S. companies that are operating  
2128 abroad, some of them don't want to repatriate their profits  
2129 because of the corporate tax code, and these companies, in my  
2130 view, are unfairly demonized as either Benedict Arnold  
2131 companies or companies that aren't helping the U.S. economy.  
2132 Well, you can incentivize the return of those investments to  
2133 create productive facilities in the United States and to hire  
2134 by changing the tax code. I am not expert on how to do that  
2135 but there are plenty of others at CATO and maybe even at this  
2136 table who could help you.

2137           Mrs. {Bono Mack.} I just like to make that you pointed  
2138 it out, so that is good enough to me. But also in your  
2139 testimony, you said something that I think we as Members of  
2140 Congress feel very often at home, and you talk about the  
2141 American people, the sentiment that they just don't get it  
2142 and you spoke a little bit about in your verbal testimony,  
2143 that they think imports bad, exports good, and then you  
2144 talked a lot about iPhone, and I just whipped off the back  
2145 cover of mine. You know, Apple is pretty smart that they do  
2146 say designed by Apple in wonderful California--I added a

2147 couple words there--but assembled in China. And perhaps they  
2148 in their own way could help by saying--it is a mutt of a  
2149 product.

2150 Mr. {Ikenson.} Right.

2151 Mrs. {Bono Mack.} It is assembled everywhere, and I  
2152 think that could help. Can you explain? Do you think the  
2153 American people would begin to understand? And I think  
2154 about, I have a brother who is an engineer. He has worked  
2155 for Hyundai and Kia and all sorts of car companies, and he  
2156 has an American job, he is an engineer. Can you speak of why  
2157 the American people don't quite understand that?

2158 Mr. {Ikenson.} Yes, and I think that the media presents  
2159 fairly simplistic accountings of what the trade deficit  
2160 means. We hear about the trade deficit on a monthly basis,  
2161 and it is always reported that imports are bad and we are  
2162 going to lose jobs. There was a report last week that  
2163 imports always mean that foreigners are--when imports outpace  
2164 exports, foreigners add more jobs than are added in the  
2165 United States. I think that is not true. I mean, lots of  
2166 jobs rely on imports.

2167 And to get to the technical aspect, you flipped over  
2168 your iPhone. Pascal Lamy, who is the chairman of the WTO,  
2169 understands that people are misled by these trade statistics.  
2170 These trade statistics are reflective of a bygone era. We

2171 now live I this age of globalization that we need to break  
2172 out the constituent elements of the value, and he is sort of  
2173 leading a charge to try to do that so people say hey, this  
2174 import in fact even though it is all attributed as an import  
2175 from China, it is actually supporting, you know, 10,000 U.S.  
2176 jobs because of the patents or the high-end manufacturing  
2177 that happened here.

2178 Mrs. {Bono Mack.} Well, thank you, and I am down to my  
2179 last 15 seconds. Let me just jump to Mr. Holleyman.

2180 Why do developed countries such as the United States and  
2181 France still have piracy rates of 20 to 40 percent,  
2182 respectively, and how much can Congress do and how much  
2183 really ought to be technologically driven?

2184 Mr. {Holleyman.} Well, we certainly think the thing  
2185 Congress can do is to make sure that we have the right laws  
2186 on the books, and I think there are some additional things we  
2187 can do here in the United States. There is the use of trade  
2188 pressure, and I think I would put France very high on that  
2189 list. It has the fourth highest piracy losses in the world,  
2190 and the U.S. government should be pressing that issue.  
2191 Technological measures will certainly help but they won't  
2192 solve the problem and so we need to keep sort of one step  
2193 ahead of the pace. In the United States, I think one of the  
2194 best signals would be ensuring that as the U.S. government is

2195 required to use legal software, that federal contractors are  
2196 required to do that as well. That would be the next big step  
2197 that would be a great thing to take to France and to China  
2198 and other countries and get them to do that.

2199 Mrs. {Bono Mack.} Thank you. My time is expired. I  
2200 would recognize the ranking member, Mr. Butterfield, for his  
2201 5 minutes.

2202 Mr. {Butterfield.} I thank the chairman.

2203 Let me go to you, Mr. Crouse, if I can. Again, thank  
2204 you for your presence today. Mr. Crouse, recognizing export  
2205 promotion as a priority, President Obama's 2012 budget  
2206 increases resources for the ITA, particularly for the  
2207 commercial service. Meanwhile, others have sought to impose  
2208 severe cuts to export promotion, not believing it worth the  
2209 cost. Mr. Crouse, Capstone, I am told, has participated in  
2210 several trade missions. Would you say they were worth the  
2211 cost to you as the exporter?

2212 Mr. {Crouse.} Yes, definitely. We participated, as you  
2213 said, in several trade missions, and it has resulted in new  
2214 business for us. We recently in the last couple weeks  
2215 received an order out of Tunisia after attending a trade  
2216 mission in North Africa a year ago or so. The Department of  
2217 Commerce, by the way, is one of the most professional  
2218 government organizations I have ever worked with. It is a

2219 pleasure to work with them, and we plan to continue doing so.

2220           Mr. {Butterfield.} Please tell me in what ways did the  
2221 support of the Federal Government allow Capstone to export  
2222 goods to new markets it otherwise might not have been able to  
2223 do?

2224           Mr. {Crouse.} We used the gold key service that we are  
2225 able to use in-country resources to screen potential  
2226 distributors or customers prior to arriving so that when we  
2227 get there, we already have meetings set up and we are much  
2228 more efficient and able to streamline our sales process and  
2229 partner process. It is a big help.

2230           Mr. {Butterfield.} In your work with ITA, have you had  
2231 an occasion to encounter U.S. trade professionals that were  
2232 stationed abroad?

2233           Mr. {Crouse.} Yes, we have.

2234           Mr. {Butterfield.} And did you find them to be  
2235 reasonably helpful to you and your country?

2236           Mr. {Crouse.} Yes, both U.S. employees that were there  
2237 working internationally as well as some of the domestic or  
2238 locals that they have working in the offices there have  
2239 always been very helpful to us.

2240           Mr. {Butterfield.} The Republican spending plan that  
2241 passed the House, we call it H.R. 1, would prevent those  
2242 trade professionals from being available when and where

2243 companies such as yours could use their help to complete  
2244 sales and to generate jobs back home. Mr. Crouse, is it  
2245 correct that on these trade missions that you have traveled  
2246 that you pay your own way, you pay for your hotel room and  
2247 for your food?

2248 Mr. {Crouse.} Yes, we pay our own way.

2249 Mr. {Butterfield.} My final question. Today, Google is  
2250 the global leader in Internet search. It is worth hundreds  
2251 of billions of dollars. It employs thousands and thousands  
2252 around the world including here in our country, and it is so  
2253 well known and used that the company's name is now a verb.  
2254 The idea that led to Google was originally funded in the mid-  
2255 1990s by the National Science Foundation, and let us not  
2256 forget that the Internet itself originated with the Federal  
2257 Government and its development was pushed along by NSF in the  
2258 1980s when it sought to give researchers across the country a  
2259 way to access its supercomputing resources. Today, electric  
2260 cars and iPhones and other high-tech gadgets that we rely on  
2261 daily are powered by lithium ion batteries. The development  
2262 of this type of battery is a result of federally funded  
2263 materials research at the University of Texas in the 1980s.  
2264 These are just a few examples showing that the federal  
2265 investments now in R&D can lead to innovative, high-value  
2266 products from the private sector well into the future. It

2267 also shows that the Federal Government can be, is and must be  
2268 an engine for private sector growth, and nowhere else is that  
2269 more true than with respect to developing new energy  
2270 technologies.

2271 In your testimony, you also note, Mr. Crouse, that your  
2272 company has received several R&D grants from the Department  
2273 of Energy. In the remaining minute, can you please tell me a  
2274 little bit more about those grants? For example, can you  
2275 describe the research Capstone has done or is now doing and  
2276 how that research relates to the growth of your business?

2277 Mr. {Crouse.} Certainly. Capstone was founded 20 years  
2278 ago, and had DOE funding as well as funding from Ford and  
2279 Southern California Edison to develop a microturbine for  
2280 hybrid electric vehicles. Our turbine is more efficient than  
2281 traditional turbines, in part because of the funding and the  
2282 research that we did in cooperation with the government as  
2283 well as other private companies. Today we have several  
2284 programs that we are working on--a flexible fuel microturbine  
2285 that will run on hydrogen. We are also working on a more  
2286 efficient turbine that will increase our efficiency in the  
2287 range of 45 percent. And those programs combine government  
2288 dollars with private dollars, our own dollar and our  
2289 investors' dollars, to develop new technologies and products.  
2290 Mr. {Butterfield.} Mr. Crouse, thank you very much for

2291 answering those questions. I wish you well as you continue  
2292 to grow your business.

2293 Mr. {Crouse.} Thank you.

2294 Mr. {Butterfield.} This Congress wants to be an ally,  
2295 not an obstacle, so thank you very much.

2296 Mrs. {Bono Mack.} I thank the gentleman. The chair  
2297 recognizes Mr. Pompeo of Kansas for his 5 minutes.

2298 Mr. {Pompeo.} Thank you, Madam Chairman.

2299 Welcome to everyone here this morning. A special  
2300 welcome to Mr. Pelton, a constituent, and leader of a company  
2301 with 8,000 employees in my home district. Thanks for all of  
2302 the hard work from you and your team in these challenging  
2303 economic times. I know that a group of witnesses that came  
2304 to Washington, D.C., before was excoriated for having  
2305 traveled in general aviation aircraft. I want to go on the  
2306 record hoping everyone in this room flew here today on a  
2307 general aviation aircraft built in Wichita, Kansas.

2308 Mr. Pelton, you talked about export controls. Can you  
2309 give me an example of a special mission aircraft as some  
2310 place where the government got in the way of helping you make  
2311 a sale in a foreign country for a product that didn't present  
2312 any national security risks?

2313 Mr. {Pelton.} Congressman Pompeo, thank you for  
2314 inviting me. There are numerous examples. I can give you

2315 one today that is right in front of that actually kind of  
2316 dovetails into the discussion earlier this morning dealing  
2317 with Panama. The government of Panama is interested in our  
2318 brand-new CJ-4, which we just certified last year. For us to  
2319 even have the discussion with the Panama government, I have  
2320 to apply for a marketing license to go down there to have the  
2321 discussion. Now, here is the interesting part about that. I  
2322 don't know what they are interested in, so when I apply for  
2323 the license, I have to decide are they looking for a VIP  
2324 airplane, are they looking for an airplane that may have a  
2325 camera on it, it may have a flare on it, it may have some  
2326 sort of med-evac, and I have to guess because I haven't been  
2327 able to have contact with the customer in Panama to really  
2328 understand because I have to have this marketing license. So  
2329 I have to go get the marketing license. Then once I have the  
2330 discussion, which could take 6 to 9 months to get that  
2331 license, so if the avenue is still open to my competitors  
2332 internationally who don't have to go through those  
2333 restrictions having gone down there and swept the deal away  
2334 from me, I will have to find out exactly what they need on  
2335 the airplane and I will have to come back and work with  
2336 potentially three different departments to get the licenses  
2337 necessary for whatever equipment may be installed. It could  
2338 be Commerce, it could be State and it could be Defense,

2339 depending on what the item is. Many of the items that are  
2340 on the restricted list are really outdated and not that of  
2341 national security or technically one that we should be  
2342 worried about as a country, but I will have to continue to go  
2343 through that process, continue to apply, may even be rejected  
2344 along the way, and then in the end after the product is  
2345 delivered to be able to support that product down there if it  
2346 has been determined that there is a component as simple as a  
2347 camera that gets identified as ITAR. I have to in any  
2348 support of that airplane go through licensing to be able to  
2349 keep that airplane working properly and keep the customer's  
2350 satisfaction that they demand. So it is a very, very onerous  
2351 process for product that is essentially getting delivered  
2352 with nothing that we should be concerned about from a  
2353 national security standpoint.

2354 Mr. {Pompeo.} Thanks. Are there a couple quick hits  
2355 that maybe anybody on the panel, a couple quick things that  
2356 Congress could do? We talked about these regulatory issues.  
2357 Are there a couple rifle shots where we could when we have  
2358 got unemployment where it is today where we could really find  
2359 bipartisan support to get something down and move the ball  
2360 forward?

2361 Mr. {Pelton.} Before any of my colleagues here respond,  
2362 I think there are two quick hits that were discussed. The

2363 research and development tax credit needs to be made  
2364 permanent. That provides the high-tech engineering jobs that  
2365 this country was founded on so we don't become a service  
2366 industry, and I also believe that while it has been lightly  
2367 touched on, the corporate tax rate, this is a fantastic  
2368 country that is number one in everything and I hope we are  
2369 not going to be number one in corporate tax rates, and if you  
2370 can find a way to reduce the corporate tax rates, I can  
2371 assure you that the manufacturers in this country can offset  
2372 that revenue with new jobs immediately.

2373 Mr. {Pompeo.} Thank you. Mr. Murphy?

2374 Mr. {Murphy.} If I could just add to the tax comment  
2375 there, unfortunately we do seem to be on track to have the  
2376 highest corporate tax rate in the world if Japan moves  
2377 forward and lowers theirs. But often there is a comment made  
2378 in response to that, that many companies have exclusions that  
2379 allow them to pay much less. I would just mention a study  
2380 done by KPMG. They have an index that they do called the  
2381 total tax index, which looks at what companies are actually  
2382 paying, and according to this index, companies and operations  
2383 of companies in Canada, in the Netherlands and many other  
2384 countries are often paying 20 to 40 percent less in taxes  
2385 than production in the United States is, and this is  
2386 something that is--those are huge numbers. That makes a

2387 significant difference. You know, the title of the hearing  
2388 is about making it in America. Companies have to take--that  
2389 is something that is very much on their radar as they think  
2390 about where they are going to be investing and hiring.

2391 Mr. {Pompeo.} I appreciate that. Mr. Holleyman, did  
2392 you have something you wanted to say?

2393 Mr. {Holleyman.} I will say that 60 cents of every  
2394 dollar spent around the world on software comes back to U.S.-  
2395 based companies, so every single bilateral discussion by any  
2396 member of this committee or the Administration should raise  
2397 the issues around IP theft.

2398 Mr. {Pompeo.} Great. Thank you. My time is up. Thank  
2399 you.

2400 Mrs. {Bono Mack.} I thank the gentleman. Mr. Gonzalez,  
2401 5 minutes for your questions.

2402 Mr. {Gonzalez.} Thank you very much, Madam Chairwoman.

2403 Mr. Holleyman, in your testimony--I am trying to see if  
2404 I can find it quickly--nearly four out of five PC programs in  
2405 China, 79 percent, are not paid for. What is that figure for  
2406 the United States?

2407 Mr. {Holleyman.} For the--

2408 Mr. {Gonzalez.} I just want to know the extent of the  
2409 problem.

2410 Mr. {Holleyman.} It is just the reverse, so essentially

2411 80 percent of the software in China is not paid for. In the  
2412 United States, 80 percent of the software is paid for.

2413 Mr. {Gonzalez.} And if you will just kind of walk me  
2414 through why is that, and I mean, I know you are going to  
2415 assume that Members of Congress are going to understand  
2416 software and everything else, but I assure you, it is not  
2417 necessarily a Member of Congress. We use programs. We use  
2418 things that are downloaded and so on. But technically, if  
2419 you just walk me through, tell me how something in the United  
2420 States or in China is basically acquired illegally and it  
2421 continues obviously spiraling uncontrollably in places like  
2422 China.

2423 Mr. {Holleyman.} Well, I will give you a great example.  
2424 I will focus on the business sector because that is where the  
2425 biggest opportunity is to change behavior quickly. What  
2426 happened in a hypothetical, let us say China, the 80 percent  
2427 piracy rate could be a business in China is operating and  
2428 they have 100 computers but they have only paid for the  
2429 software for 20 of their computers, and they are internally  
2430 duplicating for all the rest of their operations. Or they  
2431 may be 100 percent illegal because they have used an illegal  
2432 Office program or an illegal operating system. So they have  
2433 just internally duplicated it, which is simple to do. There  
2434 are no effective penalties against it. And the big thing

2435 that we are trying to do in China, which is really what the  
2436 bilateral discussion is, is really twofold. One, to get the  
2437 Chinese government to ensure that when it uses software that  
2438 it is using only legal software, and secondly, to ensure that  
2439 when Chinese state-owned enterprises use software, that they  
2440 are using only legal software. There are simple ways of  
2441 making sure that that is done, but unfortunately, in rapid  
2442 growth markets like China, we are seeing a dramatic lag in  
2443 the use of legal software, and what is happening is that  
2444 because the market is growing so fast, the dollar value of  
2445 that is skyrocketing year over year.

2446         And this goes much more broadly. It is not just the  
2447 software impact but that is a lower cost of doing business  
2448 for any enterprise in a high-piracy market, and any  
2449 constituent of yours who is using software, which is most  
2450 every business, if they have a competitor in a country with a  
2451 high piracy rate, the U.S. company has a higher cost of doing  
2452 business than their competitor in the area of tool production  
2453 of software.

2454         Mr. {Gonzalez.} Now, in the business environment, and I  
2455 don't want to say anything that could be controversial. I am  
2456 trying to contrast the situation in the United States and  
2457 that in China, and why it is viewed with some lax attitude of  
2458 maybe not seeing anything wrong with utilizing your software

2459 without having to pay, obviously as we said, for the 100  
2460 computers as opposed to the 20. But in the United States, it  
2461 is an environment, is it a business sense, is it certain  
2462 human behavior? Is it enforcement? What is that combination  
2463 that results in 30 percent or less or whatever it is.

2464 Mr. {Holleyman.} Twenty percent in the United States.

2465 Mr. {Gonzalez.} Twenty percent in the United States as  
2466 opposed to 80 percent in China.

2467 Mr. {Holleyman.} By the way, I think 20 percent is too  
2468 high and so we are pressing to get it down further in the  
2469 United States. It is really two things. I mean, one, we  
2470 have constitutional underpinnings for intellectual property  
2471 in this country and we have the toughest civil laws on the  
2472 books and that provides an effective deterrent, particularly  
2473 against businesses that would otherwise use illegal software.  
2474 It is just not worth the risk and the cost. And secondly, I  
2475 think that is also why the software industry has grown so  
2476 well out of this country is we began with a stronger market  
2477 both size-wise but in terms of legal protection. In a  
2478 country like China, there are few effective civil remedies.  
2479 There are no criminal penalties whatsoever against use of  
2480 pirated software within a corporate environment. And  
2481 finally, there just isn't any deterrents in the marketplace  
2482 that are effective and that is why it really has to be a

2483 high-level, bilateral economic discussion.

2484 Mr. {Gonzalez.} Thank you very much, Mr. Holleyman.

2485 Mr. {Holleyman.} Thank you.

2486 Mr. {Gonzalez.} I yield back the balance of my time,  
2487 Madam Chairman.

2488 Mrs. {Bono Mack.} Thank you, Mr. Gonzalez. I recognize  
2489 Mr. Lance of New Jersey for his 5 minutes.

2490 Mr. {Lance.} Thank you, Madam Chair, and good afternoon  
2491 to you all.

2492 Following up on that, and I guess to Mr. Holleyman, is  
2493 it better to have bilateral discussions on this issue as  
2494 opposed to the WTO, or it is a combination?

2495 Mr. {Holleyman.} Certainly, Mr. Lance, is it a  
2496 combination, but I think that in this case, the most  
2497 effective mechanism is for the bilateral discussion, and when  
2498 Members of Congress speak, as they have, on this issue and  
2499 when the President of the United States directly talks about  
2500 software enterprise legalization to President Hu Jintao, I  
2501 think that we have a lot farther to go to see the results,  
2502 but to me, it takes that type of direct engagement.

2503 Mr. {Lance.} And I am sure you follow this very  
2504 closely, the recent meetings here in Washington between the  
2505 two presidents. Do you think that that was at all helpful or  
2506 do you think we have to do more?

2507 Mr. {Holleyman.} I think from a U.S. perspective, they  
2508 were very helpful in raising it to the highest level on the  
2509 bilateral relationship with China that we have ever seen. On  
2510 the China level, have my companies seen any increased sales  
2511 as a result of those commitments? No. I hope they will come  
2512 but they have not, and I need to be blunt about it including  
2513 to the U.S. government. So the U.S. side is working hard but  
2514 we have to ultimately test it by results, do we see increased  
2515 sales, not just commitments.

2516 Mr. {Lance.} Well, thank you. This is very helpful.  
2517 Obviously, we respect what the Administration is doing but we  
2518 need to see results and not just levels of talks, even if  
2519 they are at the highest levels.

2520 To Mr. Ikenson, yesterday the full committee passed out  
2521 of its jurisdiction an issue regarding net neutrality, and I  
2522 am sure you are aware of that. What is your position  
2523 regarding the FCC's recently announced net neutrality  
2524 regulations?

2525 Mr. {Ikenson.} That is an area that I am absolutely  
2526 uninvolved with, but I can tell you that CATO Institute  
2527 institutionally and our experts that deal with communications  
2528 issues like that, we are opposed to it.

2529 Mr. {Lance.} Thank you.

2530 And then back to the issue of corporate taxation,

2531 obviously I am in agreement with many of my colleagues that  
2532 the rate has to be lowered in the United States to remain  
2533 competitive. To anybody on the panel who might be  
2534 knowledgeable in this area, I am also concerned about the  
2535 repatriation of profits from abroad. Perhaps to Mr. Murphy,  
2536 your thoughts on that.

2537       Mr. {Murphy.} Yes, and it is unfortunate that it has  
2538 become commonplace from a number of political leaders to hear  
2539 the line that our tax system actually incentivizes investment  
2540 overseas when in fact what they are describing is our system  
2541 of worldwide taxation, which is unique practically in the  
2542 industrialized world, and the deferral that is allowed on  
2543 income earned overseas is the fact that deferral exists only  
2544 partly levels the playing field for those U.S. companies.  
2545 This is an issue that has been brewing for a long time as a  
2546 competitive challenge for U.S. industry.

2547       Mr. {Lance.} My bottom line is, we need to create more  
2548 American jobs, and if we can bring funds from abroad that  
2549 will create more American jobs, that is what I favor, and I  
2550 know there is a lot of talk regarding this but I want to get  
2551 to the bottom so we can create more American jobs,  
2552 particularly more American manufacturing jobs.

2553       Mr. {Murphy.} The chamber strongly supports allowing  
2554 repatriation of those funds, which was done several years ago

2555 successfully and we think it should be done again.

2556 Mr. {Lance.} Is there any other member of the panel who  
2557 would like to comment on that?

2558 I thank you very much, Madam Chair. I yield back the  
2559 balance of my time.

2560 Mrs. {Bono Mack.} I thank the gentleman and recognize  
2561 the gentleman from Louisiana, Dr. Cassidy, for 5 minutes.

2562 Dr. {Cassidy.} Thank you, Madam Chairman. It has been  
2563 a long time since I was called a gentleman.

2564 Mrs. {Bono Mack.} A gentleman and a doctor, but please  
2565 remember your microphone. Thank you.

2566 Dr. {Cassidy.} Mr. Murphy, it is my sense that when we  
2567 compete internationally, we typically are sending out high-  
2568 value-added products. Now, maybe agriculture is an exception  
2569 so I will limit myself to the manufacturing sector. But it  
2570 seems as if we are sending out something which the folks who  
2571 are employed in that field have good jobs with good benefits  
2572 and so obviously extrapolating from that, if that is true, is  
2573 it safe to say if we expand trade and this trend continues,  
2574 we cannot compete on commodity pricing for tennis shoes  
2575 perhaps with China but we certainly can compete on Micro  
2576 Windows which again is high value added. Would you agree  
2577 with that statement, that line of object?

2578 Mr. {Murphy.} I would very much so, and you see that in

2579 high-tech industries, for instance, in the defense industry.  
2580 It is the most sophisticated products that the United States  
2581 excels in producing and exports worldwide. But you see it in  
2582 other what you don't necessarily think of as high-tech  
2583 products. For instance, you think of the textile and apparel  
2584 sector. The textile industry is very capital intensive, and  
2585 the United States still has a significant textile industry  
2586 which employs I believe close to half a million Americans.  
2587 What we don't have is the cutting and sewing which is a low-  
2588 skill, low-value-added operation, the apparel making. That  
2589 has largely moved outside the United States, so I think that  
2590 is another illustration.

2591 Dr. {Cassidy.} So, if you will, the way to save, if you  
2592 will, manufacturing, at least in terms of that manufacturing  
2593 with good jobs and good benefits, is to promote trade where  
2594 our workers and our companies which add value and  
2595 intellectual expertise and in so doing employ more, correct?

2596 Mr. {Murphy.} That is absolutely correct, and you see  
2597 that in the statistics. For instance, major manufacturing  
2598 States like Ohio, for instance, are incredibly dependant on  
2599 exports. The proportion of exports of their manufacturing  
2600 output that is exported is very high. It is well above half.

2601 Dr. {Cassidy.} Now, let me ask you, I represent  
2602 Louisiana in the 6th district, which is the Baton Rouge area,

2603 and so recently Exxon Mobil did a big build-out. Now, I  
2604 asked them, since they have plants in China, they have  
2605 refineries in the United States, what do they do, where do  
2606 they go, and they said anything that involves intellectual  
2607 property we do domestically because if it is just strictly  
2608 commodity, we are sure that our blueprints are going to be--  
2609 this isn't Exxon, okay? I am not trying to get Exxon in  
2610 trouble with China. I will just say the observation of the  
2611 person was that the absence of intellectual property rights  
2612 in China means that oftentimes whatever process they bring  
2613 there seems to be reproduced at a local plant. That said, it  
2614 seems like--now, they also said that it is the availability  
2615 of inexpensive feedstock, in this case, natural gas, as well  
2616 as the Mississippi River to transport as well as a highly  
2617 trained workforce that combines to make the United States the  
2618 place to be. What would happen in that scenario, knowing  
2619 that the feedstock is incredibly important because you can  
2620 find waterways and trained workforces in Europe, if we raised  
2621 our energy prices to, let us say, I think I just read Denmark  
2622 has a 38-cent-per-kilowatt-hour rate of energy and probably  
2623 Louisiana is 6 cents per kilowatt-hour, if we increased our  
2624 energy prices substantially, what would happen to that sort  
2625 of manufacturing base I just described?

2626 Mr. {Murphy.} Well, I think even in your question you

2627 have outlined how it is really a web of policies and  
2628 industries that come together that add up to the  
2629 competitiveness of a nation. So absolutely, when you take  
2630 one of those strands and weaken it, you undermine the  
2631 competitiveness of industries worldwide. That is why  
2632 hearings like this are so useful to be able to draw the  
2633 connections between these different kinds of policies.

2634 Dr. {Cassidy.} I am actually struck that when folks  
2635 talk about raising the price of carbon or the cost of energy,  
2636 they seem to ignore the impact it will have upon domestic  
2637 manufacturing, at least energy-intensive enterprises. I have  
2638 just read now Spain is having to withdraw their subsidies  
2639 because the effect of high-cost energy has made them less  
2640 competitive, weakened their economy, etc., etc., etc. I  
2641 think it used the word ``demoralized.'' Any other comments  
2642 on that?

2643 Mr. {Murphy.} Well, just in the chamber's membership,  
2644 what you have indicated is the reason why there is such a  
2645 breadth of concern about proposals to add to energy costs in  
2646 this country, and it comes not just from energy-producing  
2647 companies and sectors but from the major consumers, the  
2648 industrial consumers.

2649 Dr. {Cassidy.} And just to be sure, because sometimes  
2650 for whatever reason people don't make the connection, if we

2651 hurt those industries, we hurt those workers. Those good  
2652 jobs and good benefits are now lost and they are shipped  
2653 overseas.

2654 Mr. {Murphy.} And it all goes into the calculus that  
2655 executives have to make about where they are going to site  
2656 production and invest and hire.

2657 Dr. {Cassidy.} Yes. I yield back. Thank you.

2658 Mrs. {Bono Mack.} I thank the gentleman and recognize  
2659 Mr. Stearns from Florida for 5 minutes.

2660 Mr. {Stearns.} Thank you, Madam Chair, and this is a  
2661 very good hearing. I have been watching it on the  
2662 television.

2663 I hear from the other side, they are talking about, they  
2664 say if the government is broke, why are we giving tax breaks  
2665 for corporations, and there has been some question about that  
2666 we are not competitive as corporations. So Mr. Murphy, I  
2667 think one thing we need to explain to the American people is  
2668 this idea of territorial-based tax regime, and you might use  
2669 an example like if a company in the United States goes to  
2670 Germany and opens up a plant, that company is going to pay  
2671 taxes in Germany and then they are going to come back to the  
2672 United States and pay taxes. You might just elaborate on  
2673 that so that the people understand that there is sort of  
2674 extra taxation on our corporations.

2675 Mr. {Murphy.} I am happy to. You know, as was  
2676 mentioned earlier, the United States is one of the very few  
2677 countries in the world that has this worldwide system of  
2678 taxation and so the danger is that a worldwide company that  
2679 has operations in more than one market is going to be taxed  
2680 twice on its income. It is a huge disincentive. By  
2681 contrast, all of our major industrial competitors have  
2682 territorial tax systems where they only pay taxes on their  
2683 production in a given country. At present we have some tax  
2684 treaties that allow us to avoid double taxation but this is a  
2685 partial solution, and I think there is a growing sense in the  
2686 business community that it is time to have a full  
2687 reexamination of this system and whether or not it is  
2688 comprehensively putting U.S. industry at a disadvantage.

2689 Mr. {Stearns.} Another point is Canada has dropped  
2690 their corporate tax rate, and I think the folks on the other  
2691 side are saying how can we drop the taxes on corporations.  
2692 Well, again, as you pointed out, they are competing globally,  
2693 and if the tax rates are less in Canada and other countries,  
2694 those corporations have an advantage.

2695 Mr. {Murphy.} The Canadian government has taken a very  
2696 interesting approach to their competitiveness, whether it is  
2697 cutting their tax rates, which I believe is just a little  
2698 bit--the corporate tax rate is just above 15 percent, 16

2699 percent. They have also undertaken an initiative to  
2700 permanently reduce tariffs on industrial inputs that they  
2701 import. As Mr. Ikenson was pointing out, the competitiveness  
2702 of a manufacturing operation depends on imports much of the  
2703 time as well, and with little controversy the Canadians were  
2704 able to permanently eliminate a lot of those tariffs on  
2705 imports.

2706 Mr. {Stearns.} Mr. Ikenson, let me ask you a question.  
2707 I chair the Oversight and Investigation Committee, and we had  
2708 Cass Sunstein come up and we had a lot of questions for him  
2709 dealing with regulation, and the Obama Administration plants  
2710 to implement a slew of new regulations including regulation  
2711 of carbon emissions and implementing regulations obviously  
2712 related to health care. Do you have any concern? I asked  
2713 them if there was any economic impact on these regulations.  
2714 They said they didn't know of any. Do you have any concerns  
2715 about the impact of these up-and-coming regulations on the  
2716 ability of the United States to compete and what suggestions  
2717 would you offer?

2718 Mr. {Ikenson.} You know, President Obama visited the  
2719 chamber a few weeks ago and he said I have come to the center  
2720 on taxes and I have come to the center on trade, now invest  
2721 and hire. But there is a lot of uncertainty to the business  
2722 environment, the health care legislation, the Dodd-Frank

2723 bill. There is a lot of pending regulation that hasn't been  
2724 promulgated yet and it is leaving the business community in a  
2725 state of uncertainty and I think that that is a problem. You  
2726 know, regulations that are absolutely sensible and not  
2727 redundant make sense, I suppose, under certain circumstances  
2728 but maybe we have superfluous regulation. Maybe there is too  
2729 much. And certainly the fact that we don't know what is  
2730 coming down the pike is a deterrent to investment. You know,  
2731 as Mr. Murphy said, one way we can stimulate our  
2732 manufacturing base, which by the way is the most prolific  
2733 manufacturing sector in the world. We produce more output by  
2734 value than any other country in the world and we are doing  
2735 quite well but one way is to do what the Canadians did. Let  
2736 us scrap our tariffs on industrial inputs. And this might be  
2737 a little bit controversial, let us revisit the anti-dumping  
2738 law so that downstream users, our manufacturers, our  
2739 exporters, can have a say in the hearings at the  
2740 International Trade Commission.

2741 Mr. {Stearns.} Thank you.

2742 My last question is for Mr. Holleyman. You testified  
2743 that the U.S. government needs to increase its efforts to  
2744 prevent our own government from purchasing counterfeit  
2745 software. How often does the government purchase counterfeit  
2746 software and how does this happen that the government is not

2747 buying legitimate copies of software?

2748           Mr. {Holleyman.} That is a good question. The U.S.  
2749 government is overwhelmingly acquiring legitimate software,  
2750 and that has been a formal policy and Executive Order that  
2751 has been in place for over a decade, and typically when  
2752 piracy happens within a government or a business, it may not  
2753 be a purchase of a counterfeit product, it is simply allowing  
2754 an extra three to five to 1,000 people use a software program  
2755 without having a proper license. So our recommendation is to  
2756 build on what is a strong Executive Order here in the United  
2757 States about federal use of software. By the way, Inspector  
2758 Generals within agencies audit to make sure they have the  
2759 proper licenses. Two, require that federal contractors also  
2760 have to comply with U.S. laws and ensure that they are using  
2761 legal software. That will help reduce some of the 20 percent  
2762 piracy rate here in the United States, not eliminate it, but  
2763 it will be a tool that we can use with other governments to  
2764 encourage them to lead by example.

2765           Mrs. {Bono Mack.} And on that note, the gentleman is  
2766 out of time and we have to wrap things up today. I want to  
2767 thank all of our panelists and my colleagues and the ranking  
2768 member for his help today, for our staffs on both sides, and  
2769 for everybody for your time and for your commitment on these  
2770 critically important issues. Clearly, we have a great

2771 challenge before us but I have always believed that new  
2772 challenges create new opportunities. Working together, I am  
2773 convinced that we can increase U.S. exports and create new  
2774 U.S. jobs in the process.

2775 I also need to remind members that they have 10 business  
2776 days to submit questions for the record, and I ask the  
2777 witnesses to please respond promptly to any questions that  
2778 you might receive.

2779 Again, thank you all very much, and the hearing is now  
2780 adjourned.

2781 [Whereupon, at 12:47 p.m., the Subcommittee was  
2782 adjourned.]