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PERSPECTIVES ON THE 2007 TRADE AGENDA

HEARING

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PERSPECTIVES ON THE 2007 TRADE AGENDA

THURSDAY, MARCH 8, 2007

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:06 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Lincoln, Wyden, Stabenow, Salazar, Grassley, Hatch, Bunning, Crapo, and Roberts.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

Welcome to our second Finance Committee hearing on the 2007 trade agenda. On February 15th, we heard from the U.S. Trade Representative on the administration's trade agenda, and today we welcome six key stakeholders to share their perspectives.

Former Majority Leader Mike Mansfield once said, "Knowledge is essential for acceptance and understanding. By examining the political heritage, economic experience, and even the national myths that tie people together, we can begin to better understand each other and contribute to the knowledge and understanding that will lead to a better world."

As a Montanan, Mike Mansfield long enjoyed hearing from diverse voices, from our 11 Native American tribes, to the tens of thousands of immigrants who came to Montana from every corner of the world. Montanans recognized that we are best served by listening to as many different voices as we can. It makes us better thinkers and may even lead to a better world.

Today we have invited witnesses to examine the trade agenda from many angles. We have witnesses who see the trade agenda from the point of view of academia, agriculture, labor, textiles, big business, and small manufacturers. We welcome our witnesses here today and we especially welcome—I do, anyway—Steve Holland, who traveled from Bozeman, MT to be here this morning.

Our witnesses bring diverse voices to the debate, but they all share a common goal: we all want a trade policy that advances our national interests. We all want America's farmers, ranchers, manufacturers, workers, and innovators to succeed on the world stage. We all want to create and maintain good, high-paying jobs here in America. We all want to do these things in a way that preserves our environment.

Trade policy is at a critical juncture. The forces of globalization are marching forward. Our trading partners, especially China, are locking up key export markets abroad. America's fast track negotiation authority expires in less than 4 months.

Article I, section 8 of the Constitution gives Congress the responsibility "to regulate commerce with foreign nations." We in Congress, therefore, will decide what comes next.

How can we best shape the future of trade policy? How can we best use trade policy to create jobs here in America? How can we best use trade policy to maintain America's economic leadership for the next generation?

Before Congress can answer these questions, we need to hear from the many voices that care about trade policy. Some voices, including my own, believe that we best advance these goals through a vigorous trade policy. By lowering trade barriers abroad, we develop new export opportunities. We can create jobs and further economic growth here at home.

We, however, cannot sit on the sidelines while our trading partners, other countries, open critical export markets without us and do deals among themselves. We cannot trail behind the forces of globalization. We must seek the opportunities and take advantage of them. We must get out ahead of them. Our workers, farmers, ranchers, and manufacturers deserve nothing less.

But, understandably, many Americans have deep reservations about trade. Out-sourcing and falling wages frustrate our workers. Lax enforcement of our trade laws and agreements frustrates many businesses, including small business. Non-tariff barriers abroad frustrate our farmers, ranchers, and many others.

We need to listen to all of these voices. Fundamentally, we need to create a new consensus. Times have changed, especially since the last major trade bill, the 1988 Trade Act. We need to develop a trade policy that commands broader support among Americans, and we all look forward to those goals.

Senator Mansfield said, "One of the best ways to bring about better understanding is through exchanges of all kinds." Today's exchange will bring diverse voices to that trade debate. Today's exchange can help us better understand what has, and what has not, worked in trade policy. Today's exchange may just help us build a new consensus on trade policy.

So we look forward to listening to all of your voices. We look forward to hearing the exchange among you, and with us. We look forward to our getting a better understanding of each other's points of view. After all, we are America.

We should strive toward consensus. I look forward to making the decisions that will help America's workers, farmers, ranchers, and manufacturers. And who knows? Today's exchange may even lead to a better world.

Senator Grassley?

OPENING STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. An overview of my approach to trade is that, in the 70 years that we have moved from the protectionist policies that led us to the Great Depression of the 1930s and that policy being changed with the reciprocity programs of the 1930s, going through GATT and now the WTO, not only has the United States benefitted from it very dramatically, but the entire world has benefitted from it as well.

As we continue to move forward, there's going to be even more benefit to the world, especially based on the proposition that one-third of the world's economy is based upon trade. And so we have been moving in the right direction. I think we can look at that 70-year history and say that protectionists are always wrong.

So with that in mind, Mr. Chairman, I thank you for starting down the road of continuing dialogue in this area and continuing your trade policy of the past, which has been very free-trade.

I also thank the witnesses who are here with us today, and especially my friend, Mr. Craig Lang, president of the Iowa Farm Bureau, a fellow farmer, and also very active in the American Farm Bureau Federation as a member of that board of directors. We welcome all of you, but especially, for me, Craig Lang.

This is a very important hearing. The committee will need to address a number of pressing trade issues this year. We have to find a way forward immediately to implement trade agreements with Peru, Colombia, and Panama. I am hopeful that, before that process ends, we add to the string Korea and Malaysia.

We need to reauthorize trade promotion authority, which expires July 1st, so that the United States remains a relevant voice at the negotiating table and we do not relapse to where we were in the 1990s when, worldwide, there were about 130 bilateral trade agreements reached and the United States was only a party to two of them.

The world, until then, relied upon the United States of America to be a leader in this regime of moving towards negotiations on trade, and the rest of the world showed the United States, during that 8 years that the President did not have trade promotion authority, that they were not going to sit around and wait for the United States to lead. So, I hope that that lesson teaches us that we should not let TPA authority lapse again and the United States lose its leadership.

So, we do need to reauthorize that. We need to reauthorize the trade adjustment assistance programs, and we need to examine ways to improve that program in a fiscally responsible manner.

I think we need to take another look at our unilateral preference programs to determine whether it makes sense to retain or reform those current programs. Today's hearing will help us as we prepare to tackle those issues.

Senator Baucus is surely up to tackling them, and I want to be working with him. American farmers, ranchers, manufacturers, and service providers are counting on us to get it right. We need to continue to open markets and reduce non-tariff barriers to our exports.

We have an immediate opportunity to do just that. The American Farm Bureau estimates that, when fully implemented, our trade agreements with Peru and Colombia, together, will result in about $1.5 billion in additional exports.

The U.S. International Trade Commission estimates that each of these two trade agreements will help reduce our trade deficit.

These agreements offer the prospects of billions of dollars in export sales, not just for agricultural products, but for manufacturing and services as well.

It frustrates me then to hear critics talk out of both sides of their mouth on trade. One minute they are criticizing the size of our trade deficit, and the next minute they are opposing trade agreements that will help improve our trade deficit situation. To me, that is not credible, but we hear it outside of Congress and we hear it inside the Congress.

We have an opportunity right now to work on trade agreements where countries that have benefitted from trade benefits from the United States have reduced tariffs over a long period of time to level that playing field for American farmers, manufacturers, and services to get our products in there right now, yet we are arguing over some things that are preventing that from happening and the jobs that are being created from it.

Now, of course, I realize that the political landscape has changed since the November election. I am reminded of that as I am sitting here instead of sitting over there. It has changed. We need to address concerns on labor raised by members on the other side of the aisle if we are going to get Peru, Colombia, and Panama trade agreements implemented. But they ought to be implemented yesterday and not tomorrow.

I remain optimistic that we can find a way to address those concerns, while not creating concerns on my side of the aisle that trade agreements could be used as a back door to force changes in U.S. labor policies. Let me say, there are people on my side of the aisle whom I can say these things about as well, so that is not directed just towards Democrats.

It remains to be seen whether the critics are truly interested, though, in finding common ground on policy or just trying to kill agreements outright. While these agreements are important economically, they are also important politically, or maybe you want to say diplomatically.

We need to send a strong signal of our support to our allies in Latin America and not turn our backs on them. Failure to implement trade agreements with Peru, Colombia, and Panama would just further embolden Chavez and his acolytes.

With respect to trade promotion authority, I know some have suggested that we need some breakthroughs in the Doha negotiations in order to justify renewal. Now, I disagree. I think that they have it backwards.

It is hard for me to see why our trading partners would put their cards on the table if there are doubts about Congress putting a final deal to a straight up-or-down vote. So I think we in Congress have to take care of our own business first by renewing trade promotion authority.

I also look forward to exploring ways to improve our trade adjustment assistance programs in a fiscally responsible manner, but not take us down the road of Europe, where they have not had growth in employment for the last 10 or 15 years of any great extent compared to the United States of America.

I am beginning to reexamine these programs myself, and I will have more to say about them in the weeks ahead. Clearly, there is a lot of work to be done, and I look forward to working with the Chairman and members of our committee to produce concrete results.

The CHAIRMAN. Thank you very much, Senator.

I will turn to the panel. I thank all of the panelists for coming, some of you a great distance, at inconvenience to a lot of you. We deeply appreciate it. Here is an opportunity for each of you to make the best use of this time here and say what is on your minds.

Our first panelist is Larry Summers. He is the Charles E. Eliot University Professor at Harvard University; next, Mr. Fred Smith, who is CEO of Federal Express; next, Bob Baugh, who is executive director of the Industrial Union Council of the AFL–CIO; Mr. Craig Lang, president of the Iowa Farm Bureau Federation; Andy Warlick, president of Parkdale Mills in Gastonia, NC; and, finally, Mr. Steve Holland, who is director of the Montana Manufacturing Extension Center in Bozeman, MT.

We will just go down the line here and start with you, Mr. Summers. You have about 5 minutes. I urge you, because we have a lot of people here today and Senators want to ask questions, if you could keep yourself down to 5.

STATEMENT OF LARRY SUMMERS, CHARLES E. ELIOT UNIVERSITY PROFESSOR, HARVARD UNIVERSITY, CAMBRIDGE, MA

Mr. SUMMERS. Senator Baucus, it is a pleasure to address you as “Mr. Chairman.” And, Mr. Chairman, it is a pleasure to return to testify before this committee, which has done so much in the past to shape our national economic policy and will, I am confident, do a great deal in the future.

We come together at a critical juncture in U.S. economic policy, with a global economy that is evolving in unprecedented ways, shaped by two primary developments: revolutions in technology and the rise of the developing world.

It has been estimated that it is possible that as many as 20 percent or more of U.S. jobs will potentially be subject to foreign competition as a consequence of technology over the next 2 decades beyond those that are subject to competition today.

What is happening in Asia is without economic precedent in the history of the world. They called it the industrial revolution because, for the first time in human history, living standards doubled within a single human life span.

At rates of growth that have prevailed in China recently, living standards will rise 100-fold within a single human life span, and transformative and remarkable economic growth is under way in many of the emerging markets. What happens between the United States and the emerging markets will shape the history of this century.

These twin forces of globalization and technology have produced enormous benefits for the U.S. economy. After 20 years of slow productivity growth, we have, for more than a decade, been in a period of productivity acceleration. The business cycle has moderated to a very great degree.

We have attained combinations of unemployment and inflation that would have been thought impossible 15 years ago. Even late in an expansion, mortgage interest rates are below 6 percent, permitting record levels of home ownership.

We do not have a viable economic strategy other than embracing globalization, but doing so effectively requires us to respond to the very large challenges that it brings. I would highlight four.

First, assuring a sustainable global growth. The United States, the world's largest power, is now the world's greatest borrower on an unprecedented scale. As the first figure in my testimony illustrates, that borrowing is financing consumption rather than investment. It is surely not sustainable. It is not sustainable arithmetically in terms of the economics, not sustainable politically in terms of the dislocations that it brings.

So, the choices that are made here in Washington with respect to our Nation's fiscal policy and our level of national savings, other areas of this committee's jurisdiction, will be of profound importance going forward.

Second, even with the best imaginable fiscal and monetary policies, it is crucial that we make the investments that are essential for economic growth. To mention just one example from what I have been doing these last number of years, 15 years ago it was the case that the United States led the world in the fraction of young people who went to, and graduated from, college. Today, we struggle to be in the top 10 nations in this world in that regard. That is an example of a central issue of appropriate investment in education.

Equally important are investments in technology. It cannot be wise, at a moment of unprecedented opportunity for our country, for our investment in the biomedical sciences to have actually declined last year for the first time in 40.

These investments will have to be focused on achieving American clusters of strength that are very difficult for others to replicate and that can serve as magnets for talent from around the world.

The CHAIRMAN. I am going to ask you to take one more minute.

Mr. SUMMERS. One more minute. All right. Third and fourth will be fast.

Third, and most critically, we need to address the challenge of economic inequality and insecurity because it is the right thing to do for American families, because it is necessary to support growth-oriented policies.

To offset the changes that have taken place in the income distribution over the last 25 years, one would need to transfer nearly $600 billion from those in the top 1 percent of the income distribution to those in the lower 80 percent.

If we are going to maintain support for a market-oriented global system, we need, in a whole variety of ways, starting with the progressivity of our tax and transfer systems, to address this challenge of rising inequality and insecurity.

Finally, Mr. Chairman, it is essential that the United States repair and restore our strong relations with the rest of the world. To do so, we need to be prepared to engage in bilateral and multilateral diplomacy directed at opening markets. It is not plausible to assert that any large part of what has taken place, driven by technology and globalization, is a consequence of particular trade agreements.

But failure to make it possible for the United States to engage in trade agreements would severely jeopardize our ability to compete with other nations that are pursuing trade agreements, would limit our influence on a broader range of issues, and would deny American exporters a range of attractive opportunities. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Summers. That is very, very helpful.

[The prepared statement of Mr. Summers appears in the appendix.]

The CHAIRMAN. Mr. Smith?

STATEMENT OF FRED SMITH, CEO, FEDERAL EXPRESS, WASHINGTON, DC

Mr. SMITH. Thank you very much, Mr. Chairman. On behalf of the 275,000 people who make their living in the FedEx companies, I very much appreciate being invited to appear before you and this distinguished group of Senators of the Finance Committee.

As many of you know, FedEx, particularly through our express company, is a major facilitator of U.S. trade. Operating a fleet of some 700 airplanes and 80,000 vehicles, we carry millions of shipments a day in the international trades, the high-tech and high value-added goods that really mark modern society.

We have spent many years promoting the opening of markets and the development of trade, and we strongly support the renewal of the TPA and believe that the failure to do so would have several adverse repercussions. It would certainly reduce the chances of completing the Doha Round. It would endanger the completion of major bilateral agreements such as Malaysia and Korea.

It would allow our trading partners to submit preferential trade deals—and this is particularly important—that put the United States at a distinct disadvantage in terms of our products and services, and it would signal, in an unprecedented manner, America's first retreat from global trade leadership.

Trade is, now, about 25 percent of our entire economy. It accounted for 20 percent of the overall growth in the U.S. economy in 2005. Over the past 10 years, trade has raised U.S. GDP by nearly 40 percent, and the U.S. added over 16 million jobs during that same period. Today, the best estimates are, U.S. annual incomes are $1 trillion higher, or $9,000 per household, due to increased trade liberalization since 1945.

The services sector, of which we are a part, represents 77 percent of U.S. GDP now, and employs 80 percent of U.S. workers. It is one of our greatest competitive strengths.

Services, like FedEx, form the critical infrastructure of modern economies, and they account for about half of the price of every manufactured product that we buy.

The value of U.S. services exports, $414 billion in 2006, is 5 times greater than the value of our agricultural exports. We have a $73-billion surplus in services trade. The ten highest-paying industries in the United States are all in the services sectors. Opening markets to U.S. service providers must be a key component of our trade policy.

Now, protecting the interests of our domestic farming community is, of course, important to our National interests, but so is the need to remain competitive in the global marketplace for goods and services. We need to find a balanced solution to the agricultural subsidies issue and then push aggressively to complete the Doha Round.

Even if we were to achieve a breakthrough on Doha, it will take several months to formalize the written text, so TPA, therefore, is essential, and quickly. I know that you in this committee, and the Congress as a whole, are trying hard to come up with a bipartisan approach to addressing labor and environmental issues in our trade agreements, and we applaud that.

Companies like FedEx who benefit from trade have a role to play in promoting America's free trade agenda, and I can assure you we will do our utmost to equip our workforce to succeed in the global economy and share in the gains that trade provides.

America stands to continue to gain much from free trade. Our people and our companies continue to be the most competitive and innovative in the world in the services sector, in many manufacturing areas, and in agriculture. We very much appreciate, again, the opportunity to present our thoughts before the committee, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Smith. I appreciate that.

[The prepared statement of Mr. Smith appears in the appendix.]

The CHAIRMAN. Next, Bob Baugh. Mr. Baugh?

STATEMENT OF BOB BAUGH, EXECUTIVE DIRECTOR, INDUSTRIAL UNION COUNCIL, AFL–CIO, WASHINGTON, DC

Mr. BAUGH. Thank you, Senator Baucus and members of the committee, for the opportunity to testify here this morning.

It is time for fundamental change in U.S. trade policy. Our deficit hit $764 billion, our cumulative international debt exceeds $3 trillion, real median wages and family income continue to stagnate, as Senator Baucus noted. We see heart-rending reports daily about the abuses of worker rights, both here and abroad.

Democratic governments find their policy scope increasingly constricted by global trade rules. The loss of 3 million manufacturing jobs and 40,000 manufacturing facilities in offshoring, design, engineering, and R&D is a threat to the Nation's economic and national security.

It means that the next best idea, the next innovation, the next generation of products, and the next investment will be made in some other country. It does not have to be this way.

For globalization to live up to its promise, we need an entirely new set of rules and institutions. No government should gain a competitive advantage by offering to violate its own workers' rights just to keep labor costs down. No company should profit by taking advantage of vulnerable workers in one country to produce goods to sell to wealthy consumers in another.

We need to support the International Labor Organization's Declaration on Fundamental Principles of Rights at Work, and these must be enforceable, with binding dispute settlement and enforcement mechanisms, just like we have on the commercial side.

International environmental commitments should be reaffirmed and protected, but private investors must not have the right to challenge domestic environmental or public interest laws and regulations before closed international courts.

We need to ensure that trade rules do not threaten government's ability to provide affordable and high-quality public services or to regulate labor markets, the environment, public health, or consumer safety. Those are the kinds of constrictions we are seeing.

Trade agreements must not require privatization or deregulation as a condition, nor should they obstruct developing countries' rights to essential medicine for HIV-AIDS and other medical crises.

Procurement provisions must not undermine the ability of government to use its tax dollars for economic and social goals, and changes in our own immigration laws should be done by Congress, not by irreversible commitments made in trade agreements.

We need more transparency and a much broader public participation in the negotiation of trade rules. Business should not be the only non-government group at the table; a lot of us have things at stake in these negotiations.

We have been on the wrong track. Our own government has let us down with trade negotiations in a regime that promotes corporate rights to the exclusion of everything else. They have failed to enforce their own trade laws and do little to protect them from international challenge. What has gone on in the WTO is a disaster: we have lost case after case after case.

The revised Doha Round of negotiations can only be greeted with pessimism, from our point of view. The framework fails to address the concerns of working families here and abroad.

The recent administration proposal to abandon ILO workers' rights and replace them with U.S. labor laws in the Peru, Colombia, and Panama free trade agreements is an arbitrary, unworkable, and ill-conceived idea that would be an international embarrassment.

One hundred and seventy-five countries have signed this convention. It is the standard of the world, which is exactly the kind of standards we talk about in this committee and within the World Trade Organization's frameworks.

The Treasury Department's repeated inability to find any technical violation of the currency laws by the Chinese government is an absolute outrage. But there is hope. I would like to thank Senator Stabenow, Senator Bunning, Senator Levin, Senator Casey, and Senator Snowe for their leadership in introducing the Free Currency Act in the Senate yesterday. This is an important step forward, and we look forward to working with you on this legislation.

The AFL–CIO welcomes the national debate over how best to reform our trade policies, but we will vigorously oppose any attempt to extend the current fast track authority. It is time to strengthen the role of the Congress in this important area.

There is a right track. Let me suggest four ways. One, the first step in any new trade policy must be a strategic review of our existing trade agreements before moving on to new ones. Such a review much include recommendations on how to address the problems in existing agreements, up to, and including, renegotiation.

Number two, Congress should have a role in choosing trade partners, which it does not, currently. Congress should lay out readiness criteria to assess any trade agreement partner, including the economic opportunities for U.S. workers, firms and farmers, a country's legal framework and enforcement regimes, a country's compliance with ILO standards, multilateral environmental agreements and fundamental human rights, and the existence of a democratic governance system.

With these rules, frankly, no one would have renegotiated a trade agreement with Colombia, where over 2,000 trade unionists have been murdered in the last decade.

A key element to make in the negotiation objective laid out by Congress must be mandatory. These objectives much be mandatory, not optional. The U.S. Trade Representative has consistently ignored Congress' instructions.

The mandatory negotiating objective should, at a minimum, address labor, environment, investment, procurement, protecting our trade laws, intellectual property rights, services, and immigration.

Point number four, Congress must certify that an agreement has met all the mandatory objectives before an agreement can be signed. These represent only the most crucial changes that are needed to get our trade policy back on track.

Congress must act now to reassert its voice over trade policy, which increasingly affects so many areas, as everybody has noted, of domestic policy. Without deep reform, we cannot come together and meet the many challenges that we face as a Nation. The AFL–CIO looks forward to working with all of you in putting the Nation back on the right track. Thank you.

The CHAIRMAN. Thank you, Mr. Baugh.

[The prepared statement of Mr. Baugh appears in the appendix.]

The CHAIRMAN. Mr. Lang?

STATEMENT OF CRAIG LANG, PRESIDENT, IOWA FARM BUREAU FEDERATION, WEST DES MOINES, IA

Mr. LANG. Thank you, Mr. Chairman. My name is Craig Lang. I am a fifth-generation farmer from Brooklyn, IA. I farm 1,000 acres with my father and brother. I am proud to say that Monday was the first day that my son was fully employed as a sixth-generation farmer at Yareby Farms in Brooklyn, IA.

So much about what I will say today has more to do with my family farm than me being president of the Iowa Farm Bureau, or on the American Farm Bureau board of directors, because certainly having a successful opportunity for the next generation to farm in Brooklyn, IA is of high priority not only to me, but to my dad.

There is no question that export markets are important to American agriculture. We export a fourth of this country's farm production. Iowa is second only to California in the amount of products we export. In 2005, Iowa exported nearly $4 billion of agricultural products. This represents 27 percent of our total farm cash receipts in Iowa.

American farmers rely on growth potential in export markets. The U.S. has an immature market for food consumption, only increasing as our population increases. However, for 95 percent of the rest of the population that live outside of our borders, it is a different story. Population growth, income growth, and consumption growth in developing countries of Asia, Central and South America, and Africa are creating more demand for our products.

Currently, we are trending away from our traditional export markets of Europe and Japan, while increasing trade with our NAFTA partners. Today, Canada and Mexico buy a third of all of our U.S. farm exports. Consumption transfer for food and commodities is flat in this country, but increasing dramatically in markets like China.

Soybean consumption in the U.S. market has increased by approximately 25 percent compared to a decade ago. However, Chinese soybean consumption has grown 236 percent in the last 10 years.

Why? Income growth is resulting in more demand for animal protein in the Chinese diet. Therefore, Chinese pigs, chickens, dairy cows, and fish are being fed Iowa soybeans.

India is another huge developing market, with a middle class that now outnumbers the entire U.S. population. It is very clear that our most exciting trade opportunities are now overseas.

However, despite the previously mentioned trade opportunities, we still face trade barriers such as high import tariffs, restrictive import quotas, embargoes due to plant and livestock issues, and concerns about biotechnology. Oftentimes these barriers are nothing more than excuses that have more to do with politics than food and safety.

We need your help addressing these frustrations. Many different trade difficulties could be remedied by government-to-government negotiation, with the staff of USDA, USTR, FDA, and even the State Department meeting with foreign counterparts. It is crucial that we continue the funding and staffing levels for those Federal agencies that support agricultural trade.

Bilateral and regional free trade agreements are doing much to open new markets for American agriculture. We are grateful to the USTR's tireless negotiators and hope that Congress will quickly ratify treaties as they are concluded. It is critical that Congress take immediate action on the Peru and Colombia trade promotion agreements.

Yesterday, the American Farm Bureau board of directors approved a go-ahead for our organization on the Panama free trade agreement. Combined, these agreements represent an additional $1.5 billion in U.S. agricultural exports after full implementation of the agreements.

Currently, about 90 percent of the agricultural products from these two countries enter the United States duty-free because of preferences. Passage of these agreements will provide U.S. agricultural exports the same duty-free treatment.

We continue to support multilateral trade negotiations like the WTO Doha Round. Success in WTO could make progress on farm subsidies reform and export subsidy and import tariff reductions with 149 other countries all at one time.

American farmers are willing to trade significant reductions in trade-distorting domestic farm support for real tariff reductions and proportionate gains in market access. Our trade partners need to know that we are serious about successful conclusion of the WTO negotiations.

To send this message, it is imperative that Congress renew trade promotion authority before it expires in June of this year. Efforts to establish new bilateral and multilateral trade agreements will come to a halt without TPA.

Also, Congress should remove restrictions on agricultural trade with Cuba. Cooperatives in my State of Iowa sold more than $75 million of corn, soybeans and wheat to Cuba in recent years. I cannot understand how we can play baseball there, but we cannot trade our food.

In addition to trade policy and trade negotiations, farmers count on Congress to support American agriculture with trade development and promotion. The USDA Market Access Program, Foreign Market Development Program, and other grant programs help leverage check-off funds.

Agricultural contributions and trade association dues from organizations like the Iowa Farm Bureau are always working to help international trade. As a farmer and farm organization leader, I am excited about the potential for trade that lies over the horizon and outside of our borders. I believe it is the one thing that will help my son be a good farmer and have an opportunity to raise his family in Brooklyn just like I did.

Thank you.

The CHAIRMAN. Thank you, Mr. Lang.

[The prepared statement of Mr. Lang appears in the appendix.]

The CHAIRMAN. Mr. Warlick?

STATEMENT OF ANDY WARLICK, PRESIDENT, PARKDALE MILLS, INC., GASTONIA, NC

Mr. WARLICK. Chairman Baucus, Senator Grassley, and distinguished members of the committee, thank you for the opportunity to appear today and outline the U.S. textile industry's perspective on the 2007 trade agenda.

My name is Andy Warlick, and I am the president and CEO of Parkdale Mills, a privately held textile manufacturer headquartered in North Carolina, with plants in North Carolina, South Carolina, Virginia, and Alabama.

Parkdale Mills has been a strong supporter of the NAFTA, CAFTA, and Andean Trade Preference programs. In my oral testimony today I would like to touch on a number of issues, including the recently passed Haiti legislation and the need for a trade policy agenda that delivers benefits to manufacturers that produce in the United States and employ millions of workers here at home.

About this last point, I would like to make one initial observation. In the recent elections, it was demonstrated clearly that a lot of Americans believe that trade policy has been headed in the wrong direction and needs to be turned around.

As we debate what changes might be made, I implore you to keep your attention focused on rebalancing the playing field to make sure that American jobs stay here. U.S. workers are the most productive, creative, and highest-skilled workers around the globe, but bad trade policy and the government's lack of attention and focus on enforcement efforts has tilted the playing field against them.

For a snapshot of those difficulties that a poorly thought-out trade policy and lax enforcement can cause to U.S. manufacturing, one need turn no further than the Haiti Hope Act passed by Congress just last December.

First of all, I hope the committee appreciates the fact that the Hope Act is not a trade bill, it is a textile bill. Ninety-nine percent of the contents of this legislation impacts U.S. textile manufacturers alone, yet the U.S. textile industry was never consulted, not even once, as Congress drafted this legislation.

There was neither a hearing on this proposal, nor a committee mark-up, that would have allowed key stakeholders and those who represent us the opportunity to provide feedback and input.

On top of that, this program contains rules and regulations which we now know from experience are impossible to enforce, yet Congress expands these flawed programs time and again.

To make matters worse, I further understand that later this month the U.S. Government will certify that Haiti has met the Customs enforcement requirements mandated under this law, even though Haiti has not taken any of the steps that the law requires.

So what we have is an eleventh-hour trade deal that ignored the interests of the primary impacted stakeholder and that contains unenforceable rules, and our government is not making a semblance of an effort to try to adequately enforce it.

It is no wonder the average person back home has lost faith in Congress's ability to deliver on the promise of free trade. I can recall when the China PNTR was a major issue before Congress, and the U.S. textile industry was very concerned that the WTO accession agreement with China would not be enforced because past agreements with China had not been enforced.

We were assured by supporters in Congress and by the government that this time things would be different, and that bringing China into a rules-based, global trading system was the best way to address our trade concerns with China.

Of course, 6 years later we are back at the same place. The agreement is not being enforced. China is not reducing its subsidies, it is not protecting intellectual property rights, and it is continuing to manipulate its currency.

The net effect is that U.S. companies and workers lose because the Chinese have advantages in setting prices wherever they need to set prices to make a sale. They are not worried about profits, shareholder values, or creditworthiness. They simply make the sale to keep their plants operating and keep their people employed.

They can achieve this through a complex web of subsidies, including currency manipulation, export tax rebates, non-performing loans, subsidized transportation, and subsidized utility rates, just to name a few.

Many, if not most, of these are illegal under U.S. trade law and WTO law, yet there appears to be precious little interest in Congress or by the government in going after countries that do not live up to their WTO obligations.

In my mind, this is the crux of the problem with trade policy today. We have a de facto policy that allows foreign governments to subsidize their exports and throw U.S. workers out of their jobs, while our own government essentially looks the other way or conveniently provides aid and assistance to those businesses overseas and to those governments. Main Street America cannot overcome such an unjust system.

China is only the biggest example. Since 1994 when the industry was told that new market access opportunities would be aggressively pursued as part of the Uruguay Round, the exact opposite has, indeed, happened.

During this time, one-way preferential trade programs and free trade agreements with loopholes for third-country fabrics have dominated the trade agenda in textiles and apparel, with very limited gains being made in new market opportunities for U.S. exports.

I can think of two big steps that would go a long way to restore American workers' faith in trade. The first is that Congress should quickly pass the Fair Currency Act, which was introduced today in the Senate with bipartisan support. The legislation would allow countervailing subsidies to be applied to China and provide that currency misalignment is a countervailable subsidy.

The second would be to do something about the problem of value-added taxes that are employed by 137 countries, including every major industrial power except the United States. These countries rebate VAT taxes on exported goods and levy VAT taxes on imported goods. This double taxation puts U.S. producers at a significant disadvantage, $294 billion in 2005, as a result of the value-added taxes.

In closing, I would like to emphasize that the U.S. textile industry is supportive of trade. In fact, our livelihoods now depend upon it. But trade at any cost, that is more about achieving foreign policy and social objectives than it is about creating an open and transparent trade environment, means that U.S. manufacturers will continue to lose.

On behalf of our employees and myself, thank you for this opportunity.

The CHAIRMAN. Thank you very much, Mr. Warlick. That was very interesting.

[The prepared statement of Mr. Warlick appears in the appendix.]

The CHAIRMAN. Mr. Holland, you bat clean-up here.

STATEMENT OF STEVE HOLLAND, DIRECTOR, MONTANA MANUFACTURING EXTENSION CENTER, BOZEMAN, MT

Mr. HOLLAND. Thank you. Good morning, Chairman Baucus, Ranking Member Grassley, and distinguished members of the committee. I would like to begin by thanking you for this opportunity to share my views and perspectives on international trade issues facing America's small manufacturing community.

There are more than 350,000 small- and medium-sized manufacturers in the United States. Manufacturing exports support over 5 million jobs in the United States, and those jobs pay higher-than-average wages and usually include health care insurance and other benefits. Further reduction in trade barriers would spur the creation of more higher-paying jobs in the U.S.

There are a number of trade issues that affect all manufacturers who export, and I will mention just one: large and small manufacturers who export are looking for fair trade. That is what free trade agreements are intended to accomplish.

However, as has been noted here today, some of our trading partners do not do what they agreed to do. Allegedly, some partners manipulate currency, illegally subsidize exports, and fail to protect our intellectual property.

Enforcement of our agreements and the removal of illegal trade barriers need to carry the same priority as trade negotiations. There are additional statistics and details about manufacturing in my written testimony that I have submitted for the record.

Barriers to fair trade affect all exporters. However, I have focused my recommendations in three areas that I believe will significantly benefit small- and medium-sized firms and that will allow us to tap the export potential they represent.

First, I urge you to support innovation, because it is foundational to U.S. competitiveness. Innovation is the key to our ability to compete globally. This has been true since the industrial revolution. Small- and medium-sized enterprises are recognized as an important source of innovation in the U.S.

Second, ensure trade agreements have transparency for standards and local regulations. Foreign cities and regions often have their own standards and regulations that deal with products. Even when product specifications are clearly delineated in a contract, small- and medium-sized enterprises can run afoul of unexpected requirements.

Small companies do not have the resources to deal with a large number of local regulations, so it would be very helpful if trade agreements resolved these issues, perhaps by developing a form of reciprocity or by establishing a hierarchy that can be used to resolve differences.

Third, the small manufacturing community needs an export guide and self-evaluation tool. We need access to information in an efficient and customized manner. A web-based self-assessment tool that would help create a map to exporting that is specific to the company and the target market would be extremely valuable.

Fourth, we need to enable more and affordable assistance to compete in foreign markets. The U.S. needs to adopt an investment mind-set concerning trade. Some foreign governments are paying for trade missions and are making investments in exports.

For example, the Canadian International Trade Authority will pay for trade missions, provide marketing grants, and fund company contributions to World Bank- and Regional Development Bank-funded projects. The U.S. charges for these services.

Lastly, we need to encourage and sponsor trade missions. About 30 percent of non-exporters are interested in exporting, but cite the lack of information about export markets, customers, and export procedures as barriers.

These are areas where they need help most. Trade missions are an efficient way to help experienced and novice exporters alike.

Chairman Baucus, Ranking Member Grassley, and committee members, thank you for this opportunity, your time, and for all you are doing for America's small manufacturers.

[The prepared statement of Mr. Holland appears in the appendix.]

The CHAIRMAN. Well, thank you all very, very much.

I am going to ask one question of all the panelists, and that is your thoughts about how to beef up our trade enforcement. Some suggest a new office within the USTR, a new ambassador or assistant ambassador whose sole job is trade enforcement. The number of people in the USTR's office that is dedicated to enforcement is very small, just a handful.

Others suggest putting enforcement within, say, the Justice Department, take enforcement away from USTR and other agencies and put it in the Justice Department. Others have other ideas.

I was just struck when I was in Japan about 20 years ago, speaking with the head of Sony. I said, "What would you do if the President of the United States gave you carte blanche in developing United States economic policy?"

He said, very simply, without skipping a beat, "You need a Department of Trade." He said, "You have a Department of Housing and Urban Development, you have Agriculture. You do not have a Department of Trade. You have to have a Department of Trade." It just made a lot of sense to me, clearly, the idea that we have to have a lot more focus on exports and on what is happening in the world to help our country more.

But going down the list here, I will start with Mr. Summers. Your thoughts on our export structure. That is, our enforcement structure, our enforcement personnel, and new ways to address enforcement so we can get a better handle on IPR violations in China, India, and other countries, and all the other matters that have been addressed. I am going to ask the same question of each of you, so be prepared.

Mr. SUMMERS. Mr. Chairman, I would support an office within the Office of the Trade Representative with that responsibility, and also with the reporting responsibility to the Congress on major enforcement problems that we are having with the trade agreement. I believe it is important that it be in the Trade Representative's office so that it can be integrated with the overall administration's set of policies.

In my experience, we accomplish more with respect to violations through high-level diplomacy associated with Presidents' trips or trips by Cabinet members than we do working through the particular jurisdictional arbitration procedures of the different trade agreements. And so by placing it in the Trade Representative's office, I think you have the best chance of its being integrated into the broader thrusts of U.S. economic policy.

I think it would be quite unwise to place it in the Justice Department, which I think would not be well-situated to engage in the kind of international negotiations that are involved in trade dispute resolution.

The CHAIRMAN. Do you think we need to beef up the personnel there, have more people?

Mr. SUMMERS. I suspect having more people would be a good idea, yes.

The CHAIRMAN. All right.

Mr. Smith?

Mr. SMITH. Well, my recommendation, Mr. Chairman, would be to change the title of the Department of Commerce to the Department of Commerce and Trade, and to actually make the USTR a part of Commerce. Today, there is this sort of bifurcated view that Commerce is over here doing things about the American economy, and the USTR is doing something over here.

As I said in my remarks, 25 percent of the U.S. economy now is related to exports or imports. It is growing at a rate, worldwide, about 3 times faster than the GDP growth rate of any country.

So you fast-forward in our economy, barring some huge political mistake and so forth, it is going to be much more like Europe and Asia, and so forth, where imports and exports are a bigger part of the economy, not less.

The U.S. State Department has, at the embassies abroad, commercial officers. The infrastructure is already in place to do that. It would streamline, in my mind, dealing with the business interests, commercial interests.

The second thing I would mention to you, as we have watched international trade, over these past 25 years, grow—Senator Grassley mentioned this in his remarks—some of the biggest problems are in non-tariff barriers. And probably the biggest culprit in that area are local regulations and customs clearance capabilities.

If you export to the United States, we have a fabulous Customs Service. Most of the items that are brought into the United States are cleared electronically before they ever get here. It is a very smooth process. There are some exceptions, but it is certainly almost frictionless.

You go to many parts of the world, and we are simply not able to be competitive exporting to those countries because of archaic customs regulations, archaic practices, corruption, and so forth.

And the final thing I would mention to you, as Mr. Summers said, in a lot of places the problem about fair trade is not that the country does not want to live up to its trade obligations, but they have many political problems inside their country and their politics.

For instance, you go to China; I am very convinced that the head offices of the Chinese government are very much against piracy of intellectual property and so forth, but the reality on the ground of selling DVDs in Shanghai or Wuhan defies the authorities there the same way a lot of things that go on in this country defy our authorities.

So, I think you really have to deal with these things at a very high level to get the commitment of these governments to put their resources to enforce them.

The CHAIRMAN. Well, my time has expired, which means the rest of the four of you are going to have to answer my question in the next round. I don't have time now.

Senator Grassley?

Senator GRASSLEY. Yes. Thank you very much. I appreciated all the testimony, even those people who testified who disagree with me, because I know that you sincerely approach it. It is only through discussion like this that we will reach the compromise that it is going to take to move forward.

Mr. Lang, what would a good WTO agreement look like to you? I am not asking you personally, but for farmers, generally.

Mr. LANG. Right. First, in understanding that improvement and leveling the playing field in trade around the world would easily bring 500 million people out of poverty, I think a good trade agreement would be one that reduced the high import tariffs, eased up some of the restrictive import quotas, actually, one that was agreed upon that was best for each country. It is going to be very difficult. Trade agreements are a journey. They do not happen overnight. They are agreements that take time to mature.

But one that actually allowed fairness of trade so that a particular product manufactured or grown was done because of the resources in people and land, and other kinds of resources that you have in those countries because of that, without some kind of political agenda.

Senator GRASSLEY. All right.

You mentioned in your testimony the importance of Peru and Colombia. We receive a lot of their farm exports into this country duty-free. As I indicated in my opening statement, it would level the playing field for us. Have you heard of opposition by farmers to these trade agreements, and if so, what would be the basis of their opposition?

Mr. LANG. The opposition that you normally hear about these kind of agreements is more about the farmers in those existing countries having opportunities removed from them that do not allow them to improve their status of life.

I do not believe that those disagreements that I would have with them are justified because I have seen firsthand that, as economies improve, as trade starts, those farmers have other opportunities to make a living, to increase their status of life.

But those are the disagreements I have heard, some reluctance on the part of fruit and vegetable growers in this part of the country, saying it is not fair. But, quite honestly, Senator Grassley, those preferences are already in place that are not fair.

As we go ahead and approve those trade agreements, what happens is, it makes it more fair trade back and forth because those products are coming into this country without restrictions the way they are.

Senator GRASSLEY. Yes.

Mr. Smith, what type of barriers or impediments has FedEx encountered in trying to access foreign markets? How would you see an agreement on services through the World Trade Organization address some of those barriers?

Mr. SMITH. Well, I think I mentioned some of them a minute ago, Senator Grassley: customs impediments and structural issues. I think the trade agreements that we sign simply have to focus much more on those non-tariff barriers and provide enforcement mechanisms in case they are encountered. They have been quite prolific around the world in many countries.

Senator GRASSLEY. Mr. Summers, what, in your view, are the ramifications if Congress would fail to renew trade promotion authority?

Mr. SUMMERS. Senator Grassley, I believe that if the United States is not able to move forward on an active trade agenda, a trade agenda based on bipartisan cooperation with the full involvement of the legislative branch, a trade agenda that is broader in embracing a range of social issues, I believe that Americans will be poorer, I believe that prosperity in the world will grow less rapidly, and I believe that the serious problems that the United States faces right now in its international relations will be magnified.

I believe that those whose interests are not coincident with ours will gain influence in the world and will see an important opportunity if the United States withdraws.

Senator GRASSLEY. Thank you.

Mr. Chairman, I will let you move on.

The CHAIRMAN. Thank you very much, Senator Grassley.

Senator Wyden?

Senator WYDEN. Thank you very much, Mr. Chairman. I thought this was an excellent panel. A couple of old friends, Bob Baugh, with his roots in Oregon, and Larry Summers, whom I ask for counsel all the time. It has just been a great panel.

I am going to be going home this weekend. At town meetings, I will hear from middle-class workers who are going to say that they do not believe trade agreements work for them. I have always been supportive of trade. But when workers stand up at these meetings and say the deals do not work for them, they want to see a fresh approach, I am taking these concerns seriously.

So I have been looking at ways to see if it is possible to come up with a new strategy for trade so that more workers get into the winner's circle. And it seems that most of the current government policies, like trade adjustment assistance, get there too late.

It essentially gets there after the horse is out of the barn. And workers are saying, this is not exactly what I am interested in, because somebody is going to re-train me for the job and I will make half as much as I did at my old job.

So one of the things I wanted to do is look at the nature of a trade agreement, because trade agreements reduce tariffs. Tariff reductions are like tax cuts for companies.

And I think the first question I would ask would be of you, Mr. Smith, because you have some good programs. You are trying to help the workers on training and the like. But since tariff reductions are like a tax cut for you, why should you all not give the workers a check when you get a tariff reduction?

You do not really even need a government program. It just seems to me that when a trade agreement passes and you get a tariff reduction, why should you not give the workers a check so that the winner's circle gets expanded?

Mr. SMITH. Well, Senator, we do give them a check. Every 40 or 50 additional shipments that we carry in the international marketplace results in another hire at FedEx. You take our pilots who fly these clipper ships of the Computer Age, those are not minimum wage jobs. I mean, the captains on those airplanes make in excess of $200,000 a year, with seniority. The First Officer is $150,000.

So, as the growth of trade takes place, we hire more people at good jobs. I think our tax bill last year was something approaching $1.5 billion, and our capital expenditures this year will be in excess of $3 billion.

So, the number of people we employ directly pales in comparison with the numbers of workers that we employ building Freightliner trucks up in Oregon, and Ford vehicles, and General Motors vehicles, and Boeing airplanes, and so forth.

Senator WYDEN. I will not give you a hard time about what we are called. Our name is Oregon. [Laughter.]

Mr. SMITH. Sir? What is that?

Senator WYDEN. I will not give you a hard time about that.

Mr. SMITH. I am sorry. I misspoke.

The CHAIRMAN. Well, that is interesting you say that, Senator, because privately I was going to tell Mr. Smith it is really Oregon.

Mr. SMITH. Oregon.

Senator WYDEN. My only point is, I have usually made those same arguments, Mr. Smith. Those arguments do not cut it with middle-class workers any more. I think we are going to have to have, for those of us who want to expand trade, some fresh strategies to get workers in the winner's circle.

That is what I wanted to ask Mr. Summers and Mr. Baugh. What are your thoughts? Not necessarily even the question I asked Mr. Smith, but what are your thoughts about how we can get more of these middle-class workers into the winner's circle?

Mr. SUMMERS. Senator Wyden, I think you are posing exactly the right question. I think the key thing that is very difficult to explain is that the dislocations and the insecurity that people are experiencing that they are blaming on trade agreements are, in fact, not the responsibility primarily of trade agreements, they are primarily the reflection of things that are inevitable: the technological changes that I talked about, the profound increase in the developing world.

So I think that to try to fix the problem by changing trade agreements is, in a way, like trying to fix a flat tire by blowing it up through the place where it leaked. I think, rather, trade agreements have to be part of a broad economic strategy directed at the middle class.

If one thinks about the greatest period of American international economic leadership, the period after the second World War with the Marshall plan, the forming of the GATT, the Bretton-Woods organizations, and so forth, an integral part of what made that possible was that we also had a government that was providing the GI bill.

We also had a government that was providing the FHA and making it possible for middle-class families to purchase their own homes for the first time.

We also had an expanded commitment to progressive taxation that gave everyone a chance to be prosperous. So I believe we need to link these issues of economic internationalism with a broader domestic strategy directed at creating a fairer economy.

That goes to everything from the tax code, to the provision of health insurance on a universal basis, to embarking on the kinds of projects that will employ large numbers of people, as the people building those houses did in the 1940s, as the Internet did in the 1990s, as the interstate highway system did in the 1950s. I think we cannot debate trade only in terms of trade, but have to put it in the broader context of adapting the economy to globalization.

Senator WYDEN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Wyden.

Senator Roberts?

Senator ROBERTS. Thank you, Mr. Chairman. I did not realize, sitting here on the end, that it was my turn.

The CHAIRMAN. Well, you came early, so it is your turn.

Senator ROBERTS. Well, I know that. I was going to read that quote by Mike Mansfield, but you already read it. [Laughter.]

Trade promotion authority expires in 120 days. I came here primarily to ask the witnesses as to whether or not we should go ahead and approve that within 120 days, mainly because I agree with Senator Grassley, as well as the Chairman, saying you have to either be a player or a bench warmer.

My score, to date, is that we have two players, two bench warmers, and two undecideds. I am going to ask the Chairman if he might consider that we have one-armed witnesses, so they cannot say "on the other hand."

But at any rate, I do not know how we would get all of this done that we want done under the banner of trade, and "all of this" meaning some very positive things, *i.e.,* human rights, the international labor standards, the democratic governments, better environment, better health standards, trade reform, better enforcement, improve our own tax code, health insurance.

Small business health insurance passed, by the way, 8 times in the House, and we got 55 votes for it in the Senate, but for some reason we cannot get it done. And building expansion. I do not know how you do all that in 120 days.

But having said that, I would like to ask Mr. Smith a question. And by the way, thank you for your wisdom. The EU has been subsidizing Airbus for as long as I can remember. Why on earth the United States' Department of Defense would consider a foreign bidder in regards to our national security is a little bit beyond me.

But you showed great wisdom in just purchasing 15 new Boeing 777 fighter—or, pardon me, freighter aircraft. They are not fighter aircraft, they are freighter aircraft. [Laughter.] You may want to make them fighter aircraft. But, anyway, thank you for doing that.

What would be on your wish list and what would happen to you if TPA was not renewed in the next 120 days? I have serious doubts that that is going to happen.

Mr. SMITH. Well, as I said in my remarks, Senator, for the last 70 years the United States has been a leader in expanding world trade. It was started by a great Tennessean, Cordell Hull, in the 1930s, who was the architect of a lot of the institutions that had promoted free trade.

I think the United States is now faced with a proposition that Mr. Summers mentioned, where there are economies rising around the world that are going to be peer economies, every bit the equal of ours in terms of the size, in terms of their capabilities. For us to withdraw from the trading system would be, in its own way, a mistake of the same magnitude, in my opinion, as Smoot-Hawley was back in the 1930s.

Senator ROBERTS. Well, I do not think you are going to find too much progress on all the things that I just listed if you have a trade agreement with Colombia, Peru, with China, or Russia, or Hugo Chavez. I just do not think that is going to work. I am not sure trade is the end-all catalyst to achieve these things, which everybody agrees would be a better situation.

President Lang, what would happen to you as an individual producer? You mentioned that your son would be the sixth generation from Brooklyn, IA. Senator Bunning is sort of looking over here, thinking I am talking about the Brooklyn Dodgers.

Senator BUNNING. They are gone.

Senator ROBERTS. Yes, I know. I can name them. I cannot name you anybody from L.A.

But at any rate, what would happen in terms of your individual farming operation if we do not move ahead on the TPA and avoid what we had in Seattle, the tear gas round in Seattle, and make a little progress?

Mr. LANG. That is right. Thank you for the question. Trade promotion authority is extremely important to the American farmer and rancher, and it is from a negotiating standpoint. The rest of the world does not think we are serious if we do not have trade promotion authority.

Senator ROBERTS. Yes. But I want to know what is going to happen to you.

Mr. LANG. What would happen to me is, probably our prices would start to decrease. Of course, in Iowa today we have ethanol for the corn, but our dairy market, which makes our dairy payment, which makes up about 95 percent of our income for our dairy operation, we would see that international trade on dairy, which is not a part of the large global scene, would start to shrink.

And I will tell you, our margins are very small right now. If we can make anywhere from 50 cents to 60 cents per hundred-weight of milk sold out of 35,000 pounds a day, we can pay our bills. But if it goes below that, you can see how serious it is: we are out of business.

Senator ROBERTS. I appreciate that.

Mr. LANG. I do not believe there is anything that is going to replace that.

Senator ROBERTS. I appreciate that.

I am already a minute over time, Mr. Chairman, and I apologize. You have already rapped my knuckles on this several times in the past, but I just wanted to let Andy know, in North Carolina, that Kansas is now cotton country. We have 200,000 acres of cotton. We have the largest cotton warehouse in the country, about six gins. We found out too the different strains of cotton.

I just wanted you to know that when Stephen Foster sang that song, "Those Old Cotton Fields Back Home," he was talking about Kansas. [Laughter.] And I was checking people's ties as I was going around here; I did not get to check the Chairman's tie. I would not do that. But that is a good-looking tie. Where did you get that?

Mr. WARLICK. This came from Alan Byrd or Cargill Cotton Company.

Senator ROBERTS. All right, sir. And what did that cost you? It is a good-looking tie. [Laughter.]

Mr. WARLICK. It was given to me. It was actually a cotton boll.

Senator ROBERTS. All right. But what did it cost you? [Laughter.]

Mr. WARLICK. It was a gift and it was given to me.

Senator ROBERTS. So your wife bought that for you. Well, I did not want to get into that. But at any rate, I looked at mine. Mine, I am a little embarrassed to tell you, came from Marshall's and cost twenty bucks, and it was made in China, but it is allegedly an American company. I checked the one over here with Jim. His came from Italy.

Senator BUNNING. Joseph A. Bank.

Senator ROBERTS. Senator Grassley wears borrowed ties. He is not here, so I can say that. [Laughter.] I am just wondering.

But we had better get this TPA thing done, it seems to me, or we are going to be sitting on the sidelines. We can make all the speeches in the world about achieving all these things, and we are not going to have the ability to have any kind of effect.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Senator Stabenow?

Senator STABENOW. Thank you, Mr. Chairman.

I want the ties made in the United States, so that is what I hope our goal would be, even though Senator Lincoln and I do not wear those. That is all right. Good morning. Thank you to all of you.

I have many, many questions and not enough time. But let me just start out by saying that, Mr. Summers, Larry, when you speak, you speak about much more than just trade and fast track authority, you speak about a larger investment in people, dealing with economic inequality, education, and so on, so it is a bigger picture.

Mr. Warlick, I very much agree with your statements about rebalancing the playing field in America for American businesses and American workers. I think that the most critical issue facing us economically, and maybe from a national security standpoint, is how we compete in a global economy successfully and keep American businesses, and American workers, and the American middle class. We make things and we grow things. We do that in Michigan, we do that in this country, and we need to keep doing it.

But I also think, Mr. Warlick, your comments about people having lost faith is very, very important. Senator Wyden spoke about that as well.

So, one story, then a question. A very common story not only in Michigan, but in many, many places: North Carolina, South Carolina, Ohio, Kentucky, Tennessee, around the country. We have a community, Greenville, MI, where 3,000 people worked for Electrolux making refrigerators. They added three shifts, $100 million in new equipment. They were making a profit.

But everybody else making refrigerators went to Mexico. They were worried that if they did not go to Mexico also, they would be at a competitive disadvantage, and so they picked up and went to Mexico to pay $1.57 an hour and no health benefits.

Now there are folks in Mexico who are picking up and going to China because they can pay less than a dollar an hour. That is a race to the bottom that, frankly, in America we do not want to win because we are going to lose our way of life and our middle class. My concern is, instead of creating a middle class in Mexico to buy those refrigerators from us, we are sending the jobs over there.

We can say, well, we are not going to make refrigerators any more, and that is all right. But what else are we not going to make any more in this country? Defense equipment? I mean, where does this go if we do not deal with the fundamental questions around labor costs, health care costs, environmental costs, investing in education, and so on?

I think this is not just a story from Michigan. I think the question is, are we going to race down in a global economy or race up? We are smart enough to be able to race up if we invest in those things that will allow us to do that and enforce our trade laws.

Senator Lindsey Graham and I have introduced a Trade Prosecutor Division of USTR bill to deal with currency manipulation and counterfeiting and intellectual property rights that are stolen, and so on. I appreciated the comments today from Mr. Baugh and Mr. Warlick to the bill that Senator Bunning and I have introduced.

Enough comments. I could go on. We are not doing this right for American businesses, in my opinion. We are not doing this right and the costs will be great, and have already been great, for too many Americans.

My question is this. We talk about labor costs and other costs, but we also hear that there are actually other kinds of incentives to shift production overseas. And I would ask members of the panel, what other kinds—we certainly do not want to have additional incentives to send jobs overseas.

Mr. Baugh and Mr. Warlick, if you would speak to the question of, in addition to competing for $1.57 an hour and no health benefits, what else do we have to look at in terms of incentives to go overseas?

Mr. BAUGH. Thank you, Senator. I think there are a couple of things to look at. One is the whole issue of how we deal with trade policy itself and the incentives that corporations have to actually go over to other countries and take advantage of cheap labor, illegal subsidies, currency manipulation, and the others. I mean, we are incenting our own businesses to do this.

We also incent them, through our own tax code, with the deferral process, the laws that allow corporations to hold profits offshore, and this has been commented on in the Ways and Means Committee. It is a serious, serious issue. That is an incentive to do so. It was mentioned earlier about the border adjustability taxes or the VAT issue and how that affects business as well.

I think our accounting rules, as they apply in the U.S. tax code, incent businesses to go because they get credits for closing things here. They can use that money and borrow it and go overseas and actually open up businesses.

It is our firms accessing those markets that come back here. Over half of the products that come back into the United States from China are produced by American firms doing business in China. We have helped incent that by our tax code, and we have helped incent it by our trade policy and our failure to enforce trade policy.

We have filed three cases, two on workers' rights, one on currency manipulation. All have been rejected and ignored by the U.S.

Trade Representative and this administration. Congress re-filed the currency case twice, bipartisan. It was rejected again.

So, I think it is both, what incentives exist in the tax code system that encourage businesses to take this and go offshore—you have General Motors notifying their suppliers, they must do a percentage of their manufacturing offshore in the future. I mean, what kind of a system is this if we want to keep businesses here?

And I would make this last point, because everybody talks about innovation. I appreciated Mr. Warlick's comments to that effect, or Mr. Holland's comments. The key to innovation is actually on the factory floor, and it is our research, design, and engineering. If anybody thinks it is just front-line factory workers who are being shipped offshore and those jobs, it is not. It is finances, it is services, it is research, design, and engineering. That is where I come back to this point that, if you want to talk about innovation, you have to have a base to create the innovation. That is why those investments are being made elsewhere. We have lost 3 million more jobs in manufacturing in the last 6 years, but there is a goodly chunk of that that is high-level, professional/technical people, too, who are part of the source of the innovation for our future. I think we keep losing sight of that.

That is where I would agree, surprisingly, with Mr. Summers on something. It is our failure to have a national strategy around that. China does. Korea does. Japan does. They target markets, they target segments, they target industries. They set their laws in place and utilize the trade policy to access the U.S. market.

Our corporations are complicit with them. Frankly, I would say the way we have dealt with trade policy, our government has been complicit in the process, because it is a system that has been set up and the global rules made up by our global corporations. Frankly, sometimes national interests and their interests are not in coincidence.

Senator STABENOW. Thank you. If I might have Mr. Warlick be able to respond for just a moment.

The CHAIRMAN. Very quickly, Senator. Your time is way over.

Senator STABENOW. I apologize.

The CHAIRMAN. Very, very short.

Senator STABENOW. Mr. Warlick, if you could.

The CHAIRMAN. Very short. Fifteen seconds.

Mr. WARLICK. Yes. I think you have to sometimes look beyond the labor cost advantages that they do have and you look for the things you can do, and enforcement and transshipments and fraud are huge in a lot of these agreements.

But our industry was proactive. It invested $33 billion in new plant and equipment in the last 10 years, looking to be more automated, looking to be more productive, retraining our workforce so that we can compete by not lowering or having a race to the bottom, but by competing with higher wages and doing it through productivity.

But I have to tell you, the most disheartening thing is when you see the subsidies, whether they are export rebates, whether it is currency, whether it is direct subsidies going to industries, when you see that, you come to the realization that there are a lot of manufacturing companies in this country that, if their labor cost was zero, they still would not be competitive, and that is a problem.

The CHAIRMAN. Thank you very much. Thank you.

Senator STABENOW. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Salazar?

Senator SALAZAR. Thank you very much, Chairman Baucus, for holding this hearing. Thank you to the excellent panel for your presentation.

I want to first say to Mr. Smith from Federal Express, I appreciate also the leadership you have taken on energy efficiency with respect to the vehicle fleet for Federal Express and the hybrid vehicles that you brought to Colorado just about a week ago, so thank you. Thank you for doing that.

I have a comment, then a quick question I am going to ask. I would ask specific questions to just three of the panelists.

But, first, let me just make a comment. It seems to me that as we deal with trade promotion authority, and even with the potential approval of some trade agreements on down the road, that we have created a climate which is a very polarized climate here. At the end of the day, we know it is going to take 60 votes to get at least the trade promotion authority extended or renewed in whatever way.

My question that I would like Mr. Bob Baugh and Fred Smith to respond to is, is there a way that we can break through the polarization that currently exists? I hear you, from a labor perspective, saying, no way, no how should we go ahead and extend it.

So how do we try to break through that polarization and get labor and business on the same page so we can move forward with a national strategy, given the reality of our global economy? So I will have you respond, and just take 1 minute each, if you will, on that. Then to Mr. Lang, I appreciate the perspective that you bring from agriculture.

My question to you is, with respect to Iowa farmers and other farmers around the country, how specifically have they been helped by the free trade agreements that we have entered into, say, in the last 10 years? So why do I not go first with you, Mr. Lang, if you will do a minute, and then if I can have the rest of you give your response in one minute.

Mr. LANG. All right. Thank you. Free trade agreements have really leveled the playing field for farmers and ranchers across the country, back to the Australian Free Trade Agreement. We look at the entire trade agreement as a whole.

Senator SALAZAR. How has it helped you on your farm?

Mr. LANG. As a free trade agreement for me, let's say, as a farmer, let's take the Central American Free Trade Agreement. It has actually allowed corn to flow indirectly out of Iowa into Central America, which helped increase our price.

Senator SALAZAR. So it created a new market for you as a corn farmer in Iowa.

Mr. LANG. Yes. Right. Correct. Yes.

Senator SALAZAR. All right.

Mr. LANG. As a dairy farmer during free trade agreements, like with Australia, New Zealand, and those kind of agreements, there are some issues that have been worked out where we felt like we were not treated fairly in trade otherwise; issues like butter and non-fat dried milk, those kind of things were analyzed. So as you looked at the whole thing, it has helped.

Senator SALAZAR. Thank you, Mr. Lang.

So, Mr. Baugh and Mr. Smith, how do we make peace between labor and business on this issue?

Mr. BAUGH. I think, Senator, I want to clarify. We did not ever say no way, no how, not ever. We said no to the current fast track authority, the way it works currently.

In fact, we have engaged in months of conversations with our allies because we are always asked, how would you do this? We actually have come up with a series of ideas that I tried to outline in my testimony and will be happy to present more information on in detail.

Senator SALAZAR. What would be the two things that would be most important for you as the spokesperson for the AFL–CIO?

Mr. BAUGH. There are more than two.

Senator SALAZAR. Give me just the top two.

Mr. BAUGH. I will give you more than two.

Senator SALAZAR. I just want the top two.

Mr. BAUGH. Asserting Congress' role, readiness of trade partners, the implementation of the labor laws. But that also comes with a whole series of others, environmental standards, procurement, the other things I mentioned. I think this is absolutely doable because it will raise the wages and benefits of workers throughout the world, and that is the approach we are taking.

Senator SALAZAR. All right.

Mr. Smith?

Mr. SMITH. Well, assuming that there is a consensus that continuing to trade with the rest of the world is a good thing, and I would hope that is the case, obviously with the Democratic majority there is going to be some change in TPA and the entire trading regime in terms of labor standards and in environment.

So the only advice I would have is for people on that side of the aisle to get what they can, and the people on the other side of the aisle to recognize that they are going to get something and to come to a compromise. That is what the democratic process is about.

I doubt that it is going to be with one fell swoop that the Democratic majority is going to get everything that it wants. Whatever the list that Mr. Baugh has there, he is probably not going to get it all, but take one step at a time and keep moving the direction he wants to move it. That is the only thing I could recommend.

Senator SALAZAR. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Bunning?

Senator BUNNING. Thank you, Mr. Chairman.

Mr. Warlick, I have been concerned with the issue of transshipment for a while now. It was an issue of particular concern regarding CAFTA, Singapore, and the Vietnamese trade agreements.

Could you give me the perspective of your industry regarding how well our Customs enforcement agents have been stopping illegal transshipments of textiles?

Mr. WARLICK. Well, it is a huge problem for our industry. I think at the Customs level, it is one of the biggest problems that they have, enforcing some of these.

Senator BUNNING. Are they not? Are they just passing over, or what is going on?

Mr. WARLICK. I do not think at this point they have the manpower to do the job that is necessary.

Senator BUNNING. So you think we should beef up?

Mr. WARLICK. Absolutely. Yes, sir.

Senator BUNNING. All right.

Mr. Baugh, Mr. Warlick, as you know, I am extremely concerned about the manipulation of the yuan by the Chinese government, and Senator Stabenow and I, and Senator Snowe, followed that recommendation of the Chinese U.S. Economic and Securities Review Commission by allowing U.S. manufacturers to raise currency manipulation as a subsidy in countervailing duty cases.

I know you are familiar with the legislation and its companion bill, the Ryan-Hunter bill, in the House. Do you think the enactment of that bill will be helpful to the U.S. industry?

Mr. BAUGH. Senator Bunning, absolutely. The problem has been, we have not addressed it. The Treasury continues to come out with reports saying there are no violations. But we are going to help them. We are going to help them find the violation.

Frankly, you can bring action through our own trade laws by this with this action, and you can bring it against the Chinese. And if you bring it as an industry or even bring it as a firm, the fact that once you get a ruling moving that along, it affects the whole thing because it is the manipulation of the yuan.

Senator BUNNING. It emphasizes it for Treasury.

Mr. BAUGH. It emphasizes it. I would also point out to folks that this is about all currencies, not just the Chinese. We think they are the most egregious and visible, but as Senator Stabenow has raised, the Japanese have engaged in this, and, in fact, the Treasury's own reports state that the other Asian tigers keep their currencies in line with the Chinese because they view them as their main competitor. So there are a lot more people engaged in this who affect the American economy.

Senator BUNNING. Mr. Warlick?

Mr. WARLICK. Yes. I think it makes a huge impact because it acts as an export subsidy and it makes our products much more expensive when we try to export into these markets.

So, there is no question that that will help. That will give a big boost to our industry and improve our competitiveness with China or other countries who manipulate their currencies for export advantage.

Senator BUNNING. Mr. Warlick, you said in your statement that the U.S. textile industry is completely defenseless against imports and that is why it needs these special safeguards regarding Vietnam and China. Why is that so?

Mr. WARLICK. Well, in that regard, safeguards, our industry is the third-largest exporter in the world of fabrics and yarns. We do not have an apparel industry like we used to have in this country. We have been able to take advantage of NAFTA, CAFTA, and some of the Andean trade preference programs to be able to move and export our fabrics and take advantage of that. But to be able to bring countervailing duties or dumping charges, we would have to be bringing that against finished apparel.

Senator BUNNING. Why can't you? In other words, because of the——

Mr. WARLICK. That remedy is not available to our industry. We do not have the apparel industry here.

Senator BUNNING. Not available. That was the follow-up.

Mr. WARLICK. It would have to be brought by the apparel industry.

Senator BUNNING. In other words, traditional remedies would not be available to you because of the difference in the things that you manufacture and the things that are sent in.

Mr. WARLICK. Yes.

Senator BUNNING. All right.

Mr. Lang, the WTO recently released a report critical of the EU's barriers to imported agricultural goods. Does the Farm Bureau have any comment on the state of our agricultural exports into Europe, and any improvement or lack thereof in that area recently?

Mr. LANG. Certainly, from my viewpoint as president of the Iowa Farm Bureau, Europe has been a country we have not focused on for exports for some time because of the restrictions and the difficulty of getting our products in.

Plus, the biotech issues and other things as well. We know that when it comes to WTO discussions, it seems like the ones that always catch the headlines are the U.S. and Europe, our refusal to reduce those needs of our farmers. But I am just going to say that we are more than willing to reduce those trade-restricting issues that we have for fair trade, and I hope Europe will do the same.

Senator BUNNING. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Hatch?

Senator HATCH. Well, I want to welcome you all here. It is good to see you, Mr. Summers, back. I appreciate you. Mr. Smith, great to see you. Mr. Baugh, I was very interested in your comments that I have heard since I have been here, and appreciate you. We are just very grateful to all of you for being here.

Mr. Summers, though, let me start with you. I do not know if you are aware of a letter recently sent to President Bush from various members of Congress, led by Chairman Rangel over in the House, but members of the House and Senate, on market access for American automobiles to the South Korean market.

In essence, the letter suggests a managed trade approach. They let in 1,000 of our cars, we let in 1,000. I have never favored a managed trade approach, but do favor complete opening of markets in a fair way that would allow U.S. manufacturers to fairly compete abroad.

But I would like to get your feelings on this letter and on managed trade. Do you agree with me that there should be, and is, a better way of approaching our trading partners?

Mr. SUMMERS. Senator Hatch, I am not familiar with the letter, so I will not attempt to characterize its policy. I share your sense that open markets are a much better way than managed trade.

At the same time, I recognize the frustrations that lead to managed trade and the desire for measurable indicators of reductions in barriers. But I think we are best off avoiding mutual quota-based approaches to trade.

Senator HATCH. Well, thank you. That would be my approach.

Many have argued that the United States has benefitted more than any other country as a result of the global trading system, yet anxiety continues to run high in our country. How important is education to address that particular concern?

Mr. SUMMERS. I think education is of central importance. I remarked in my opening statement, Senator Hatch, that 15 or 20 years ago the United States led the world in the fraction of young people who graduated from college.

Senator HATCH. Right.

Mr. SUMMERS. And today we are struggling to be in the top 10. It is not because American students are learning everything you could learn in college in high school. Very much the contrary.

So I think improvements in both the quantity and the quality of education that American young people receive is absolutely central to our ability to succeed as a country. I think that is a responsibility for education at every level.

Senator HATCH. Well, thank you.

Mr. Smith, if the Doha negotiations are put on hold for another year, how is that going to affect your ability to compete in other markets?

Mr. SMITH. Well, Senator, if the Doha Round is delayed, it is delayed. It simply reduces the benefits of opening up the additional markets.

I might comment on that letter that you mentioned.

Senator HATCH. Sure.

Mr. SMITH. I do not know the specifics about it, but I do not think the letter was particularly to try to manage trade. It is the fact that the Koreans essentially keep our cars out of their market, while our market is open to theirs.

They are sort of at the heart of what this debate is all about, that many trading partners with the United States have used tariff or non-tariff barriers, or do not enforce the trade agreements or offer as many opportunities.

Senator HATCH. You might want to look at the letter. We sent it down to Mr. Summers. I am not trying to criticize my colleagues, it is just that I think it is an interesting approach.

Mr. Baugh, I am impressed with you. Since the private sector spends roughly $5 in occupational training for every $1 that the Federal Government spends, how can we better leverage private sector investments in worker training, especially through programs like TAA?

Mr. BAUGH. Well, I think, frankly, TAA has been under-funded for a number of years. Clearly, the people who have lost their jobs, and even the small percentage who have even been certified, very few of them have even been able to access the program—38,000 last year. States have run out of money during the height of the great job loss.

I think that we actually need to bolster our unemployment insurance system and the services provided, and provide a real significant increase in the amount of TAA resources that are available to people.

I think there is a disconnect here, though, Senator, and I would like to point it out, about education is the only answer to all of this. I mean, we have doubled the amount of college graduates between 1973 and 2006 to 28 percent. One of the things, if we even look at our own Department of Labor reports, is that they point out the projects for 2014 show that the share of jobs for which college-level education is actually required is projected to be just 21 percent.

That brings me back to some comments I made earlier. I do not know if you were here when I did it.

Senator HATCH. I do not think I was.

Mr. BAUGH. But the connection between the loss of really good technical skill jobs and that tie to this college education, and what has happened in terms of offshoring as a result of these trade policies that are in place: I think there is a problem here.

I agree that we should have the best-educated workforce in the world, but at the same time it is like somebody pulled the plug out of the drain and there is a part that is draining out that is part of our innovative sector that we are losing.

Senator HATCH. Mr. Chairman, can I just ask one more question of Mr. Baugh?

The CHAIRMAN. Sure.

Senator HATCH. I appreciate that. I enjoy working with Senator Baucus very, very much.

Let me just ask you as a follow-on, why does the AFL–CIO continue to maintain that TAA program funds have been cut, when we all know that it is a mandatory program and all who are eligible receive income support and training benefits?

Mr. BAUGH. Oh, they have not, though.

Senator HATCH. Tell me about that. I am giving you a chance to explain.

Mr. BAUGH. Senator, I will be happy to provide you with the information and the numbers following this meeting.

Senator HATCH. Would you? I think it is important we work together to get that type of stuff done.

Mr. BAUGH. Yes. We have plenty of data that show the populations that have been under-served and the States that ran out of money, and people who did not receive those services at all.

Senator HATCH. All right. Well, send me whatever you can on that.

[The information appears in the appendix on p. 52.]

Senator HATCH. I wish I had enough time to ask all of you questions, but we appreciate you coming. We appreciate the Chairman holding this meeting. It is very important.

Mr. Summers, we are glad to see you back in the private sector, even though I thought you did a very great job up there.

The CHAIRMAN. Thank you, Senator.

I will follow up now with my enforcement question. When I asked the question, two of you were able to answer it. I will repeat the question. Namely, your thoughts, the rest of you, the four of you, on how we beef up, if we do, our enforcement functions and capabilities in the United States to make sure other countries live up to their agreements.

Mr. Baugh?

Mr. BAUGH. Thank you, Senator. I would certainly support stronger enforcement and beefing up. An Office of Trade Enforcement may be the way to go. I am agnostic as to where it is. But I think the most important thing when we do this is, we actually have to do it. I mean, we have had a series of 421 cases come from the International Trade Commission.

The CHAIRMAN. That is part of the question: what do we do to make it more likely that we do it?

Mr. BAUGH. Yes. Well, I think then actually perhaps Congress—this is part of the thing about why we put in the Fair Currency Act and others to actually move to an enforcement level, to actually put some backbone into this.

I sat in a meeting of Hill staff the other day in a briefing on carbon trading. The question was, what if we do this and the large developing nations do not play? What do you do?

The CHAIRMAN. Right.

Mr. BAUGH. And it was really a question of enforcement. It was a question of actually having the ability to take action that is actionable. Frankly, one of the staffers who has just done business in China for 10 years backed it up by saying, "What I have learned is, the Chinese government will do what is convenient for the Chinese." I think that is true of any of our trading partners.

If they do not believe we are going to enforce, if they do not see us taking action, they are not going to do anything about it. Beefing it up and actually taking some actions will have a far larger effect than having to bring every single case forward, because people will start paying attention to it when we say we are going to do something, we are not going to let this go on.

The CHAIRMAN. Mr. Lang?

Mr. LANG. First of all, I would say that you have to change the will of the people. Not just the will of the countries we are trading with, those people, but the will of the American consumer. First of all, they have to understand how important trade is as a benefit, the prices that they pay for goods and services. It is the American people who are demanding that we trade.

Along with that, we have done a number of things. USTR has an agricultural representative within their division to do that. I certainly would not encourage another department to be built. But I have been to China eight times.

The CHAIRMAN. How many?

Mr. LANG. Eight times.

The CHAIRMAN. Oh. I thought you said 80.

Mr. LANG. No. I would not remember that many times. But what I have seen from their people is, the people change the government. At some time they are going to demand certain products that we have because they want it, not because we want it so much for them.

I think that change will happen. Enforcement at the borders. Those things are important. Increased money for research. Those things are important. But not one single thing is going to answer the question that you asked about.

The CHAIRMAN. Mr. Warlick?

Mr. WARLICK. Well, I think, number one, we ought to police the transshipment and fraud problem that we have coming into this country, because that undermines a lot of our FTAs with our trading partners, and will continue.

The CHAIRMAN. You think it is not well-enforced now? Transshipment is not very well-enforced?

Mr. WARLICK. I think transshipment of fabrics and textile goods is a huge problem in this country.

The CHAIRMAN. All right.

Mr. WARLICK. Our Customs officials, I think 78 percent of some of their finds come in this category as far as catching illegal shipments. It is a big problem because it does undermine our ability to negotiate FTAs with countries and make sure that each country is living up to its agreement.

But I think, also, that we ought to have, whether it is at the USTR level, a way to deal with WTO violations, whether that is subsidies that are illegal under WTO or what have you. Those need to be dealt with so that manufacturers here have an incentive to invest because they know that we are going to live up to these agreements and they know what to expect. When you do not live up to these agreements and you do not know what to expect, it just adds more risk into investing in this country.

The other thing I may look at doing with Customs is put in some type of whistle-blowing system that allows the Customs area to assess those fines and use those fines to fund more Customs officers to police this. With the trade deficit that we have, it is inconceivable to think that we are doing the job that we need to be doing on imported products coming into this country.

The CHAIRMAN. Thank you very much.

Mr. Holland?

Mr. HOLLAND. Thank you, Senator Baucus. I will try not to be redundant with the answers here today. I did not hear anything I disagreed with. I think your question highlights what I consider the most important thing that we need to be dealing with in our trade relations today, and that is enforcement of our trade agreements.

It seems as though we are solving other problems in other arenas in our government at the expense of manufacturers when we do not enforce trade agreements as we work on other very important relationship issues in other countries, and we need to rebalance that.

Perhaps a way to do that is to look at segregation of duties between those sorts of functions. They are related so tightly that we cannot ignore all the other issues, but we need to rebalance that.

One of my favorite potential solutions for manufacturing in general, and all the issues facing manufacturers, including trade and enforcement, is the placement of a high-level Secretary/Under Secretary that is focused on manufacturing issues that could, therefore, also be a spokesman for these kinds of things and help with those priorities.

The CHAIRMAN. Thank you very much.

Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

The CHAIRMAN. Welcome.

Senator LINCOLN. I know. I have been back and forth, and I appreciate your patience.

I want to thank you for holding this hearing. Trade policy, without a doubt, presents us with an incredible variety of both opportunities, and certainly significant challenges. Particularly this year, we have the pending TPA and the TAA, and the ongoing Doha negotiations, our bilateral trade negotiations.

These are all just a few of what is going on. I think bringing us together to have this kind of a frank discussion is enormously important, and I appreciate your leadership on that.

I want to thank our witnesses today. Mr. Smith is my neighbor across the river there, so I do not hesitate. I will be your translator for Senator Wyden if he cannot understand.

Mr. SMITH. I was going to say, I have a little bit of an accent.

Senator LINCOLN. Yes. Well, we just wonder about their accents, you and I do. But we appreciate your expertise and your thoughtfulness here.

Mr. Summers, I hope that we will have another hearing on adapting the economy to global trade and competitiveness. I think that, without a doubt, this is a whole pie of issues. It is not just our trade negotiations, it is all of what we face in the businesses of this country that play into their ability to be competitive.

Mr. Warlick, I want to compliment you because you bring up the enforcement part, which I seem to have fought more than anything. I go over to the ITC and testify. I am like a common face over there now.

But we realize that other countries know our trade laws better than we do. They wait us out for about 3 years, and they know they can destroy an industry because we cannot move through our system quickly enough to even do anything.

The talk about how we build within our government the agencies that need to be there—I have consistently gone to the Commerce Department. We have introduced, over the last several Congresses, an expedited remedy bill, much of which the Department of Commerce could do through their own directives if they so chose to do. But we cannot even get an answer out of the Department of Commerce, because they tell us it is just too complicated, and trade is too complicated.

Well, we may just sit around thinking it is too complicated, then all of a sudden we lose our marketplaces and we are going to find ourselves dropping in stature in terms of nations across the globe. So, we appreciate what you all bring to the table on this.

I, in my public service, have supported trade policies, in part because I recognize and face that we are becoming increasingly more of a global marketplace.

Mr. Lang, I come from a seventh-generation Arkansas farm family. If there was any valuable lesson I learned growing up on that farm, it is that you have to have good neighbors. But to have good neighbors, you have to be a good neighbor, and a lot of that means demanding respect when you negotiate with your neighbors about what you are going to do.

Are you going to keep your culverts clean? When it comes up a storm and you need an extra tractor, are you going to loan it and work through those difficulties? That kind of bodes to our diplomacy and the issues of whether or not we are recognized as a good neighbor globally and whether we demand the respect that we need in enforcing the agreements that we make, and following through. I think those are all such valuable lessons for all of us here.

Just quickly, two questions I wanted to get out there. I could talk all day on this issue, but I do not have that long.

Mr. Lang, you speak of the importance of the export opportunities for farmers and ranchers. I guess my bottom-line question on that is, I think it is just absolutely necessary—just as we should seek out comprehensive bilateral deals that provide us increased access for all of our products, and I will say that particularly in the context of Korea because I brought that up with the Trade Representative—to ensure that all of our products are on the table there.

In your view, should USTR resist a deal that does not provide the necessary access for our producers? I guess, in other words, is no deal better than a bad deal in the case of agriculture?

Mr. LANG. First of all, I certainly agree with what you said earlier on, that we have to be a trusted customer, that we have to have a good relationship. I think that is one of the things that we failed at.

My experience in China has been that the Chinese traders have said that if Canada brings in a ship with a product into Shanghai and there is an issue, the Canadian government takes care of it immediately. If the same thing happens with the U.S., the U.S. denies there is a problem. So, I just want to bring that to your attention.

The other thing is, I think from our perspective, we live in a community, a community that has manufacturing, a community that has processing, life sciences, and all of those. I think a trade agreement has to be good for the entire community.

So, I think there is a time in a trade agreement when you have to say no because it effectively leaves out a piece of that economy that is good for those amenities in life that are important to you.

Senator LINCOLN. I think so, too.

Mr. Holland, just briefly, in your testimony you touch on the frustrations of our smaller manufacturers trying to determine how to take advantage of export opportunities and overall need. Some of those things come through the manufacturing extension partnership.

I do not know if I missed part of that discussion, or maybe you brought that up. Other trade assistance centers. Do you have any personal experience with that? Can you elaborate on your experience in those regards?

Mr. HOLLAND. Thank you, Senator. Yes. My organization is, in fact, a manufacturing extension partnership. We are the partnership in Montana. Our role in exports would be to help the manufacturers be ready to export in terms of standards, in terms of capabilities. It is very important for our client base, the small manufacturers, to be able to export and then to have access to those markets.

I personally run into frustrations with lack of resources. We charge for gold key services. Travel on trade missions, and so forth, is very expensive. We are facing other nations that pay for all that, so other nations are investing in the export, the growth of small manufacturers, and I wish I was as eloquent as Mr. Baugh, because I could take his speech and substitute small manufacturers for his terms of labor, and so forth, and they would be amazingly aligned. Thank you.

Senator LINCOLN. Thank you.

Thank you, Mr. Chairman. I appreciate your patience, and all of your willingness to engage in this conversation. It is going to be an important part of where we go.

The CHAIRMAN. It very much is. Thank you, Senator.

Senator LINCOLN. Thank you.

The CHAIRMAN. Mr. Summers, I want to take advantage of your presence here. There has been a lot of discussion about currency, whether it is the yen, the renmimbi, or whatnot. On the face of it, it seems like the criticism has more than a grain of truth in it. That is, other countries are manipulating their currencies to their advantage at our expense.

As you well know, Senator Grassley and myself, and Senators Graham and Schumer are working on the currency bill to try to move us and try to find a solution, but in a way that is WTO-consistent, that is, does not violate WTO. I am just curious as to your thoughts as former Treasury Secretary. What do we do here? What makes most sense? How can we be most effective?

Mr. SUMMERS. Mr. Chairman, I think it is a very difficult policy problem. I share your view that it is essential to change the macroeconomic basis of trade imbalances that, along with a variety of policy changes toward more savings here, exchange rates adjustments, particularly in Asia, are almost certainly part of that policy package.

I share your concern that exchange rates in some Asian countries—notably China—are not set by market forces, but instead are pegged at particular levels through government policy, supported by substantial volumes of currency intervention.

I believe that it would be in our national interest, in the global interest, and for a variety of economic reasons in China's interest, for those exchange rates to be adjusted.

At the same time, I think this is the second reality that makes this a very difficult problem. I think there is a great deal of logic and evidence to suggest that truculence over exchange rates and the perception of truculence over exchange rates can do substantial damage to financial stability, with very serious consequences for American interest rates, for the American stock market.

We have been reminded in the last 10 days that markets are not always stable, that volatility is a risk, that we are currently in a place where I think most observers would agree that markets are more than usually fragile, given how long they have been stable and given the degree of complacency that has set in.

I think we need to act with very great care, given the magnitude of the capital flows from China on which our economy has come to rely. So, I believe that bipartisan expressions of concern, bipartisan dialogue with China around the problem of global imbalances of the kind that is contemplated in some legislative proposals, is of very great value.

I am concerned when the emphasis in our dialogue puts excessive weight on particular commercial issues affecting financial service firms in China, not that those issues are not significant, but they seem to me to be much less significant than the set of issues around the macroeconomic imbalances.

But I would caution that proposals that would give automaticity to tariffs or other kinds of barriers seem to me to run a real risk of being quite disturbing to confidence at a moment when, for better or for worse, that is a very sensitive issue in global markets.

I realize, Mr. Chairman, that there is a slightly two-armed economist character to that answer, but I think we would be at our peril if we tried to force a change. We might or might not succeed. It is possible that we would come to rue our success if sufficient financial instability resulted.

So I think the approach of making clear that this really is a central issue in the relationship, that it is framed around global imbalances—we, I think, addressed with some success during my years at the Treasury some of the issues in Japan, but we were very concerned always to do so whenever we could on a multilateral basis. I am a little concerned about a bilateral basis.

The CHAIRMAN. I appreciate that very much. Mr. Baugh makes a point which I think a lot of Americans subscribe to, namely that we just talk with them and express our concerns with them, and not much happens.

That is a frustration that I think a lot of Americans have, a lot of members of Congress have. So assuming that there is some validity to that, how do we get from here to there without the truculence that causes the disruptions which you are concerned about?

Mr. SUMMERS. Look, I do not minimize the problem, but I caution on two grounds. One, and I recently spent time in China, talking to the relevant officials. My sense is that, for those who see this our way—because what we want, for a variety of reasons having to do with the threat of inflation and financial instability in China, is, I believe, actually in China's interest.

The one appearance that I think is absolutely unacceptable to the Chinese is that they make a change based on a threat from the outside. So I think the unfortunate truth is that threats will get their backs up and will make it less likely that we will see the changes that we want to see.

I do not think there is a way to force this change any more than other countries would find it possible to force the United States to bring about a different exchange rate of the dollar by making threats with us.

So, I think a measured approach. I think it is appropriate for it to be clear that this is not just the President, this is not just the executive branch, that this is a matter of profound Congressional concern.

I think it is important also, and much more likely to succeed, if we approach the Chinese multilaterally with the engagement of the Japanese, with the engagement of the Europeans. I think, frankly, that if we are making particular trade threats, we forfeit any opportunity to approach the Chinese in a multilateral basis.

So I share very much your frustration, but I think that many of the worst mistakes of policy come from policy that is motivated by an entirely legitimate frustration, but that will ultimately be counterproductive.

The CHAIRMAN. So what kind of multilateral approach is effective? I mean, there is the Plaza Accord, there is IMF. What works here?

Mr. SUMMERS. I think you mentioned two important steps. I think there is a role for the IMF in this. I also think there is a role for giving a lot more thought. There has been evolution in this direction.

The G–7 is made up of the United States, Japan, and Canada and four European countries. Given its economic weight in the world, China should be at that table because it is much harder to be influenced by that table if you are not at that table.

Now, there have been efforts made to create various forums, but I think that is a process that has to be accelerated. I also think that Senator Lincoln made a very important point. I come from Philadelphia, so I do not know how to talk about culverts. But Senator Lincoln made a very important point, to my mind, about, if you want to have good neighbors, you have to be a good neighbor.

I am not sure that over the last years when our budget deficit, our conduct on a variety of international issues, has been an issue of major concern in the rest of the world that we have conducted ourselves on a whole range of issues in a way that is well-calculated to encourage others to be responsive to our desires.

And on my last point, I am not familiar enough with the full range of the agenda, but I think it would profit us to think about the question—this is something that is important to us, where we think China needs to help—what is important to China where we are prepared to help?

I think one of our problems in diplomacy over the last half dozen years is that it is not a question we have tended to ask ourselves. I think if we did and we sort of elevated this on the diplomatic agenda, I think that, over time, would be of value.

The CHAIRMAN. Thank you very much. I have to run here.

Senator Lincoln?

Senator LINCOLN. A follow-up with one thing.

The CHAIRMAN. Sure. You can ask as many questions as you want.

Senator LINCOLN. No. I know we all have to go. But you talk about being good neighbors. I translate it to growing up on a farm. The other difficult thing, though, is to negotiate with your banker.

If China owns so much of our debt, how do we negotiate good, sound trade agreements that we feel are respectful of both sides when we are negotiating with our bankers? How much of a role does that play?

Mr. SUMMERS. Well, you make a really important point, Senator Lincoln. I would suggest that, whatever the merits of negotiating with your banker, putting a stick in your banker's eye does not tend to be a very attractive strategy. I think that goes back to, no country can force another country to borrow money.

The reason we are borrowing from them is because we are borrowing, and that goes to the whole issue of fiscal responsibility, goes to the whole issue of our national savings rate. But you are absolutely right. To a very important degree they have become our banker, but I think we ignore that very much at our peril.

Senator LINCOLN. Thank you.

The CHAIRMAN. Thank you, Senator.

This has been very, very helpful. Our first hearing on this subject, as I mentioned earlier, was with Ambassador Schwab. Yours is our second hearing to get a broad-brush view. We will have subsequent hearings on lots of the points raised by all of you, which are very, very good. I have lots of questions that we do not have time to get into right now, but we will at subsequent hearings.

Again, I want to thank you very, very much for taking the time to be with us.

The hearing is adjourned.

[Whereupon, at 12:15 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Testimony of Robert Baugh
Executive Director, AFL-CIO Industrial Union Council

Thank you, Senator Baucus, and members of the Committee, for the opportunity to testify this morning on the 2007 trade agenda.

It is time for fundamental change in U.S. trade policy.

Our trade deficit hit a staggering $764 billion in 2006. Real median wages and family income continue to stagnate, while productivity growth soars. We have lost more than 3 million manufacturing jobs since 2000—many of them to trade—and good white-collar jobs that pay well are increasingly vulnerable. Estimates range from 14 million to 42 million service-sector jobs that could be subject to offshoring over the next decade -- offsetting many of the promised benefits of trade liberalization.

We see heartrending daily reports of workers' rights abuses—here at home and around the world—as governments and corporations seek economic advantages in a cutthroat global economy with no minimum enforceable international rules to protect workers' human rights. Democratically elected governments find their policy scope increasingly narrowed by global trade rules that impinge on many areas that previously were the domain of national policy—from environmental and public health protections to land-use rules, gambling restrictions, immigration policy and corporate taxes.

Our declining manufacturing capacity poses a serious and growing threat to both our economic and national security. The loss of millions of skilled jobs, the closure of nearly 40,000 manufacturing facilities and the exporting of design, engineering and research and development capacity mean the next innovation, the next generation of products and the next investment will be made in other countries. At the same time, we are losing the capability to supply our military troops with ammunition, uniforms and other essential equipment in a timely and flexible manner. The offshoring of our manufacturing capacity is underwritten by a toxic brew of workers' rights violations, lax environmental standards, currency manipulation and illegal subsidies that global corporations take advantage of.

Most of the costs of this flawed globalization model are paid by workers, family farmers and domestic producers—but all Americans are affected by growing inequality and eroding protections for consumer safety, public health and the environment.

Decades of trade deficits – all record-breakers in recent years – have contributed to a mounting cumulative international debt, which now exceeds $3 trillion. This unsustainable debt has greatly increased our vulnerability to financial crises and speculative currency movements. And the U.S. image abroad has suffered as our government is increasingly perceived as imposing an anti-development, anti-worker trade agenda on behalf of our multinational corporations. Indeed, workers' rights have not improved, and in some cases have worsened, in Central America. Nor have the promised jobs materialized in most CAFTA signatories. It is no wonder that tens of thousands of workers and farmers have taken to the streets in Korea, Costa Rica and Thailand—among many other countries—to protest proposed trade deals put forward by the U.S. government.

It doesn't have to be this way. The movement of goods, services, money and people across national borders can and often does bring many benefits: increased economic growth and dynamism, as well as the beneficial spread of technology, culture and ideas across borders. The key missing part is how those benefits are distributed—and how to resolve the uneasy compromise between enforceable international rules and democratic decision-making.

The Promise of Globalization: New Rules for the Road

For globalization to live up to its promise to improve the lives of workers and the poor, not just the wealthy and the powerful—here and around the world—we need an entirely new set of rules and institutions.

We need global trade rules that link market access to strengthening protection for workers' fundamental human rights, as laid out in the International Labor Organization's (ILO) 1998 Declaration on Fundamental Principles and Rights at Work: the freedom of association and the right to organize and bargain collectively, and prohibitions on child labor, forced labor and discrimination in employment. These must be enforceable requirements, subject to the same binding dispute settlement and enforcement mechanisms as commercial provisions. No government should gain a comparative advantage in global markets by offering to violate its own workers' human rights—just to keep labor costs down. And no company should profit by taking advantage of vulnerable workers in one country to produce goods to sell to wealthy consumers in another.

Similarly, international environmental commitments under multilateral environmental agreements should be reaffirmed and protected in trade rules. Private investors must not have the right to challenge domestic environmental and public interest laws and regulations before closed international tribunals – leaving taxpayers liable for huge payouts.

We need to strike a better balance between domestic rule-making and international obligations—ensuring that trade rules do not threaten governments' ability to provide affordable and high-quality public services or to regulate labor markets, the environment, public health and consumer safety. Trade agreements must not require privatization or deregulation as a condition of market access, nor should they obstruct developing countries' right to address HIV/AIDS and other health crises through public access to essential medicines. Procurement provisions must not undermine the ability of federal and state governments to use tax dollars to create and maintain good jobs, to promote economic opportunity and development and to achieve other legitimate social goals. Changes in our immigration laws should be made by Congress, not through irreversible commitments offered up in trade negotiations.

We need more transparency and much broader public participation in the negotiation of trade rules, at both the national and international levels. Business is not the only constituency affected by trade and capital market liberalization, and it should not be the only non-government group at the table when these deals are cut.

The Wrong Track: A Record of Failure

On each of these fronts, our own government has let us down over and over again. Since 2001, the Bush administration has failed to seek meaningful protections for workers' rights and environmental standards in free trade agreement negotiations with more than a dozen countries and at the World Trade Organization in multilateral talks.

In fact, the administration recently proposed abandoning the internationally recognized ILO workers' rights as a standard and replacing them with U.S. labor laws in the Peru, Colombia and Panama free trade agreements. This proposal would replace decades of expertise and jurisprudence and hard-won international tripartite consensus at the ILO with a vague standard that our trading partners should have labor laws that are generally equivalent to U.S. labor laws. This is an arbitrary, unworkable and ill-conceived idea that would be an international embarrassment.

At the same time, the administration has aggressively sought excessive trade rules on investment, intellectual property rights, government procurement and service sector access on behalf of multinational corporations—heedless of the impact on workers, the poor or governments' capacity to regulate. In fact, our trade regime pursues corporate rights while leaving other concerns off to the side of the road.

The Bush administration has given America's workers, farmers and producers few reasons to have confidence that it will fight for our interests in the international arena. The administration has failed to enforce our own trade laws, rejecting strong 421 safeguard cases in defiance of the findings of the U.S. International Trade Commission. It refused to even consider four separate Section 301 cases challenging China's violation of workers' rights and currency manipulation. It has failed to effectively enforce workers' rights provisions in existing U.S. trade laws, including the generalized system of preferences and bilateral agreements. It has done far too little to protect our trade laws from international challenge, leading to erosion of those laws as we lose challenge after challenge at the WTO.

President Bush has asked Congress to renew Fast Track (also called Trade Promotion Authority) when it expires in June of this year. We will vigorously oppose any attempt to extend the current flawed Fast Track authority. We cannot simply continue the status quo approach, which has resulted in bad trade agreements, lost jobs, stagnating wages and a spiraling trade deficit.

We welcome a national debate over how best to reform our trade policies—and how to strengthen the role of Congress in this important and contentious area.

The Right Track

The first step in any new trade policy must be a serious strategic review of existing trade agreements *before* the initiation of any new trade negotiations. We need to re-examine the content and performance of current agreements to measure their strengths and weaknesses and determine how we can do better in the future. Tracing the actual trade and investment patterns that result from trade deals by sector and by state, as well as their impacts on employment, living standards, social regulation and communities, would allow a much more nuanced debate about the actual outcomes of trade deals rather than their promised benefits. Such a review must also include recommendations on how to address problems in existing agreements, up to and including renegotiation.

Second, Congress should have a role in choosing trade partners, which it does not have under our current set of rules. Congress should lay out "readiness criteria" to assess any potential trade agreement partner, including: the economic opportunities available for U.S. workers, firms and farmers; a country's legal framework and enforcement regimes; a country's compliance with ILO standards, multilateral environmental agreements and fundamental human rights; and the existence of a democratic governance system. Only countries that meet these readiness criteria should be eligible for negotiations. With these rules, we would not have negotiated a trade agreement with Colombia, whose government is responsible, by act or omission, for the deaths of thousands of trade unionists.

The third key element is to make the negotiating objectives laid out by Congress mandatory, rather than optional. Current Fast Track authority simply lists negotiating objectives without any requirement that each objective be met. For labor in particular, this has yielded terrible results: the corporate sector's objectives jump to the top of the list and ours limp along in last place. *In fact, workers' rights have been among our negotiating objectives for more than 30 years, with very little progress being made.* The U.S. Trade Representative has consistently ignored Congress's instructions with respect to protecting our trade laws and insisting on reciprocal market access, among many other things. These mandatory negotiating objectives should, at a minimum, address the issues listed above: labor, environment, investment, procurement, protecting our trade laws, intellectual property rights, services and immigration.

Fourth, Congress must certify that an agreement has met all the mandatory objectives before the agreement can be signed. Without such certification, an agreement will not receive expedited and preferential consideration and will be subject to amendment.

These represent only the most crucial changes that are needed to get our trade policy back on the right track.

Getting all the Tracks Right: Trade Enforcement, FTA's and Doha.

Last month, the Treasury Department once again, in its biannual currency report to Congress, announced that it was unable to find any "technical violations" of the law by the Chinese government with respect to currency manipulation. Once again, the Secretary assured the members of the Senate Banking Committee that another high level strategic dialogue will change the situation. Frankly, the time for talk is over, and it is time to act.

We have fully supported the introduction of H.R. 782, the Fair Currency Act, in the House. The AFL-CIO is grateful to Senators Stabenow, Bunning, Bayh, Snowe, Casey, and Levin for their leadership in introducing the companion bill in the Senate. We look forward to working with our business, farm and community allies and all of you on this important legislation.

Other trade actions under way are far more troubling. Even as the fast track debate warms up, the administration is trying to beat the clock with a series of Free Trade Agreements in Peru, Colombia, Panama, South Korea and Malaysia. Each of these proposed agreements fails to include enforceable ILO standards for workers' rights. In addition, they also fail to address the same set of concerns we have raised for over a decade: environment, investment, procurement, protecting our trade laws, intellectual property rights, and services.

The revived Doha Round of negotiations can only be greeted with pessimism. Unfortunately, the framework of the talks laid out in Doha in 2001 fails to address the concerns of working families, both in the United States and in developing countries.

The key WTO issue for the labor movement is moving forward a constructive discussion about how the global trading system can strengthen international protections for workers' rights. If WTO rules can be applied to protect copyrights and patents across national borders, judge whether national environmental or public health laws are legitimate, and pressure governments to eliminate or reform subsidy programs, then surely the WTO can clarify that no country should gain a competitive advantage by violating the human rights of its own workers.

A second crucial issue not on the WTO agenda is currency manipulation. Even though WTO rules in principle forbid frustrating WTO commitments "through exchange action," this provision has never been applied. The WTO's failure to address this issue effectively strains the entire global trading system. Nor will the negotiations address needed institutional reforms at the WTO, especially in the areas of transparency and accountability.

While issues that labor would most like to see addressed by Doha are not even on the table, many issues of great concern are under discussion. U.S. trade and immigration laws are vulnerable, as many countries have expressed interest in weakening our trade laws, and in obtaining new commitments to raise current limits on temporary entry visas. NAMA negotiations put enormous pressure on the few remaining industrial sectors with high tariffs – while offering little hope of progress on workers' rights or significant reciprocal market access concessions. Services negotiations threaten the viability and quality of some public services.

Our nation no longer can continue with status quo trade policies. Those policies have failed—and failed miserably. They have failed our workers, our communities and our environment, and they pose a serious threat to our national security.

Consequences of the Status Quo: Loss of Capacity and Innovation

The free market economists' response to the decline in manufacturing employment is to tell us there is no cause for alarm – that what we're witnessing is merely the natural maturing of our economy — heavy production and labor-intensive industry will move to lower wage labor markets, like Mexico or China, while the U.S. retains high skilled and service jobs. The process, they claim, is inevitable and, in the long-term, benign.

Those knowledge jobs that economists claimed would take the place of lost manufacturing jobs in the globalized "new economy" have proved inadequate – in both quality and quantity – to replace the lost manufacturing jobs. It turns out manufacturing has been a canary in the coal mine for other sectors of the economy that are only now learning about being digitized, outsourced and offshored.

For a majority of American workers, current globalization policies have brought deindustrialization, an attack on unions, declining real wages and vanishing pensions and health care. For manufacturing, it has become a cancer that is destroying our technical capacity to innovate and produce. This sorry record is not benign, but it is a prologue for our future – unless we change course soon.

Jobs, Trade, Output and Productivity

In spite of the raw numbers, free trade advocates continue to deny the impact and implications of our current trade policies. They assert that manufacturing has never been better because output is up, productivity has risen, and capacity utilization has been good. They say this proves that productivity and technology are the real cause of the loss of jobs and facilities. They could not be more wrong. Their false assertions undermine the efforts of thoughtful policymakers.

Job Loss and Trade

There is substantial evidence of a strong link between trade and the loss of manufacturing establishments and jobs since 1998. Between 1998 and 2006 1,326,953 workers were certified as having lost their jobs due to trade, under the Trade Adjustment Assistance program. This represents nearly 40 percent of the 3.5 million manufacturing jobs lost during that period (chart 1). These figures are considered a lower bound. Both the GAO and the Court of International Trade (CIT) has criticized the Labor Department for its inadequate administration of the TAA program. The CIT has overturned more than 90 percent of the TAA denial cases they have reviewed. Many workers are not aware of their rights under the program. Prior to 2005. TAA did not cover indirect job loss.

Studies by the Industrial Union Council of WARN notices in four states found that the trade-related loss ranged between 52 and as high as 88 percent (chart 2). In addition, Economic Policy Institute (EPI) researchers estimate that the U.S. trade deficits with NAFTA partners Canada and Mexico resulted in a net loss of over one million U.S. jobs and that escalating trade deficits with China caused the loss of 440,000 manufacturing jobs from 2002 to 2004.

CHART 1
USDOL/ETA TAA management Information Report
December 31,2006

Year	Manuf. Job Loss	Petitions	Workers	Certified	Workers	Denials	% Denied	Workers
1998	139,000	1,512	157,911	998	108,665	428	28%	47,209
1999	175,000	2,541	239,029	1,579	154,990	812	32%	79,191
2000	100,000	1,393	151,753	822	98,039	481	35%	51,859
2001	1,477,000	1,957	214,682	1,164	147,053	670	34%	60,675
2002	804,000	2,904	348,857	1,674	243,957	1,024	35%	94,484
2003	615,000	4,038	312,751	2,158	204,810	1,270	31%	82,133
2004	+ 1,000	2,691	174,723	1,496	122,272	811	30%	49,728
2005	83,000	2,684	162,742	1,536	117,272	886	33%	45,400
2006	89,000	2,330	155,238	1,414	129,895	692	30%	41,210
Total	**3,481,000**		**1,917,686**		**1,326,953**		**32%**	

Source: U.S. Department of Labor

CHART 2
Summary of Findings - IUC State Job Loss Reports
January 2001- May 2004

State	Manufacturing Share of 2000 GSP	Manuf. Jobs Lost (BLS)	Job Loss Impacts	WARN-Related Layoffs	Trade-Related Layoffs *(WARN-based)*	Trade-Related % of Total. Layoffs	New Jobs' Wages Compared to Lost Jobs
Ohio	23.4%	170,000	1 in 6 manuf. jobs lost	38,830	20, 124	52%	$11,355 less
Wisconsin	25.0%	67,500	1 in 9 manuf. jobs lost	26,243	15,912	61%	$9,312 less
Pennsylvania	18.4%	161,200	1 in 5 manuf. jobs lost	40,733	28,259	70%	$12,456 less
Washington	12.3%	66,700	1 in 5 manuf. jobs lost	30,991	27,196	88%	$18,400 less

Productivity and Manufacturing Output

The manufacturing output and productivity indexes tell a very different story from the one free trade advocates like to tell. Productivity measurements fail to reflect the impact of outsourcing and offshoring, while the output index has slowed to a crawl over the past six years. Both point to the damaging impacts trade has had on the manufacturing sector and the wages of American workers.

Dr. Susan Houseman of the Upjohn Institute for Employment Research has produced a groundbreaking report, *Outsourcing, Offshoring, and Productivity Measurement in*

Manufacturing. The report indicates that "outsourcing and offshoring result in an overstatement of labor productivity." As Dr. Houseman succinctly put it: "thus, the very phenomena that result in an overstatement of productivity measures also place downward pressure on many workers' wages, contributing to the growth of inequality."

The real story on manufacturing output is much the same. Manufacturing output growth has slowed significantly since 2000, compared to the preceding decade. Economic Policy Institute economist Rob Scott debunked the widespread misperception that rapid productivity growth is the culprit for continuing job loss in the manufacturing sector. His February 2007 article, ***Manufacturing job loss: Productivity is not the culprit,*** **showed that** since 2000, productivity growth nudged slightly upward relative to the previous decade, increasing 4.2% per year while output growth cratered, averaging only 0.8% per year since 2000, compared to an annual growth rate of 3.5% in the preceding decade. At the same time, employment fell 3.2% per year. Dr Scott concludes: "in short, it is slow growth in manufacturing output—not an acceleration in productivity—that makes 2000-06 different from the previous decade and explains the steep fall in manufacturing employment.

Offshoring Investment

There has been a precipitous decline in domestic manufacturing investment, which fell nearly 17 percent in real terms from its peak in 2004, while investment in manufacturing structures declined 44 percent over the same period. At the same time, many of the same firms made and continue to make record offshore investments in R&D, engineering, design, and production jobs.

The investment flows portend future production and exports to the United States. Claims that outsourcing is matched by insourcing (foreign investment in domestic manufacturing) are misleading. Insourced investments are overwhelmingly changes of ownership: *i.e.* there are few new jobs or production facilities. Not so in China, where these are for the most part startups and expansions. The foreign direct investment (FDI) flow into China reached $62 billion in 2004 and continues to soar. Seventy percent of China's FDI is in manufacturing, with heavy concentration in export-oriented companies and advanced technology sectors. Contracted (future) FDI projections are more than double the actual level today.

Recent developments in the domestic auto industry show this trend at work. In the past two years, Delphi, Ford and GM have all announced major R&D and to production investments in China. All have issued announcements about the expected rapid growth in imported parts from China. Last year a memo from GM to its suppliers told them they must start doing a percentage of their business in China. Up until this point the automotive and parts sector has been a domestic stronghold for manufacturing.

Danger Signs: Losing Industrial Capacity

The closures, declining domestic manufacturing investments and massive offshore investments have real consequences for our members. A close look at manufacturing's recent performance sheds much light on the sector's shortcomings. Although the headline indicators suggest U.S. manufacturing output is recovering, other major performance measures reveal serious problems for domestic workers and producers. The following data from a report being prepared by the

AFL-CIO and US Business and Industry Council show the following major trends for these indicators:

- *Manufacturing capacity* growth and the recovery in *capacity utilization* have been very weak since 2001, and capacity growth in high-tech industries has slowed compared to its dramatic growth of the late 1990s, and even relative to its modest growth during the previous three decades. Since 2001, non-high tech manufacturing capacity has declined. Manufacturing capacity utilization is still below its historic average of 79.6 percent, and aside from the recent trough, remains lower than every year since 1983.

- Another critical indicator of U.S. manufacturing competitiveness, *import penetration*—the share of the U.S. market held by imports—also has been growing. A U.S. Business and Industry Council (USBIC) study of 123 six-digit NAICS-based products, including every manufacturing sector that has ever been judged to be a major contributor to the country's prosperity as well as to its security shows an across-the-board increase of 23 percent—from 25.5 percent of domestic consumption to 31.4 percent—between 1997 and 2002. That is, imports grew from one-quarter to nearly one-third of the total value of this large, diverse group of items consumed domestically in only five years.

  The closure of more than 40,000 manufacturing establishments between 2001 and 2005 represent a direct loss of industrial capacity in the following sectors:

  - Computer and electronics: 543,900 workers or 29.2 percent
  - Semiconductor and electronic components: 260,100 or 36.7 percent
  - Electrical equipment and appliances: 152,500 or 26 percent
  - Vehicle parts: 153,400 or 18.6 percent
  - Machinery: 289,400 or 19.9 percent
  - Fabricated metal products: 235,200 or 13.3 percent
  - Primary metals 144,800 or 23.5 percent
  - Transportation equipment: 246,300 or 12.1 percent
  - Furniture products: 58,500 or 13.4 percent
  - Textile mills: 158,500 or 43.1 percent
  - Apparel: 220,000 or 46.6 percent
  - Leather products: 24,700 or 38.3 percent
  - Printing: 159,300 or 19.9 percent
  - Paper products: 122,600 or 20.4 percent
  - Plastics and rubber products: 141,400 or 15 percent
  - Chemicals: 94,900 or 9.7 percent
  - Aerospace: 46,900 or 9.1 percent.

Danger Signs: The Offshoring of Innovation

The impacts of an eroding domestic manufacturing base on national security stem not only from transnational firms moving R&D, engineering and design offshore, but also from the military's growing reliance on commercial cutting-edge technology. Defense procurement policy has put rapidly increasing emphasis on "dual-use" technology products. The rationale was that drawing on the often more innovative civilian sector would yield not only more up-to-date products, but big cost savings.

The ability of a firm to design, innovate, and improve on defense-critical technologies or devices that it produces for defense markets increasingly depends on its ability to preserve and draw upon the technology edge it has obtained in its commercial business. As military products become more reliant on commercial advanced technologies, technology transfer from commercial technologies into defense-critical products requires a close relationship between the Pentagon on defense contractor customer and the suppliers of these technologies. However, as the commercial industrial base globalizes, the loss of domestic production facilities can lead to the loss of innovation capabilities.

Specifically, the migration of manufacturing offshore is associated with the following trends:

- Weakening innovation capabilities of domestic industrial sectors;
- The transfer—deliberate and unwitting—of cutting-edge technologies and know-how to economic rivals and potential military adversaries; and
- Foreign countries establishing industrial and technology policies aimed at enhancing their technological capabilities relative to America's.

The same trends are apparent in the advanced materials sector. A report by the National Academy of Sciences on the globalization of materials R&D concludes that, as U.S. materials manufacturing disappears and moves offshore, domestic materials R&D capacity has diminished. U.S. companies, attracted to the growing availability of often lower cost foreign intellectual resources, are shifting their materials science and engineering R&D activities to follow their manufacturing operations overseas. The net result is the erosion of U.S. leadership in advanced materials R&D.

The NAS reports on several instances of materials' technology that illustrate this trend:

- *Metals.* Research into the production, processing, and development of metallic materials in the United States has been declining since 1998.
- *Superalloys.* Superalloy R&D has declined significantly over the past decade. Attracted by lower costs, superalloy manufacturers increasingly are locating their production offshore.
- *Composites*. Composites are a critical technology used in major defense systems Once unchallenged, other countries in several areas have supplanted U.S. leadership in composites. U.S. defense and commercial programs—the Joint Strike Fighter and Boeing's 787 Dreamliner—are outsourcing production and supporting R&D in composites overseas.
- *Electronic and Opto-Photonic Materials.* These are critical technologies for maintaining leadership in semiconductors. This industry and its material supply chain are moving toward a global processing and manufacturing infrastructure that is taking some of its R&D capacity with it.

The flip side of the migration of U.S. innovation capabilities offshore is the buildup of other countries' R&D capacity. The strengthening of foreign technology capability does not always result from market forces and commerce-facilitating progress in communications and transportation. Instead, this development often results from multinational companies taking one of three tacks:

- Actively exploiting the business environments created by U.S. trade policy – for which they have lobbied hard – that encourage them to supply the U.S. market even for highly sophisticated manufactures from low-cost foreign facilities;
- Responding to foreign government carrots and sticks; or
- Formulating various investment strategies synthesizing these two approaches.

The carrot-and-stick approach by foreign governments is a direct reflection of a broader strategic and tactical approach to capture markets and technological dominance in specific sectors.

New Rules and A New Trade Agenda

The trade trends are clear, and the crisis is real for American workers and domestic producers. Other nations and global corporations have a strategy. They play by a set of rules that often pits the weakest, most oppressed, workers against workers in advanced industrial nations; they seek the weakest environmental regulations. Many countries seeking an edge engage in currency manipulation and illegal subsidies. All of it is at the expense of workers here and abroad. It has to stop.

We believe trade can provide and often does bring many benefits from economic growth to the spread of technology, culture and ideas. The key missing part is how those benefits are distributed and how international rules and democratic decision-making can work together.

We believe the solution to the trade crisis requires a bipartisan and multi-dimensional approach. This begins with a pause on new trade deals and a review of the existing ones.

We believe the existing fast track system needs to be scrapped and replaced by one that reasserts the role of Congress, outlines readiness criteria, has mandatory objectives, and that Congress must certify that an agreement has met all the mandatory objectives before the agreement can be signed.

We look forward to working with you over the coming years to meet these challenges.

Congress must act now to reassert its voice and control over trade policy, which increasingly affects many areas of domestic policy. Without deep reform, we cannot come together to meet the many challenges we face as a nation.

American Federation of Labor and Congress of Industrial Organizations

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April 24, 2007

Honorable Orrin Hatch
United States Senate
Washington, D.C. 20510

Dear Senator Hatch:

I am writing in follow up to your questions at the March 8th Senate Finance Committee hearing on the *Administration's Trade Agenda* regarding Trade Adjustment Assistance (TAA) and its failure to fully serve the displaced workers affected by trade. While even an improved TAA program is no substitute for good trade policies that create and retain good jobs in the United States, the TAA program must honor the promise made to workers since 1962 - that the federal government will provide retraining, reemployment assistance, and income support to workers who have lost their jobs due to federal trade policies.

Both the UI system and the TAA program which provides retraining and income support to trade-impacted workers have been severely underfunded. This has undermined the delivery of services. Current funding levels have failed to meet the existing needs of the manufacturing workers directly affected by trade and the 2002 expansion to cover secondary workers has not reached those workers:

- Since 2004 TAA has lost $617 million in inflation adjusted funding.
- In 2005, although 117,000 workers were certified for TAA, only 38,000 TAA participants enrolled in training services.
- In 2002-2003 the GAO (# 04-1012) reported that 41 states ran out of TAA funding, stranding hundreds of thousands of trade affected workers without timely access to training they need to find new jobs.
- The same GAO report showed that in 2002-2003 slightly more than 2 percent of the TAA funds went to secondary workers.
- The TAA Health Coverage Tax Credit (HCTC) has suffered from both systemic flaws and a failure of the administration to properly implement the program. A recent GAO study found that less than 11% of eligible participants received the HCTC.
- The Court of International Trade has been has been highly critical of the USDOL for its erroneous denials of TAA income and training assistance. Over 90 percent of the denial appeal cases reaching the court have been overturned.

These funding shortfalls combined with the proposed expansion to cover service workers will require a significant increase in funding to fulfill the promise made to workers.

Enclosed are more detailed analyses of the Trade Adjustment Assistance and Health Coverage Tax Credit Program. We believe that significant improvements in the TAA program are required including funding as an uncapped entitlement; expanded eligibility; improvements to the Health Care Tax Credit; better outreach and counseling through the state Unemployment Insurance system so that more eligible workers can access TAA training and benefits; and better reporting so that information on TAA services and outcomes will be more widely available. We do not believe that current wage insurance proposals are a substitute for quality training and reemployment in good jobs for trade displaced workers.

I hope this information helps to answer your questions regarding our concerns with the Trade Adjustment Assistance program. I would be happy to provide any additional information or answer any further questions you might have.

Sincerely,

Robert Baugh
Executive Director,
Industrial Union Council

Enclosure

AFL-CIO Analysis

Issues Related to the Trade Adjustment Assistance Program

1. Analysis of FY 2008 Bush Budget Proposals for TAA

Table 3. Cuts to the Trade Adjustment Assistance (TAA) Programs					
	FY 2004 (in FY 2008 $)	**FY 2007 (in FY 2008 $)**	**FY 2008 Budget Request**	**FY 2008 Request – FY 2004, Inflation Adjusted**	**FY 2008 Request - FY 2007, Inflation Adjusted**
Training	$291.7 million	$266.1 million	$259.7 million	-$32.0 million	-$6.5 million
Benefits	$1,202.9 million	$672.1 million	$606.0 million	-$596.9 million	-$66.0 million
Alternative TAA	$11.3 million	$53.4 million	$23.0 million	$11.7 million	-$30.4 million
Total: TAA (FUBA)	**$1,505.8 million**	**$991.6 million**	**$888.7 million**	**-$617.1 million**	**-$102.9 million**

Bad trade policies are shrinking the middle class and fostering the flight of good jobs overseas. The manufacturing sector, a source of some of our nation's best jobs, has lost nearly 3 million jobs since the start of the Bush Administration. The TAA program was designed to provide income support and training to workers who lose their jobs due to trade.

Renewed in 2002 and combined with the NAFTA Transitional Adjustment Assistance Program, the new Trade Adjustment Assistance (TAA) program significantly increased the number of workers potentially eligible for training and income support when they lose jobs because of international trade. It also extended some health care coverage to eligible participants. Lack of resources and ineffective administration, however, has resulted in significant problems in the adequacy and efficacy of the program. The President's FY 2008 budget proposal will only worsen those problems.

Cuts to Trade Adjustment Assistance benefits will impair opportunities for long-term training

The FY 2008 budget proposes to decrease funding for income support benefits under the Trade Adjustment Assistance program, assuming that fewer workers will take advantage the program next year. The 2008 budget proposes inflation-adjusted cuts of $102.9 million in TAA benefits funding compared to 2007. The Bush Administration plans for a reduction in TAA participants of almost 6,000 workers in FY 2008 while the number of workers covered by TAA certifications has increased. In 2005 117,904 workers were certified for TAA – in 2006 there were 120,199 workers certified. [1]

During this same period there has been a troubling decline in the number of workers enrolling in training (from 37,774 to 35,958) and receiving trade adjustment allowances (from 55,293 to 53,493). [2] By denying workers the income support benefits to which they are lawfully entitled the Bush Administration's cuts continue to impair opportunities for workers to participate in long-term training.

Cuts to TAA income support benefits are compounded by shortfalls in training funds. Previous studies have shown that many states exhaust their training funds before the end of each fiscal year, precluding numerous workers from being able to take advantage of training programs to which they are entitled. According to

[1] Congressional Budget Justification Fiscal Year 2008

[2] Ibid.

GAO, 35 states expected that available TAA training funds for FY 2004 would not cover the amount they would obligate and spend for TAA-eligible workers - 18 states estimated the gap at over $1 million.3

Inadequate Department of Labor administration hurts trade-impacted workers
In the past 5 years, courts have entered numerous orders directing the Department of Labor to reconsider erroneous denials of TAA income and training assistance to hundreds of trade-affected workers. Workers have suffered protracted delays in getting assistance as a result of these errors. Many more are too discouraged or lack the resources to pursue appeals.

Help for secondary workers is minimal
The new TAA program was expanded to cover secondary workers, such as parts manufacturing workers who lose their jobs when a client-manufacturing firm moves its operations to another country. Poor program design and inadequate guidance to identify affected workers, however, have meant that few secondary workers are receiving benefits.
Just over 2 percent of workers covered by TAA were secondary workers in FY 2003.
No state has developed procedures to identify workers who are secondarily affected by a trade-related layoff in another state. [4]

2. Major Areas Needing Improvement
The Trade Act of 2002 made significant changes to the Trade Adjustment Assistance (TAA) program. TAA provides income protection, a limited health care benefit, and job training for qualified workers who lose their jobs as a result of import competition or shifts of production overseas.

Many laid-off workers are still not eligible for benefits – others are not receiving the benefits to which they are entitled. The program must be expanded and improved if the trade-affected workers are to be fully compensated for their loss. At a minimum, Congress should:

Provide full funding for the TAA program - TAA should be an uncapped entitlement.
TAA training funds are capped at $220 million per year, while Trade Readjustment Allowances (income support) is an entitlement. Since 2004 TAA has lost $404 million (29%) in inflation adjusted funding. Though 200,000 workers were certified in FY 2004, only 50,000 received services.
GAO reported that, in 2002-2003, 41 states ran out of TAA funding stranding thousands of trade affected workers without timely access to training they need to find new jobs

Expand TAA to cover service and public sector workers who also lose their jobs due to trade, but also ensure that funding is sufficient to help all eligible workers.

Ensure that all workers who are eligible for the current program, including secondary workers, receive the help they need.
Enact provisions that ensure full consultation with workers and their unions in the petition process.
Develop industry wide certification to streamline the petition process and to ensure that all workers in an affected industry are served.
Expand coverage to all workers who lose their jobs due to a shift in production regardless of where production was shifted.

Provide sufficient funding for critical outreach, counseling, case management, skill assessment, training referral and support services using state UI agency staff.

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[3] GAO, *Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain*, GAO-04-1012, 9/22/04.

[4] Ibid.

These are not authorized under the current program and specific funding should be provided to ensure that workers receive these services.

Require that the state Unemployment Insurance agency administer the TAA and TRA program using merit (civil service) staff.
Will assure greater access to services for workers, greater accountability to the public and TAA participants, and improve tracking, record keeping and program reporting
Will ensure confidentiality of employer and client records

Reject proposals to expand wage insurance.
Promotes "rapid reemployment" by inducing displaced workers to accept lower-paying jobs with lousy benefits, thereby promoting downing economic mobility.
Has the potential to depress wage levels and subsidize low-wage employers such as Wal-Mart.

Link training to good jobs
Support strategies that focus on creating and maintaining good jobs with good wages and benefits; matching qualified workers with those jobs; and supporting the efforts of workers to qualify for those jobs.
Modernize and expand the unemployment insurance system to fill the gaps in the program which now deny benefits to mostly low-wage and women workers and to support education and training with the help of extended unemployment benefits.
Create community adjustment programs that involve all stakeholders, including organized labor in addressing the effects of dislocation.
Support training that leads to good jobs including model labor-management industry sector initiatives that have proven successful in saving jobs, improving employment outcomes and making their industries more competitive.

3. Health Coverage Tax Credit (HCTC) under the TAA Program

The Trade Adjustment Assistance (TAA) Reform Act of 2002 created the Health Care Tax Credit (HCTC) to assist certain recipients of trade adjustment assistance (TAA) and Pension Benefit Guaranty Corporation pension beneficiaries who are aged 55-64 to receive affordable health care. The program provides an advanced, refundable tax credit for 65 percent of the cost of qualified insurance. The credit can also be provided when the individual's tax return is filed. The IRS administers specific components of this credit: enrollment, payment and compliance. DOL, through ETA and state workforce agencies, and the Pension Benefits Guaranty Corporation (PBGC) have responsibility for determining those potentially eligible for HCTC.

There have been a number of reports critical of the administration of the HCTC:

A 2004 report by GAO [5] found that the only a small portion of the workers and retirees identified as potentially eligible receive the HCTC. GAO also addressed the issue of the lag time in coverage as it impacts participation: "health coverage may not be affordable both in terms of an individual's ability to pay the entire premium amount while waiting to receive the advance HCTC and the ability to pay the 35 percent share once payment starts."

A 2006 GAO [6] report on five trade-related plant closures that stated that no more than 12% of the workers at each site received the credit and that at 4 or the 5 sites fewer than half the workers who visited a one-stop center were even aware of it.

A PART program assessment of the IRS's administration of the credit that gave the program a "NOT PERFORMING: Results Not Demonstrated rating. The PART cited low participation in the program and

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[5] GAO-04-1012. September 2004

[6] GAO-06-43. January 2006

the "lack of shared or coordinated performance goals with its main partners, DOL and PBGC." Two of the items in the 2006 program improvement plan relate to working work with the other participating federal agencies to develop goals and find ways to improve access to the tax credit for eligible workers.

A December 2006 Urban Institute report [7] that found that only 12 states as of October 2005 had "gap filler" NEG grants (a DOL/ETA program) to help workers pay for COBRA while they waited for their HCTC premiums to be subsidized.

4. Major Areas Needing Improvement

Address gaps in coverage

Delays in TAA process and often in PBGC takeover of pensions can mean laid off workers and retirees have lapses in coverage that disqualify them for consumer protections necessary to get coverage. The legislation must address both the requirement that workers and retirees have 3 months of coverage in the months preceding when they seek to enroll in coverage with the credit and the HIPAA requirement that individuals have no more than a 63 day lapse in coverage. To fix this,
Clarify that individual must have had 3 months coverage immediately prior to event that gave rise to HCTC eligibility (layoff for TAA, retirement for PBGC)
Toll 63 day clock upon receipt of HCTC eligibility notice (legislation says 5 days after notice mailed)
Allow for presumptive eligibility so that individuals can use credit to purchase coverage and avoid lapse

Increase affordability

Studies have found that even with a 65% subsidy, eligible individuals could not find affordable coverage. The subsidy must be increased and coverage must be available that is affordable both in terms of premiums and out of pocket costs. To do this:
Increase the subsidy to 90%, or less if coverage option is available that is comprehensive and affordable (e.g., FEHBP-like coverage with rating restrictions; see below)
Clarify that individual market coverage is allowed only where enrolled in that coverage 30 days prior to layoff. "Arrangement with an insurer" was not intended to open up individual market, as Administration has interprete d it.
Provide fallback plan through FEHBP plans (separate pool from federal employees)
Require community rating of state-based options

Other improvements

Spouse coverage - allow spouse to remain eligible when HCTC recipient qualifies for Medicare; Administration's budget has partial fix for this
Align COBRA with TAA - extend COBRA coverage to length of HCTC eligibility so that individuals don't have to change coverage in those states where HCTC eligibility exceeds COBRA's 19 months
WIA National Emergency Grant funding - for interim coverage, for outreach with labor participation
Pension offset - Where individual would be eligible for HCTC but for pension offsetting UI payment, allow continued HCTC eligibility

[7] Stan Dorn, J.D. Take-Up of Health Coverage Tax Credits: Examples of Success in a Program with Low Enrollment. Urban Institute, December 2006

United States Senate
Committee on Finance

The Honorable Max Baucus (Montana), Chairman

Testimony of Steven L. Holland, Director
Montana Manufacturing Extension Center

March 8, 2007, 10:00 a.m.

Good morning Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee. I would like to begin by thanking you for this opportunity to share our views and perspective on international trade issues facing America's small manufacturing community. These views are derived from the Montana Manufacturing Extension Center's experience working with well over 500 small manufacturers over the last 10 years; the collective knowledge of the Montana District Export Council; input from members of the Montana Chamber of Commerce; and over 30 years of personal experience in manufacturing.

My name is Steve Holland; I am the director of the Montana Manufacturing Extension Center (MMEC) which is a College of Engineering Center at Montana State University (MSU), the state's land grant campus in Bozeman, 100 miles north of Yellowstone National Park.

MMEC's mission is to "help manufacturers be successful" using professional field staff with extensive private industrial backgrounds to work on-site with company owners, managers and workforce to identify and implement appropriate manufacturing processes, business systems, technologies and training. Founded in 1986 as an EDA University Center our operations grew dramatically in both capacity and capability in 1996 when we also became a NIST MEP Center (National Institute of Standards and Technology – Manufacturing Extension Partnership) a network of 350 centers in located in all 50 states and in Puerto Rico. MMEC and its MEP counterparts have an intimate knowledge of the challenges faced by small manufacturers. MMEC has developed a strong network of complementary resources including several organizations that offer international trade expertise such as the U.S. Commercial Services, Montana World Trade Center, and Montana Export Assistance Center to help our customers succeed.

In addition to serving as MMEC's director, I have leadership roles on several national boards: American Small Manufacturers Coalition; American Industrial Extension Alliance and University Economic Development Association. I also serve on the Montana District Export Council and the Montana Chamber of Commerce Board. I have been on several congressionally led trade missions traveling to New Zealand, Australia, Spain, Germany, Ireland, South Korea, China and most recently to the Lombardy region of Italy.

Turning to the subject matter of your hearing today, let me first say that the issues facing manufacturers in Montana are very similar to issues facing small manufacturers in every state. Transportation costs and workforce availability are particularly onerous in my state but affect most small companies' ability to compete in both domestic and international markets. I am comfortable, therefore, using Montana as a proxy for small rural manufacturers and for more than 350,000 small and medium sized manufacturers in the U. S.

This document is organized in four sections. The first discusses why manufacturing is important, the second summarizes trade issues that are well known and at the forefront of your efforts. The third section addresses the possibilities afforded us by increasing exports. The fourth section focuses on recommendations that are specific to strengthening small manufacturers' ability to export and in need of additional attention. In that section you will find five specific recommendations:

1. Support innovation as foundational to U.S competitiveness
2. Ensure that trade agreements have transparency for standards and localized regulation
3. Support creation of an export guide and evaluation tool
4. Enable more and affordable assistance to compete in foreign markets
5. Encourage and sponsor trade missions

Manufactured Exports Create Jobs

The 2006 National Export Strategy notes that "exporting is an important pillar of U.S. economic growth" because "one in five manufacturing jobs depends on exports. Firms engaged in international trade ... offer higher wages and benefits." Clearly, it is to the benefit of the U.S. to invest in helping firms export, not only because successful firms yield a return on the Federal investment by paying more taxes, but also because higher wages and benefits provides more jobs that include health insurance which results in coverage for more American families. Manufacturing tends to pay higher wages than other industries, which means our citizens can enjoy a higher standard of living. The National Export Strategy states the conclusion succinctly: "For the United States to remain competitive, we must engage more of the American business community in the global economy."

The Office of the U.S. Trade Representative concurs, reporting that "manufacturing exports support an estimated 5.2 million jobs in the United States... Agriculture exports (including processed food) support 836,000 jobs in the United States. Manufacturing jobs are good paying jobs. U.S. jobs supported by goods exports pay an estimated 13% to 18% more than the U.S. national average. Typically, manufacturing jobs include good benefit packages which include health insurance. Further reduction in trade barriers will spur the creation of more, higher paying jobs in the U.S. Most of those jobs would include health insurance which would reduce the number of uninsured or underinsured families."

General Export Issues
Large and small manufacturers who export deal with a substantial number of barriers and issues. Several of these overarching issues are presented here because they matter to SMEs. Clearly, these issues need to be resolved for the entire manufacturing community.

- Trade agreement enforcement. Some of our trading partners allegedly manipulate their currency, provide illegal subsidies to their firms, fail to enforce piracy laws and make little effort to protect intellectual property. Enforcement of agreements and the removal of illegal trade barriers needs to carry the same priority as trade negotiations. The District Export Council web site notes "America's small and medium manufacturers (SMMs) can compete in the global economy if the playing field is level, and that's why free trade agreements (FTAs) are so important." Perhaps a better name would be Fair Trade Agreements. But setting that minor point aside, I agree completely. However, the best agreement is worthless if the parties don't comply with its terms. Partners who willfully violate agreements are unethical. They are stealing from the faithful partner which is not a level playing field. If we make the effort to reach an agreement, let us also make the effort to assure our partners are doing what they said they would do. We are significantly disadvantaged when countries manipulate currency, fail to enforce intellectual property agreements, turn a blind eye to piracy, fund illegal subsidies, and erect other trade barriers.

  We need to take action against countries that intentionally undermine good faith trade agreements. Why would we continue to do business with unethical and deceptive partners? The goal should be fair trade. We certainly want access to foreign markets. After all, trading, by definition, requires at least two willing partners. Each partner does what they do best and most efficiently. Each partner gains value, or they wouldn't trade.

- Cost structure. U. S. exporters face a cost structure disadvantage in some markets. Our health care and litigation systems are two examples.

  U.S. manufacturing jobs typically have good benefit packages including health care. But the current system for healthcare coverage puts too much burden on the American company. We need to consider the effect the system has on our ability to compete overseas, and make corrections. We need to do this without reducing our standard of healthcare.

  The litigious nature of the U.S. system contributes to the cost disadvantage for U. S. based businesses, draining resources and diverting managerial focus. Legal reforms that reduce or eliminate "frivolous" law suits and excessive settlements are needed.

- Trade imbalance. Warren Buffett has suggested we achieve balanced trade by issuing "import certificates". He proposes we issue an import certificate to U.S. exporters in proportion to their exports. These certificates would be traded in the market place. To sell to the U.S., any foreign company would have to obtain import certificates that match the value of their shipment. Like magic, we'd have balanced trade. I don't fully understand the implications, but I believe a radical approach like this would not be needed if we level the international trading field. Fair Trade is all U.S. Manufacturers need to balance trade.

- Human rights. We need to step up our efforts to enforce basic human rights initiatives. If we truly abhor child labor, forced labor, and slave labor, we can do nothing less. We lead the world in workforce health and safety. Generally, safe and healthy practices are considered a cost advantage and an ethical requirement. However, when a trading partner places no value on human life we violate our own ethical standards by continuing to do business with him.

- Global pollution. Differing environmental regulations hamper commerce within the United States. For example, California's environmental regulations are very different than Montana's. But sorting through the regulations becomes exponentially more complicated when we move into the international arena.

  Many countries have very lax environmental regulations compared with ours. It is not a level playing field when we put rigid environmental controls on domestic manufacturers and then allow imports that turn a blind eye to pollution. We now understand that pollution on the other side of the globe impacts the entire world. For example, air and water pollution in China deteriorates the air and ocean quality in the Unites States. Our air and seas become homogenous; we breathe what our trading partners breathe. Our collective pollution enters our food chain. Weather is global. Pollution is global.

Untapped Potential in Manufacturing Exports

My recent participation in a trade mission to Italy rekindled the conviction that opportunities to expand markets internationally are very real for small American companies. A common misconception is that America's small companies can't sell in world markets and only large multinationals can. Yet in 2001, the latest year for which data is available, 97% of all U.S. exporters were small and medium-sized enterprises (SMEs, firms having fewer than 500 employees), accounting for nearly one in every three dollars of U.S. exports.

What's most relevant here is that 70 percent of all U.S. firms exporting actually have fewer than 20 employees. In Montana 84 percent of the state's 2,300 manufacturers employ fewer than 20 people, so developing export potential for rural SMEs is realistic.

Two-thirds of SMEs that export currently sell to just one foreign market, and nearly half to just four. In Montana, four markets attract most of the export business, with Canada at roughly 50 percent followed by Japan and Germany each with 10 percent and Taiwan with just over 6 percent. A real window for capturing market share around the world is in the offing as domestic demand surges in many developing nations and skyrockets in China. Remember: 96 percent of the world's consumers live outside of the United States!

There is potential for SMEs to grow exports dramatically. For example, Montana manufacturing firms exported approximately $510 million in 2005, up a whopping 76% since 2002. Yet, Manufacturing exports in the state account for only about 6.5 percent of the total value of manufacturing shipments in 2005. Likewise, according to the 2006 National Export Strategy only about 4 percent of United States companies export. The report also notes, "For the United States to remain competitive, we must engage more of the American business community in the global economy."

We need to identify the low hanging fruit and assist SMEs with the harvest. The National Export Strategy laments that:

> The number of U.S. exporters has remained static in recent years. At the same time, the profile of these companies continues to evolve, in some cases making it even more difficult for the government to reach out to them on its own. The challenges the government faces include the following:

- Growth in the total number of U.S. exporters has been relatively flat over the last seven years, growing only 8.5% from 1997 to 2004
- Exporting companies make up less than 4% of all U.S. companies that have one or more employees
- SMEs' share of the value of merchandise exports has remained below 30%
- Nearly 60% of SME exporters export to only one foreign market
- Over 40% of all SME exports by value go to just four foreign markets
- Very small companies (fewer than 20 employees) account for 70% of all exporting firms
- Non-manufacturing companies (e.g. wholesalers) make up 68% of all SME exporters.

It is in our national interest to encourage exports to balance trade. Manufacturing is strategic because it creates wealth for our nation and is important to the U.S. economy. Manufacturing represented one-eighth of GDP in 2005, but competitive challenges to manufacturers are increasing. The U.S. trade deficit continues to increase even though U.S. exports grew at a vigorous rate in 2006 according to the Census Bureau. Last year, total U.S. exports grew by 12.7 percent to $1.4 trillion, an increase of $162.6 billion over 2005, while imports increased 10.5 percent to $2.2 trillion.

The Administration's Export Strategy speculates that a robust domestic market has kept export levels fairly constant in recent years, but it also says companies are missing out, and here's why. First, escalating use of Internet and email, better travel connections and landline technology have significantly improved global communications. Second, tariffs in industrial countries have dropped from more than 38 percent to just 4 percent as a result of multilateral trade negotiations since 1947. And third, recent negotiations are breaking down other barriers as well. The report cautions that too much home-market emphasis may keep firms from recognizing the onset of new competition until it is too late.

SMEs need assistance to compete in foreign markets. In 2002 the Trade Promotion Coordinating Committee (TPCC) found that among U.S. small manufacturers who do not export, about 30 percent would if they had more help getting information about markets, customers, and export procedures. It found the perception of high risk and concerns over financing and shipping paperwork also play a significant role in the decision not to export. It noted that these firms are a major source of economic activity and job growth in the United States. They hold the potential for even more dynamic growth as they enter international markets. Recognizing that SMEs face a "daunting array of information and resources" it recommended more effort through public/private partnerships to demystify the process.

That's where trade missions fit in. Traveling with a contingent made up of an official from government and knowledgeable organizers who pre-arrange and vet local connections for key meetings maximizes every minute of the trip. Combining governmental meetings, company visits and university ties is a real ice breaker in foreign lands where establishing relationships comes before business deals.

Trade missions help bridge the gap in several important ways:

- Identify opportunities so our companies can take advantage of them;
- Help develop important relationships that lead to business deals;
- Enable wise use of time and money by prearranging meetings with potential customers;
- Offer opportunity to become familiar with and adapt to cultural differences so future business deals work better;
- Interact with local resources that can help reduce the learning curve, with answers to: What are the paperwork requirements? How do I get paid? How do I ship my product? Will I have to pay tariffs? Will my intellectual property be protected?

Because it can take as long as two years for a novice firm to successfully complete its first export transaction, the investment of time and resources to further relationships through participation in a trade mission offers real value. Building relationships is much more important when doing business internationally than they are when doing business domestically. Small business can be very good at building business relationships, but distance and oceans make it difficult to build contacts and trust. Assistance provided by organizations like the U.S. Commercial Service, such as the Gold Key service, are efficient and effective ways to initiate business contacts. Unfortunately, such services are expensive for U. S. companies. To make matters worse, competing nations frequently provide similar services free of charge which puts our companies at a government-created disadvantage.

SME Centric Recommendations

Earlier, I discussed a number of trade barriers, most of which impact both large and small manufacturers. The Administration, Congress, and certainly this Committee are fully aware of these issues and continue working to resolve them. However, I have focused my recommendations in areas that I believe will significantly benefit small and medium sized firms, and that will allow us to tap the export potential they represent.

1. Support Innovation as foundational to U.S. competitiveness

Innovation is the key to our ability to compete. This has been true since the industrial revolution. We must be vigilant and take action against anything that erodes this foundation. SMEs are recognized as an important source, perhaps the most important source, of innovation in the U.S. We need to be sure that incentives and systems that motivate and enhance our creative spirit are in place. Examples include permanent R&D tax credits, continuation of Small Business Innovation and Research (SBIR) programs. In addition, programs like the Small Business Development Centers (SBDC) who help entrepreneurs commercialize their innovations need more funding.

The NIST MEP is currently working with the private sector to develop an extensive tool set to assist SMEs with their innovation processes. Training for the MEP field staff is being developed and will soon be deployed. With MEP assistance, SMEs will have the knowledge and support they need to bring new efficiencies to identifying and developing innovative products and processes. Efforts of this nature need to be encouraged, expanded, and funded.

An example of innovative technologies that improve industrial systems is Radio Frequency Identification (RFID). The NIST MEP system partnered with the nation's Procurement Technical Assistance Centers (PTACs) to make the nation's manufacturers aware of emerging RFID standards, and the MEP system is currently positioned to deploy new information and teach companies about RFID standards and equipment. We also help manufacturers integrate the technology into their production systems to increase efficiency and into their products to meet customer needs.

2. Ensure Trade Agreements have transparency for standards and local regulations

A major trade issue for SMEs concerns standards and local regulations. Foreign cities and regions often have their own standards and regulations that deal with products. Even when product specifications are clearly delineated in a contract, SMEs can run afoul with unexpected requirements. This can be an insidious form of a trade barrier because complying after the fact can cost time, money and sales.

It would be very helpful if trade agreements resolved these issues, perhaps developing a form of comity or establishing a hierarchy that can be used to resolve differences. At the very least, we should demand transparency and disclosure before contracts are signed. Foreign importers should not be allowed to hide behind these regulations to demand additional concessions after goods are delivered.

3. Support creation of an export guide and evaluation tool

The small manufacturing community needs access to information in an efficient and customized manner. Web-based self assessment tools that help create a map to exporting that is specific to the company and the target market would be extremely valuable. The assessment should include suggested sources for technical assistance and it should be backed by a simple seminar that teaches the basics of international trade. An assessment tool like this can augment efforts like the following:

> As part of an initiative to encourage increased exports of U.S. technology, the Maryland/Washington DC District Export Council (DEC) has teamed up with the Department of Commerce, National Institute of Standards and Technology, and the State of Maryland to offer our first "International Imperatives and Business Strategies" program for technology CEOs. Maryland CEOs who are new to exporting technology or have a plan to export products in the near future are brought together in three sessions. Participants in this course are nominated and selected from the pool of technology CEOs in the State of Maryland.
>
> The course contents have been selected for strategic importance to the CEO. The course will end with the development of a customized strategic plan for developing exports within each of the participating companies. Through the course, experts on international trade will be drawn in to speak or assist in the development of the customized exporting plan.

I cannot commit the NIST MEP to a course of action, of course. However, I believe we need to allocate the resources to expand this pilot effort. The MEP is in a unique position to develop and distribute an export guide and evaluation tool. We have the experience, talent, knowledge, and partnerships in place to do the job effectively. We have the nation-wide distribution network that is experienced in rapid deployment. We have a track record of delivering high value.

4. Enable more and affordable assistance to compete in foreign markets
Small firms need help to become "export ready". As major markets going through new phases of industrial development, India and China are priorities for the Trade Promotion Coordinating Committee (TPCC). Central America and the Middle East are also priorities. However, small firms that are entering international markets for the first time find exporting to developing countries more difficult.

The U.S. needs to focus on developing markets like China. But at the same time we need to help small companies learn to trade in established markets like Canada and Europe before they tackle developing countries.

Asking a small manufacturer, the average of which has about 15 employees in Montana, to sell in a foreign market is like asking a middle school student to take a high school equivalency exam. Imagine the hopeless, futile feeling! Yet after additional education, the task may seem challenging yet achievable.

For small and micro-sized companies to compete in the global marketplace, a rethinking of the resource support available must be done with an eye towards what our competitor's have available from their governments, and how we can have equal footing.

SMEs in the U.S. have a significant competitive disadvantage when competing globally. Companies from G 8 countries have government economic development resources readily available to support their international marketing activities. For Example, the Canadian International Trade Authority (CITA), will pay for trade missions, provide marketing grants, and fund company contribution to World Bank and Regional Development Bank funded projects.

While some foreign governments are paying for trade missions, making an investment in exports, the U.S. does not pay for trade missions and in some cases charges fees for service. For example the U.S. Foreign Commercial Service charges for the services that are the most beneficial to small and micro sized companies. The fee schedule will soon make it impractical for SMEs to participate.

We need to re-evaluate our approach to exports and adopt an "investment" mind-set. Flat or declining budgets for trade organizations undermine the development of skills and resources needed to grow international trade by SMEs. We should not raid the budgets of strategic centers like the U.S. Commercial Service that had a large portion its budget funneled to our Embassies to help pay for increased security since 9/11.

Currently the Export-Import Bank, Overseas Private Investment Corporation and the International Regional Development Banks, in reality, have little practical help for small and micro sized business, contrary to some of their published materials. The Trade Adjustment Assistance Program, is only funded at $16 million annually, it should be increase significantly if we are serious about helping SMEs close the gap in the balance of trade. Clearly, a new approach is needed.

5. Encourage and sponsor trade missions
About 30 percent of non-exporters are interested in exporting and cite the lack of information about export markets, customers, and export procedures as areas where they most need help. Trade missions are an efficient way to help experienced and novice exporters alike. Traveling with a contingent made up of an official from government, experienced professionals and knowledgeable organizers who pre-arrange and vet local connections for key meetings maximizes every minute of the trip. Combining governmental meetings, company visits and university ties is a real ice breaker in foreign lands where establishing relationships comes before business deals.

Trade missions help identify opportunities and develop important relationships that lead to business deals. They are an efficient and wise use of time and money because meetings are prearranged and potential customers are vetted. With a Senator, Congressman, Governor, or other governmental official leading the mission, it is easier to interact with local resources that can cut red tape, and professionals traveling with the mission can get answers to questions like: What are the paperwork requirements? How do I get paid? How do I ship my product? Will I have to pay tariffs? Will my intellectual property be protected?

Chairman Baucus, Ranking Member Grassley, and Committee Members, thank you for this opportunity, your time, and for all you are doing for the Nation's small and medium sized manufacturers.

Statement to the United States Senate Committee on Finance
March 8, 2007

Craig Lang
President
Iowa Farm Bureau Federation

Good afternoon. My name is Craig Lang. I'm a fifth generation farmer from Brooklyn, Iowa. My family and I farm a thousand acres of corn and soybeans and milk 400 head of dairy cows. I am the president of the Iowa Farm Bureau and I also serve on the American Farm Bureau Federation board of directors. Thank you for the opportunity to speak with you about agricultural trade.

There is no question that export markets are important to American agriculture. We export about a fourth of this country's farm production. Iowa is second only to California in agriculture exports. In 2005, Iowa exported about 4 billion dollars of agricultural products. That represents 27 percent of total farm cash receipts in my state.

American farmers rely on growth potential in export markets. The U.S. is a mature consumer market, with food consumption only increasing as population increases. However, for the 95 percent of the world's population that lives outside our borders, it is different story. Population growth, income growth and consumption growth in the developing countries of Asia, Central and South America and Africa are creating more demand for our products. Currently, we are trending away from our traditional export markets in Europe and Japan while increasing trade with our NAFTA partners. Today, Canada and Mexico buy a third of our U.S. farm exports.

Consumption trends for food and commodities are flat in this country, but increasing dramatically in markets like China. Soybean consumption in the U.S. market has increased by approximately 25 percent compared to a decade ago. However, Chinese soybean consumption has grown 236 percent in the last ten years. Why? Income growth is resulting in more demand for animal protein in the Chinese diet. Therefore, Chinese pigs, chickens, dairy cows and fish are being fed Iowa soybeans. India is another huge developing market, with a middle class that now outnumbers the entire U.S. population. It is very clear that our most exciting trade opportunities are overseas.

However, despite the previously mentioned trade opportunities, we still face trade barriers, such as; high import tariffs, restrictive import quotas, embargoes due to plant or livestock disease issues and concerns about biotechnology, just to name a few. Often times, these barriers are nothing more than excuses that have more to do with politics than food safety or science. We need your help addressing these frustrations. Many trade difficulties could be remedied by government-to-government negotiations, with the staff at the USDA, USTR, FDA, and even the State Department meeting with their foreign counterparts. It is crucial that we continue the funding and staffing levels for those Federal agencies that support agricultural trade.

Bilateral and regional free trade agreements are doing much to open new markets for American agriculture. We are grateful to the USTR's tireless negotiators and hope that Congress will quickly ratify treaties as they are concluded. It is critical that Congress take immediate action on the Peru and Colombia Trade Promotion Agreements. Combined, these agreements represent an additional $1.5 billion in U.S. agricultural exports after full implementation of the agreements. Currently about 90 percent of agricultural products from these two countries enter the United States duty free due to preferences. Passage of these agreements will provide U.S. agriculture exports the same duty free treatment. If they fail, U.S. agriculture is left facing significantly high tariffs while Colombia and Peru maintain duty free access to the U.S.

We continue to support multilateral trade negotiations like the WTO Doha Round. Success in the WTO could make progress on farm subsidy reform, export subsidy and import tariff reductions with 149 other countries at once. American farmers are willing to trade significant reductions in trade-distorting domestic farm support for real tariff reductions and proportionate gains in market access.

Our trade partners need to know that we are serious about a successful conclusion to WTO negotiations. To send this message, it is imperative that Congress renew Trade Promotion Authority before it expires at the end of June (2007). Efforts to establish new bilateral and multilateral trade agreements will come to a halt without TPA.

Congress should remove the restrictions on agricultural trade with Cuba. Cooperatives in my state of Iowa have sold more than 75 million dollars of corn, soybeans, and wheat to Cuba in recent years. We could increase trade activity by easing restrictions on travel to Cuba, bringing Cuban inspectors to visit U.S. processing plants and allowing financial transactions with Cuban buyers.

In addition to trade policy and trade negotiations, farmers count on Congress to support American agriculture with trade development and promotion. The USDA Market Access Program, Foreign Market Development Program and other grant programs help leverage check-off funds, agribusiness contributions and trade association dues from organizations like the Iowa Farm Bureau. These resources are used to engage in overseas marketing and promotion of American products. The Iowa Farm Bureau is coordinating a biotechnology regulatory training project in China with a USTDA grant funds. We are confident that this will result in longer-term capacity, infrastructure and an improved regulatory environment for trade with the Chinese.

As a farmer and farm organization leader, I'm excited about the potential for trade that lies over the horizon and outside our borders. Population growth, economic growth and consumption growth occurring in developing countries is a constant reminder of how important trade is to the American farm economy and our economy as a whole. American agriculture, in partnership with our government, should keep negotiating access to those markets, removing trade barriers and working to develop and promote trade.

Frederick W. Smith
Chairman & CEO
FedEx Corporation

TESTIMONY TO THE SENATE FINANCE COMMITTEE HEARING ON

"Perspectives on the 2007 Trade Agenda"

MARCH 8, 2007
10:00am Dirksen Senate Office Building

Thank you Chairman Baucus, Senator Grassley and distinguished Senators of the Finance Committee. I truly appreciate the opportunity to share my thoughts on a topic very dear to me-U.S. trade policy. As some of you know, I've dedicated most of my life advocating and facilitating global trade and I remain fully committed and convinced that nations and their citizens grow richer and prosper through trade. That is why I strongly support renewal of broad trade promotion authority for multi-lateral and bi-lateral trade negotiations.

Renewal of the Trade Promotion Authority and the Trade Adjustment Act are essential if the U.S. is to maintain its competitive position in the global economy.

I believe Congress can and should work together to find a bi-partisan consensus in support of TPA that will enable the U.S. to continue to lead the world in trade promotion and to create more jobs and better lives for all Americans. We must succeed in this effort because if we fail the consequences will be severe.

Failure to renew TPA would deny the U.S. the opportunity to reap the substantial benefits of the Doha round. At a minimum those benefits would likely be deferred for many years.

Second, if TPA is not extended and the Doha Round is shelved, important agreements like those now under negotiation with Korea and Malaysia would be delayed or lost. Furthermore, with the U.S. sidelined by its lack of negotiating authority, our international competitors will aggressively negotiate preferential trade deals for their goods and services, putting U.S. companies at a significant competitive disadvantage.

Europe, India, China, Korea and the countries of the ASEAN region are already moving in the direction of preferential bilateral and regional trade agreements.

Finally, failure to renew TPA will give a signal of retreat from the leadership role in the world trading system which the U.S. has played throughout the post-war era. No important development in the international trading system has ever taken place without that leadership. And, rightly or wrongly, if we fail to renew TPA our trading partners will blame the United States for the failure to advance trade liberalization.

As the main architect of the post WWII international trade regime, the United States has been a strong proponent of trade because we knew, as the worlds' most productive and competitive economy, that we had much to gain from trade liberalization.

Trade accounted for 20% of the overall growth in the U.S. economy in 2005. Over the past 10 years trade has raised U.S. GDP by nearly 40% and the U.S. added over 16 million jobs during that same period. Today, U.S. annual incomes are $1 trillion higher, or $9,000 per household due to increased trade liberalization since 1945.

Trade increases consumer choice and lowers prices. It spurs economic growth and innovation and creates jobs. We need to keep these truths in sight as our economy evolves into a high-tech, services-driven economy. Few people fully understand or appreciate the importance of the service sector to the American economy.

The services sector, which represents 77% of U.S. GDP and employs 80% of U.S. workers, is one of our greatest competitive strengths. Services form the critical infrastructure of modern economies and they account for about half of the price of every manufactured product that we buy. The value of U.S. services exports, $414 billion in 2006, is five times greater than the value of our agricultural exports. We have a $73 billion surplus in services trade. This is cause for celebration.

Health care, financial services, Information technology, engineering, construction and of course transport and logistics are a few examples of globally competitive American industries that are providing high paying, challenging and rewarding jobs.

Investment abroad by services companies yields real benefits here in the U.S. At FedEx we have about 14,000 jobs in the U.S. strictly dedicated to supporting our international operations.

But, in truth all FedEx employees benefit from our international operations. International growth makes FedEx a stronger, more dynamic company and our future is closely linked to expanded global trade. For many U.S. companies international expansion is the key to continued growth and vitality.

So it is clearly in our national interest to open services markets around the world to U.S. service providers. That is why a strong result from the services negotiations in the WTO Doha Round is so vital to our country's economic future.

Of course, protecting the interest of our domestic farming community is important to our national interest, but so is the need to remain competitive in a global marketplace for goods and services. It is imperative that Congress and the Administration find a balanced solution to the agricultural subsidies issue and then push aggressively to complete the Doha round.

Even if we achieve a breakthrough on Doha within the next several weeks it will take several months to formalize that agreement. TPA extension therefore is essential to completing this agreement.

I also know that Congress and the Administration are working hard to find a bi-partisan approach to addressing labor and environmental issues in our bilateral trade agreements. I am confident that Congress and the Administration can find an acceptable formula that allows the U.S. to continue to open markets and ensure expanded economic opportunities for the American worker.

In my view the solution to economic dislocations and adjustments associated with trade and technological advancements is to work harder to open foreign markets to U.S. goods and services while ensuring that the American work force is well trained, adaptable and fully equipped to take on the new jobs that trade provides. That requires that we improve our education and vocational training programs and facilitate greater job mobility.

We also need strong trade enforcement to ensure that we are getting the full benefit of the trade agreements that we sign. I believe that all of these issues can be achieved within a new comprehensive American trade policy.

Companies, like FedEx, who benefit from trade have a role to play promoting America's free trade agenda. We need to do our utmost to equip our workforce to succeed in the global economy and to share the gains that trade provides.

FedEx is doing its part. We sponsor welfare-to-work programs in at-risk communities. We provide on the job training and educational assistance to improve our employee's core skills and abilities.

In cooperation with the U.S. Department of Commerce, we conduct workshops and symposiums around the country to help entrepreneurs and small business owners discover new international markets for their U.S. products, as well as providing technical assistance in complying with and benefiting from the various free trade agreements that Congress has already ratified.

Of course our investment in the FedEx global express delivery network facilitates U.S. exports and competitiveness by providing

American businesses with unmatched access to markets around the world.

Finally, last year we devoted over 66,000 paid hours training to our U.S. employees on the importance of our international business. We want everyone at FedEx to be an active supporter of America's trade agenda.

America stands to gain much from free trade. America's people and its companies continue to be the most competitive and innovative in the world - we can and will win in the global marketplace given the opportunity. Thank You.

SENATE FINANCE COMMITTEE HEARING
MARCH 8, 2007
WASHINGTON, D.C.
PROF. LAWRENCE H. SUMMERS
PREPARED REMARKS

Mr. Chairman, Members of the Committee, I appreciate very much this opportunity to testify before the Senate Finance Committee at what I believe is a critical juncture for U.S. economic policy. The set of changes that collectively have come to be labeled as globalization are creating an economic environment that is in important respects unprecedented. The mutually reinforcing combination of rapid technological change that promotes economic integration and dramatic economic progress in key parts of the developing world puts us in uncharted territory in formulating economic policy.

Start with technology. As Alan Greenspan noted several years ago while the value of our GDP rises each year its mass is constant or actually declining as value comes increasingly to reside in information rather than physical substance.[1] This, along with dramatic improvements in communication and transportation technology increases the extent of international integration and the range of areas in which international competition is possible. Alan Blinder, while noting that offshoring has not had yet a major impact on the US labor market, predicts that within one or two decades as many as twenty-two to twenty-nine percent of jobs could be subject to competition from offshoring.[2]

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[1] Remarks by Chairman Alan Greenspan. "Trade and technology," Before the Alliance for the Commonwealth, Conference on International Business, Boston, Massachusetts, June 2, 1999.
[2] Alan S. Blinder. "How Many U.S. Jobs Might be Offshored?" Princeton University Working Paper, February 2007.

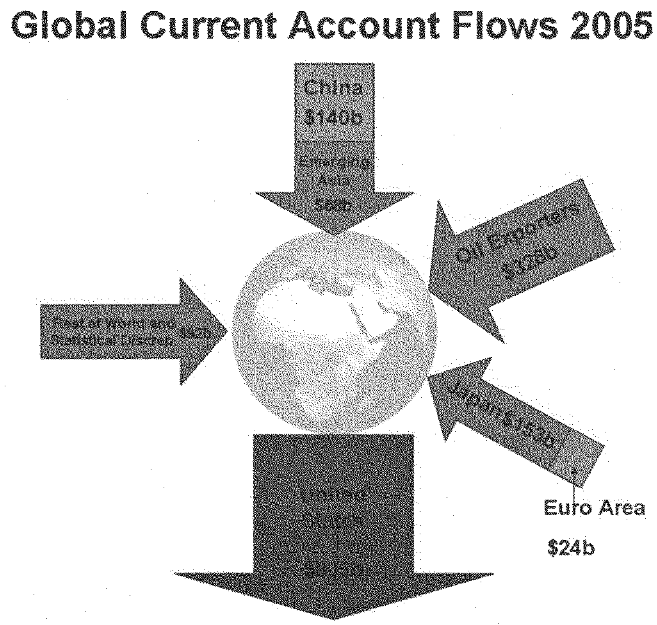
Equally remarkable is what is happening in the developing world, especially in Asia. The period between the late 18th and early 19th centuries in Britain and continental Europe was called the Industrial Revolution for a reason. For the first time in human history, the standard of living of one generation was demonstrably better than the one before: in a single lifespan, real per capita incomes doubled and then doubled again. If one looks at the growth rate of China during the past 30 years, living standards are increasing at a rate that will lead to a hundred-fold improvement over a single human lifespan.

These developments have in their totality had profoundly positive consequences. After 20 years of slow productivity growth following the 1973 oil shock, technological changes have spurred rapid productivity growth making it possible for the American economy to grow faster on a sustained basis than its industrial country competitors for the first time since World War II. Technology and global integration have supported a great moderation in the cyclicality of the American economy which has experienced only two relatively mild recessions in the last generation. The spur of foreign competition has played an important role in permitting the American economy to sustain sub 5 percent unemployment and inflation in the 2 percent range--a combination that would have been thought impossible not so long ago. And an open global capital market has enabled American mortgage rates to remain below 6 percent far into an economic expansion - permitting the achievement of record levels of home-ownership.

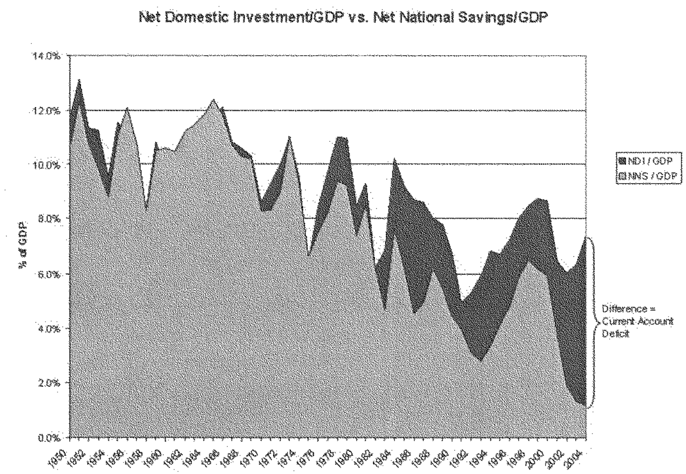
Without the combination of technological change, deeper global integration and rapid progress in the developing world the American economy would have performed less well over the last decade.

Nonetheless, globalization presents us with profound policy challenges. Four stand out.

First, the United States is now borrowing from abroad in a historically unprecedented way largely to finance consumption. It is an irony of the current moment that the United States is both the world's greatest power and its greatest debtor. Because of our low level of national saving, which is now at a record low level of under 2 percent, we find ourselves dependent on foreign capital to a historically unprecedented degree. As the figure below illustrates, the United States is an overwhelming absorber of global savings while the rest of the world is a supplier of global savings. While the combined current account surpluses of Japan and the non-European industrialized countries represents about 35 percent of U.S. net international borrowing, the remainder is financed overwhelmingly by emerging markets and oil exporting countries. This broad pattern, which has been going on for several years now and on current projections will continue for quite some time, runs very much counter to the traditional idea that core countries export capital to an opportunity rich periphery.



Furthermore, it is clear that this flow of capital from the developing world to the United States is financing consumption rather than investment, as the figure below illustrates.



There is no one who believes that the US can continue to borrow indefinitely at its current rate. It follows that either our level of saving has to rise or our level of investment has to fall. This is the critical reason why action to improve the government's fiscal position is essential over the next few years. Failure to act risks a dangerous collapse of investment if the flow foreign capital dries up.

While the focus of this hearing is on globalization, I cannot overemphasize the linkage between it and this committee's responsibilities in the areas of tax and expenditure policies. The US trade position cannot improve without an improvement in its saving investment balance -- an outcome best achieved through increased savings -- especially public saving. Moreover, if history is any guide, the greatest risks from protectionism come at time like the present when macroeconomic developments drive large trade deficits, reinforcing the case for fiscal discipline.

Second, we need a national investment strategy to assure that our firms are as competitive as possible. From the end of the Second World War until the mid nineteen-seventies, Americans benefited from rapid productivity growth. Subsequently, a sharp slowdown in productivity growth manifested itself and lasted until the mid nineteen-nineties. Since then, productivity growth has been quite rapid, though there are signs that it may be slowing once again. Economists do not fully understand all the determinants of these trends.

There can be no certainty as to how best to increase productivity growth going forward in the United States but there is no question that public investments are essential. I would highlight three areas of public investment where I believe our national effort has been insufficient in recent years.

First, our investments in research and development, after increasing rapidly since the nineteen-nineties, have lagged. In a time when the world stands on the brink of revolutionary progress in the life sciences, it cannot be rational for the NIH budget to decline as it did this past year for the first time in nearly forty years. If one looks at funding levels adjusted for inflation, the decline in our national commitment to basic research is even more remarkable.

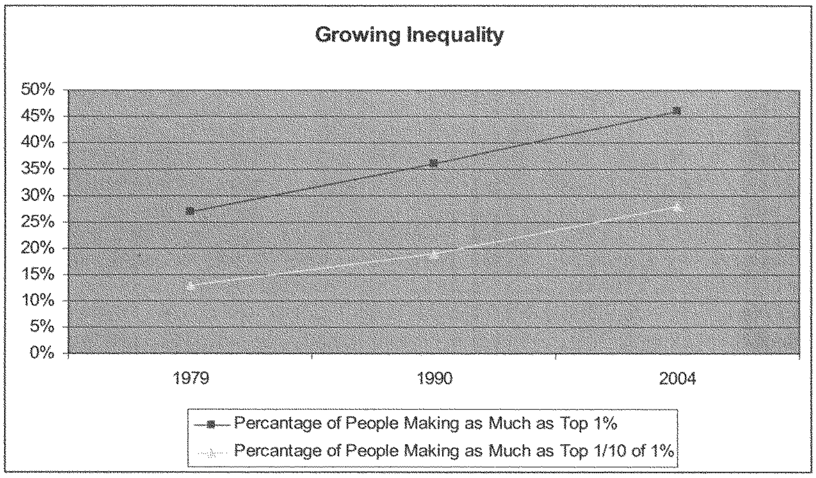
The second key element of public investment in productivity growth is education funding. Ultimately, nothing is more important to our prosperity than the quality of the American labor force. It is particularly important that investments be made to ensure all of our citizens have a chance to fully participate and share in our prosperity. A growing body of evidence suggests that pre-school education has an enormous rate of return, particularly for children from disadvantaged background, and funding these kinds of programs should be a high priority.

There is also a major need for national investment to ensure the affordability of higher education for all of our citizens. One of the most disturbing statistics I encountered in recent years is the observation that just ten percent of students attending our leading universities come from the lower half of the American income distribution.

The third crucial area of investment is in infrastructure. Here, there are clearly areas in which there has been excess national investment in response to political pressures. But there are also key areas such as transportation and other infrastructure facilities where investment has been grossly inadequate.

Third, and perhaps most urgently, we need to find creative policy responses to rising inequality so as to assure that most Americans share in the growing prosperity that globalization can bring. The figure below points to a disturbing trend. In 1979, the top 1 percent of the population earned as much as the lower 27 percent combined; by 1990 the figure had risen to 36 percent; by 2004 it was 46 percent.

Given the strong trend growth in inequality we may be on the brink of the moment when the top 1 percent of the population earns as much as the lower half of the population combined and the top 1/10 of 1 percent earns as much as the lower third combined.



These trends are complemented by parallel developments. As inequality has increased so has its transmission from generation to generation. The difference between the life chances of the children of the affluent and the poor has never been greater.

The precise cause of these developments is not clear. Surely technology has reinforced those with high levels of skill. And trade and globalization have surely benefited those fortunate few in a position to take great advantage of new opportunities while at the same time raising competitive pressures on ordinary workers. Perhaps also greater competition in general has led to more ruthlessness in pay decisions.

Whatever their precise causes, increases in inequality and volatility of the magnitude we have observed, even when coupled with rapid GDP growth, represent a serious economic challenge. They may overtime undermine our commitment to the market system and an open global economy. They stratify society and undermine the middle class. And they mean that too many Americans experience themselves as falling behind or in great danger of falling behind.

It is important to recognize the magnitude of the changes we have observed. Since 1979, the share of income going to the top 1 percent has risen by 7 percent of total income and the share going to the bottom 80 percent has declined by an approximately equal amount as the table below demonstrates.

	Decline in Before-Tax Share for Bottom/Middle	Increase in Before-Tax Share for the Top	$ "Loss" For Bottom/Middle in 2004 ($billions)
1979 – 2004, Bottom 80% vs. Top 1%	-7.4%	+7.0%	-$664
1990 – 2004, Bottom 80% vs. Top 1%	-4.0%	+4.2%	-$359

To offset these changes would require a transfer of nearly 664 billion dollars from the top 1 percent to the lower 80 percent. Similar calculations looking only at the changes inequality since 1990 would suggest transfers of about 359 billion dollars.

While globalization is only one of the causes of inequality, these calculations suggest that its consequences dwarf the kind of compensatory adjustment programs that are usually contemplated alongside trade agreements.

What is the right policy response? It is important to recognize that most of globalization's impact on the US economy reflects technology and changing economic conditions in our trading partners, not trade agreements. Trade agreements have historically had a much greater impact in creating and increasing markets for US exports than in reducing inhibitions to US imports. For some years now, our market has been largely open in almost every sector, so the scope for new agreements to materially affect the distribution of income for good or ill is not large. A fortiori, changes in the details of trade agreements are not likely to have significant impact on US inequality.

Rather, I believe the main policy levers for addressing inequality and insecurity lie outside the trade domain. They include improving the effectiveness of the tax system while at the same time increasing its progressivity and fairness. The biggest gains here potentially come from making a serious assault on the tax gap resulting from non-compliance with the Internal Revenue Code - a subject, Mr. Chairman, on which I know you have been a leader on in the Congress. Using the most recently available IRS data and extrapolating from that into the future, it is conceivable that by 2015 the gross tax gap will be as much as $751 billion per year. Over the next 10 years, as much as 5.8 [3] trillion dollars in tax revenue will be lost to non-compliance with the Code. I would note the tax gap is greatest for those categories of income that go disproportionately to the upper ends of the income distribution. There are also important issues and abuses associated with transfer pricing and the sheltering of both individual and corporate income that require Congressional attention. I am convinced

[3] Summers, Lawrence. "On Globalization and the Possibility of Progressive Taxation." Forthcoming, Proceedings of the National Tax Association Annual Meeting 2006.

that substantial revenues can be obtained from these sources - revenue that could potentially be devoted to ameliorating the dislocating effects of technological change and globalization.

We also need to recognize that in a world where jobs are going to be increasingly impermanent, economic security cannot come only from the employment relationship. This will require new approaches in the areas of health insurance and other benefits. I believe it is also appropriate that consideration be given to thinking about methods of wage insurance that would enable increasingly inevitable economic mobility to take place without significant and painful dislocation.

A third type of response involves taking comprehensive and systematic policy approaches to the future of key industries and regions. Indeed, reliance on clusters is, it seems to me, profoundly important for our economic future. Any individual faces the possibility of competition from a lower earning and equally skilled individual, but it is much more difficult to compete with or replicate entire clusters of economic activity. Indeed, the supremacy of New York City as the world's financial capital illustrates this point.

While the impact of trade agreements on inequality may not be great, the impact on inequality on Americans willingness to support international integration is great. It cannot be an accident that the Marshall Plan came at roughly the same time as major new commitments to the GI bill and to making credit available for ordinary families to buy houses through the FHA. This underscores the importance of addressing the anxieties facing middle class families.

The fourth critical priority is assuring that the United States leads in the creation of an international economic system that promotes collective prosperity and reduces the risks of conflict. Respect for the United States around the world is at low point despite our formidable strength. In part this is a consequence of all that has happened in the Middle East over the last few years. In part it is a consequence of American resistance to multilateral efforts in spheres ranging from global warming to human rights to trade. The United States would in my judgment be taking grave risks if it allowed itself to appear as resistant to international economic integration that provided growth opportunity for emerging markets. To withdraw from, or even to fail to promote, efforts to increase international exchange would send a very damaging signal. At the same time, it would create a void that would quickly be filled by our major economic competitors. It would also risk engendering tremendous resentment from those who feared that the United States was seeking to deny them the opportunity to become prosperous because of fears about our ability to compete.

All of this is to say that we as a country have a great stake in continued progress towards a more open trading system and in being perceived as a leader in promoting more open trade. To be sure, it is important that trade agreements be based on bipartisan consensus, and developed with the close involvement of both the executive and legislative branches. It is also important to recognize that the promotion of trade must be approached within the overall context of our efforts to promote global economic and social progress. And it is important to be clear with other nations that trade agreements are a two way street and that the United States will not accept agreements that disproportionately benefit its trading partners.

All of this said, it is critical in my judgment that the United States be prepared to move forward with an active trade policy agenda. Most important, we should be and be seen as leaders in trying to bring the Doha Round to a successful conclusion. It would provide an important spur to global growth and would in particular be of benefit to developing countries. The failure of the Doha Round would set loose protectionist forces around the world in ways that could be quite dangerous and for which we surely do not wish to take responsibility.

While the economic merits of specific bilateral trade agreements are more debatable than in the case of multilateral agreements, there is, it seems to me, a strong case for maintaining the flexibility to enter into bilateral agreements. Such agreements can play an important geo-strategic role in reinforcing our allies in their efforts in economic reform. They can also play an important role in assuring that the United States does not fall behind as other countries rush to enter bilateral agreements. And in some cases bilateral agreements can provide important economic benefits.

Mr. Chairman, I am very much aware of the intense feelings aroused by trade and globalization. To sum up my views, it is essential not to confuse ongoing globalization, which is driven by technology, and the success of developing countries with the effects of particular trade agreements. It is maybe possible to prevent new trade agreements or to repeal old ones, but globalization and technological change cannot be stopped. The real policy challenge is to respond to their adverse consequences by embracing the full set of measures that ensure inclusive growth for middle class families.

NCTO
NATIONAL COUNCIL of TEXTILE ORGANIZATIONS

WITNESS STATEMENT OF
MR. ANDERSON WARLICK
PRESIDENT & CEO, PARKDALE MILLS
for
THE NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS

SENATE COMMITTEE ON FINANCE

MARCH 8, 2007

Chairman Baucus, Senator Grassley, and distinguished members of the Committee, thank you for the opportunity to appear today and outline the U.S. textile industry's perspective on the 2007 trade agenda.

My name is Anderson Warlick. I am President and CEO of Parkdale Mills, a privately held textile manufacturer headquartered in Gastonia, North Carolina. We employ some 4,080 workers in facilities in North Carolina, South Carolina, Alabama, and Virginia. Parkdale Mills is the largest cotton yarn spinner in the Western Hemisphere and our yarns are used in apparel, home furnishings, and industrial-end manufacturing. Our U.S. mills process 15 million lbs of cotton a week and most of our yarns are exported abroad, mostly to Central America, Mexico and the Caribbean region. Parkdale Mills has been a strong supporter of the NAFTA, CAFTA and Andean trade preference programs. I am also a member of the board of directors of the National Council of Textile Organizations.

In this testimony, I would like to touch on a number of issues, including the make-up of the U.S. textile industry, the recently-passed Haiti legislation and the need for a trade policy agenda that delivers benefits to manufacturers that produce in the United States and employ millions of workers here at home.

About this last point, I would like to make one initial observation. The recent elections demonstrated clearly that most Americans believe that trade policy has been headed in the wrong direction and needs to be turned around. As we debate what changes might be made, I implore you to keep your attention focused on rebalancing the playing field to make sure that American jobs stay here. U.S. workers are the most productive, creative and highest-skilled workers in the world, but our trade policy has tilted the playing field against them. Our goal should be to rebalance the field so that they can keep their jobs. Parkdale's workers would rather you help preserve their jobs rather than compensate them for lower paying jobs they must take once their jobs are gone.

U.S. Textile Industry Background

First, I would like to debunk some commonly held beliefs about the U.S. textile industry. I have often heard members of Congress and numerous retailers and importers refer to our industry as a dead or dying industry and one that is antiquated and not prepared to meet the challenges of manufacturing in the 21st Century. In fact, these self-serving comments are not true.

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The U.S. textile sector continues to be one of the largest manufacturing employers in the United States. The overall textile sector employed nearly one million workers in 2005.

Our industry is the third largest exporter of textile products in the world exporting more than $16 billion in 2005. These exports went to more than 50 countries, with 20 countries buying more than $100 million a year.

The U.S. textile sector is a very important component of our national defense and supplies more than 8,000 different textile products a year to the U.S. military. The industry spends enormous resources on research and development each year to ensure that our military continues to be the most well-equipped and technologically advanced military in the world.

From 1994 to 2004, the U.S. textile industry invested more than $33 billion in new plants and equipment and has increased productivity by 49 percent over the last ten years. This investment has secured our second place ranking among all industrial sectors in productivity increases over the past ten years.

As you can see, the U.S. textile industry is an innovative, productive industry that can compete with anyone in the world.

Unfortunately, our industry, as well as much of manufacturing, has been hamstrung by a series of trade policy initiatives that have created a disincentive to invest in this country and to employ workers in this country. For a snapshot of the difficulties that poorly thought out trade policy can cause to a U.S. manufacturer one need turn no further than the Haiti HOPE act passed by Congress just last December.

Haitian Hemispheric Opportunity through Partnership Encouragement Act

Before addressing the myriad of problems with the content of this legislation, I would like to touch upon the process by which this legislation was developed. Let's be clear, the HOPE Act is not a trade bill; it is a textile bill. Ninety-nine percent of the contents of this legislation impact U.S. textile manufacturers alone. Yet, the U.S. textile industry was never consulted, not even once, as Congress drafted this legislation. There was neither a hearing on this proposal nor a committee markup that would have allowed key stakeholders and those who represent us the opportunity to provide feedback and input.

As the CEO of a large manufacturing company, I cannot fathom undertaking a wholesale restructuring or change within our company without consulting all the stakeholders involved. So it is baffling to me how our elected officials could pass a major proposal, like the HOPE Act, without consulting those who would be most affected by it. It is these types of antics that continue to make American workers skeptical of trade. By putting the interests of Haitian workers above those of U.S. workers, Congress ensures that support for trade liberalization among U.S. workers and companies will continue to erode.

The irony in all of this is that the U.S. textile industry is supportive of a trade preference program for Haiti, just not this program. Again, if all the stakeholders had been consulted and worked together on this initiative, I am confident we could have developed a win-win proposal – a program that would have greatly benefited Haiti, but not at the expense of U.S. workers and not at a loss of $200 million in U.S. exports to Haiti.

Finally, the HOPE Act is not a reciprocal agreement – the benefits under this program are extended to Haiti without any new benefits for U.S. companies. In fact, under the HOPE proposal, U.S. textile companies will lose market access, while new market access is created for China and Vietnam through the various loopholes and tariff preference levels that are established under this program.

The U.S. textile industry is extremely concerned that under the HOPE Act U.S. mills could lose substantial business if the United States government and the Haitian government do not appropriately administer the customs regulations required under this new program. Under the Caribbean Basin Initiative (CBI) and its successor program, the Caribbean Trade Partnership Act (CBTPA), Haiti has been an important export market for U.S. textile products – totaling nearly $200 million a year. These programs have been relatively simple to enforce because of the requirement that U.S. yarns and fabrics are utilized in apparel receiving duty-free access to the U.S. market.

Effective enforcement of the HOPE Act is a major concern for the U.S. textile industry. This program will not be beneficial to Haiti or anyone else if it becomes a magnet for fraud as it has in other textile and apparel programs involving value-added rules. Indeed, Customs reports that because of its relatively high tariffs, fraud occurs in textiles and apparel far more than any other category of goods. (A comprehensive list of Customs concerns is appended to the back of my statement.)

As of today, Haiti does not have an effective visa system or any domestic laws covering enforcement of the new HOPE program. In addition, NCTO is aware of no legislation or regulations that Haiti has promulgated concerning access by U.S. Customs inspection teams and we are aware of no reporting systems that have been put in place regarding imports, exports or documents which could substantiate claims under the new value-added rules. <u>Yet it appears that the HOPE program will come into force later this month.</u>

I certainly hope that we have all learned something from this experience. Trade is important and the U.S. textile industry, and NCTO specifically, are supportive of trade liberalization, but it has to be done the right way. Understanding the benefits and costs of trade not only to the U.S. consumer, but also to the U.S. worker, requires careful and deliberative analysis and is not something that should be done under a veil of secrecy and without clear understanding of the impact on U.S. workers and companies.

<u>Perspectives on the 2007 Trade Agenda</u>

In order to understand the U.S. textile industry's current perspective on trade, we need to understand the historical context of textile trade. As part of the Uruguay Round Agreement, the U.S. textile industry agreed to a ten-year phase-out of quotas on textile and apparel goods that began in 1994 and ended with the final phase-out in 2004. During this ten-year period, the U.S. industry was told that new market access opportunities would be aggressively pursued to ensure we had a fair shot at the end of this transition.

At the time the quota phase-out agreement was made, China was not a member of the WTO and no one expected they would become a member in the foreseeable future. Yet China did become a member in 2001. And despite the fact that China was a manufacturing powerhouse, especially in textiles and apparel, China was not subjected to a ten-year phase-out of quotas; rather, it was allowed preferential treatment over the rest of the WTO members and had its quotas phased-out in just three short years.

What has this meant for the U.S. textile industry? In textile and apparel products that have been completely removed from quota, China has attained a 65 percent market share in apparel categories removed from quota more than three years and a 46 percent market share in apparel categories removed from quota since January 1, 2005. While China still has quotas on several sensitive categories as a result of the U.S.-China textile bilateral agreement that went into effect on January 1, 2006, these quotas will expire on January 1, 2008, and there is no mechanism to take its place. Once these quotas expire, the U.S. textile industry will be completely defenseless against dumped or subsidized goods coming from China.

But it is not just China. Since 1994 when the industry was told that new market access opportunities would be aggressively pursued, the exact opposite has indeed happened. During this time, one-way preferential trade programs and FTAs with loopholes for third-country fabrics have dominated the trade agenda in textiles and apparel, with very limited gains being made in new market opportunities for U.S. exports. In 2000, it was the African Growth and Opportunity Act (AGOA), a one-way preference program that allowed yarns and fabrics from China to be sent to Africa, assembled into apparel, and exported to the U.S. duty-free. Once again, China was the big winner and no real market access was established for U.S. exports. In 2005, the Egyptian Qualified Industrial Zones were implemented and then expanded in 2006. Yet again, China won and U.S. industry lost.

There is also the plethora of FTAs -- Bahrain, Chile, Jordan, Morocco, Oman, Singapore – where exceptions to the rule of origin for textiles and apparel were prevalent and once again diminished new market access opportunities for U.S. producers by providing huge loopholes for third-country fabrics. And finally, the HOPE Act, which if not implemented and enforced correctly, will simply become a conduit for transshipped goods from China and the loss of $200 million in U.S. exports to Haiti.

The obvious question is why does China win? China wins because it can offer whatever price necessary to make the sale. Chinese companies are not worried about profits or shareholder values or credit-worthiness – they simply must make the sale to keep their plants operating and keep their people employed. They achieve this through a complex web of subsidies including currency manipulation, export tax rebates, non-performing loans, and subsidized transportation and utility rates to name a few. Many, if not most of these, are illegal under U.S. trade law and WTO law. Yet, there appears to be precious little interest in going after countries that do not live up to their WTO obligations.

As an example, I find it stunning that more than five years after China joined the WTO, the United States government still does not have a list of subsidies that China uses to put American workers out of their jobs. In fact, the only list that the U.S. government has is the very incomplete list that the Chinese government sent to the WTO last year, four years after it was required to do so under its accession agreement.

To my mind, this is the crux of the problem with trade policy today. We have a de facto trade policy that allows foreign governments to subsidize their exports and throw U.S. workers out of their jobs while our own Congress and government essentially look the other way or conveniently provide aid and assistance to China, its businesses and government.

While there are many examples of how government policy has tilted the playing field against U.S. workers, I would like to detail two which I think cost more American jobs than any other.

1) Currency Manipulation and Value-Added Taxes

In February, the government reported that the U.S. trade deficit with China grew to a high of $232.5 million in 2006, up from $201.5 billion in 2005[1]. This is the largest U.S. deficit ever with a single country. In the words of Professor Peter Morici a former economist at the International Trade Commission, "although Americans may be getting cheap t-shirts at Wal-Mart today, their children will be paying the Chinese interest forever."[2]

Why our government refuses to use access to the U.S. market as trade negotiating leverage to rein in the ballooning trade deficit with China defies logic. Such inaction is simply a green light to China that they can play by their own rules without consequence. Because of the Administration's refusal to act, the time has come for Congress to take matters into its own hands and address the plight of U.S. manufacturing before it is too late.

As a first step, Congress should quickly pass legislation to allow countervailing subsidies to be applied to non-market economies and to provide that currency misalignment is a countervailable subsidy. It is estimated that China's currency is undervalued by as much as 40 percent. This undervaluation acts as an export subsidy for Chinese-made products and puts U.S. manufacturers at a disadvantage and ultimately leads to plant closures and job losses. China cheats – that is a fact. Until the U.S. government forces them to behave otherwise, they will continue to play by their own set of rules and the U.S. manufacturing base will continue to erode.

Unfortunately, our trade imbalance will not be erased by simply addressing currency and other subsidies. Another significant problem for U.S. manufacturers is the prevalence of value-added tax systems (VATs) that are employed by 137 countries, including every major industrial power except the United States. These countries rebate VAT taxes on exported goods and levy VAT taxes on imported goods.

What does this mean for U.S. manufacturers? In real terms, U.S. producers were disadvantaged by an estimated $294 billion in 2005 as a result of foreign VAT taxes. China alone accounted for $48 billion of this total. Foreign countries with VAT systems are estimated to have rebated $201 billion in VAT taxes on exports to the United States while imposing an estimated $93 billion in VAT taxes on imports from the United States.

This is an important issue to keep in mind as Congress potentially weighs the benefits and costs of a Doha Round Agreement. Even if the U.S. were successful in tearing down trade barriers and creating real market access opportunities for U.S. manufacturers as part of this agreement, the trading environment will still be stacked against us because of the effects of the foreign VAT systems on U.S. exports.

If Congress would tackle these two issues alone – currency manipulation and foreign VAT systems -- I am convinced the U.S. would experience a rebirth in manufacturing and the restoration of millions of U.S. manufacturing jobs.

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[1] The U.S. China Congressional Economic and Security Commission reports that 1.5 million U.S. workers have lost their jobs because of China.

[2] Kristi Ellis, "Trade Deficit Hits Record as Industry Imports Rise," *Women's Wear Daily*, February 14, 2007.

Finally, I want to be clear that I am not China bashing. China is simply doing what it needs to do to continue growing its economy and providing adequate employment for its citizens. China is simply acting in its own national interest. The time has come for the U.S. government to do the same. It is time for the U.S. to stop utilizing trade policy for purely foreign policy and social objectives and to start looking out for the interests of U.S. workers and companies.

2) Free Trade Agreements

Parkdale Mills and the National Council of Textile Organizations fully support the pending FTAs with Colombia and Peru. These agreements contain a strict yarn forward rule of origin, no loopholes for Asian products and strong customs enforcement and will help the U.S. textile industry and its workers compete in world markets. Colombia and Peru represent important and growing export markets for U.S. textile products, totaling nearly $200 million a year. These FTAs are essential if the Peru and Columbia markets are to continue to grow, and we urge Congress to quickly pass implementing legislation for these agreements.

At $16 billion a year in exports, the U.S. textile industry is the third largest exporter of textile products in the world. These exports depend on trade agreements like the Colombia and Peru FTAs which ensure that FTA partners, not Asian exporters, are the true beneficiaries of these agreements. In fact, the textile provisions of these agreements should be used as a template for future trade agreements which can garner wide industry support. When trade agreements benefit U.S. textile workers and companies, the industry will back them enthusiastically.

In order for the Colombia and Peru FTAs to be effective, however, there must be no loss in benefits in the transition from the current trade preference program (the Andean Trade Promotion and Drug Eradication Act, or ATPDEA). The ATPDEA is scheduled to expire at the end of June and we strongly urge Congress to extend these trade preference benefits until the new FTAs can take effect. Congress must prevent the mistakes made during the CAFTA agreement when a staggered implementation caused substantial business to be lost to Asia because duty benefits for the region were suspended.

The Peru and Columbia FTAs are key components in making the Western Hemisphere a competitive alternative to Asia. With 2.2 million textile and apparel workers in the NAFTA, CAFTA and Andean region, textile producers in the United States and apparel manufacturers in the larger region have integrated their production lines. These FTAs will create the necessary predictability and stability that is needed to help ensure this region remains viable.

With respect to the current FTA negotiations with Korea, the industry is very concerned that an FTA with Korea will simply be a one-way street, with a massive flow of Korean textiles, apparel and home furnishings into the United States and no opportunities for U.S. products to be exported to Korea.

As this Committee continues to monitor the progress of the U.S.-Korea negotiations, we ask your consideration of several important issues. First, that the rules of origin for textiles and apparel in this agreement are strict enough to prevent non-signatory countries from gaining unwarranted duty-free access to the U.S. market. At the very least, this agreement should do no harm, and a yarn (fiber) forward rule of origin will ensure that all sectors of the domestic industry are included.

Second, since we believe this agreement could be a one-way street for trade, we ask that the longest tariff phase-outs possible are achieved. In NAFTA, USTR negotiated a 10-year phase-out for most textile products. With respect to Korea, a long phase-out period is critical and will allow time for U.S. manufacturers to adjust to the new rules that will be put in place with Korea.

Third, the agreement must contain a strong and effective safeguard provision to prevent the domestic industry from damaging import surges. Such safeguards have been included in other agreements, and given the productive capacities in Korea, such a mechanism is vitally important should a surge in imports threaten the existence of some part of the industry.

Finally, the agreement must contain a customs cooperation provision that will allow U.S inspectors access to Korean mills. Korea and neighboring China both have a history of transshipping textiles and apparel, and we are concerned that this agreement will encourage more of this illegal behavior. Again, this agreement must not be allowed to tempt unscrupulous companies from transshipping finished goods through Korea to gain duty-free access to our market.

3) Trade Promotion Authority

The U.S. textile industry will carefully examine any proposals to extend Trade Promotion Authority (TPA) in terms of their specific impact on our industry. Principle among the industry's concerns is whether TPA includes textile-specific negotiating objectives regarding the WTO Doha Round negotiations.

These objectives must address the need: 1) to maintain specific textile and apparel tariffs at current levels in order to preserve existing export markets under free trade agreements and preference programs, 2) to bring high overseas tariffs down to U.S. levels and 3) the development of a new textile safeguard for non-market economies, such as China, that threaten to disrupt markets and dominate world trade in textiles and apparel.

The U.S. textile industry has historically supported free trade proposals that have sought to enhance textile exports and competitiveness. These proposals include the CBTPA and Andean preference programs and the NAFTA, CAFTA, Australia, Colombia and Peru Free Trade Agreements. As discussed previously, these trade initiatives have enabled the U.S. textile industry to become the world's third largest exporter of textile products and to develop mutually beneficial economic partnerships with dozens of countries.

Trade negotiating authority should seek to enhance and grow those partnerships. However, current TPA authority lacks sufficient guidance in terms of textile exports and the global trade talks currently underway. NCTO remains very concerned that the government has not actively supported industry objectives for maintaining and growing textile exports thus far in the Doha Round.

U.S. industry concerns have historical precedence. As mentioned earlier, under the Uruguay Round agreements, the U.S. government agreed to dramatically increase access to the U.S. textile market, while committing to stronger enforcement of U.S. trade laws and greater textile market access abroad. While the government implemented its commitments to open the U.S. market, the government failed to enforce key commitments regarding attacking illegal subsidies, failed to achieve meaningful market access and failed to enforce the China accession agreement, which required China to stop subsidizing its state-owned textile sector and to stop using its currency as an economic weapon.

The net impact of this failure on textile workers and companies has been stunning. Over the last five years, the U.S. textile sector has lost over 300,000 workers, 35 percent of its workforce. The industry is concerned that similar but more dramatic distortions will continue under a Doha Round Agreement unless effective and meaningful guidance regarding textiles is included in new Trade Promotion Authority.

Finally, as the discussions regarding TPA extension move forward, I would like to address the notion that expanded Trade Adjustment Assistance (TAA) is the most appropriate way to deal with disaffected workers who are displaced by trade. In my opinion, this is putting the cart before the horse. First and foremost, Congress should be looking at ways to keep jobs in the United States and to create an environment where manufacturers are willing to invest and expand their operations within our own borders. If such an environment is created, then the need for TAA will diminish dramatically. Certainly there is a place for TAA programs for we live in a dynamic economy where jobs are created and lost each and every day. But it stands to reason that if you address the underlying cause for worker displacement, which is the fact that it is becoming less and less attractive to invest in manufacturing in the United States, then you take care of the disease as opposed to the symptom.

Conclusion

In closing, I would like to once again emphasize that the U.S. textile industry is supportive of trade; in fact, our livelihoods now depend on it. But a trade at any cost policy that is more about achieving foreign policy and social objectives than it is about creating an open and transparent trade environment means that U.S. manufacturers will continue to lose.

People in America are worried. They are worried about how they will pay their mortgage and send their kids to college. They are worried about their spouses and children who are serving in Iraq, Afghanistan and many other places around the world. These are very unsettling times. Despite this fact, many Americans have demonstrated a willingness to sacrifice some of their own economic security in the name of national security and the greater democratic good. I would posit that without economic security, we cannot have national security. So for the good of the country we must get our economic house in order if we ever hope to get a real grasp on the national security threats that confront us each and every day.

Thank you.

Background on Customs Concerns Regarding Haiti Legislation:

As preference programs have proliferated and Customs seizures have increased, Customs enforcement has been an increasing issue of concern for the domestic industry and this concern will continue to be tied to industry support for free trade programs. The issue was central to the industry's support for the CAFTA agreement; at that time, the industry insisted the Administration meet the funding obligations for textiles and apparel that had been earlier set out in TPA legislation. Since that time, Customs has been reorganized, despite strong industry objections, in a manner that takes the textile enforcement division off the front lines and puts it in an advisory role. This change in the organizational structure for Textile Enforcement at Customs and Border Protection could become very problematic with respect to future industry support for trade liberalization if the industry sees enforcement efforts taking a back seat to trade facilitation.

Finally, the new HOPE legislation creates new and significant burdens for textile enforcement and neither Congress nor the Administration have indicated how or whether you will provide the necessary resources to meet those burdens.

Throughout the history of the textile program, unenforceable rules have been a proven access point for large scale fraud, which displaces legitimate production both in the U.S. and in the country involved. As already noted, textile and apparel trade has the highest fraud content of any manufactured good.

Review of the principle enforcement concerns:

1. Value-added rules: Value-added rules are extremely difficult to enforce in textiles and apparel because of the complexity and differentiation of the wide number of products that fall under it. Apparel comes in dozens of forms, multiple shapes and sizes and in hundreds of types of fabrics and fiber contents. Under a value-added formula, Customs will need to verify value-added chains for dozens of types of garments, each with dozens of possible variations (type of fabric, type of yarn, sewing thread, trims, etc.) and each with different labor inputs.

   Overhead costs must then be sub-divided by the type of garment produced, a very difficult task in factories that are typically producing several different types of garments at one time and potentially dozens of different types of garments over a year's time. In sum, development of such an intensive program is extremely difficult given the resources that Customs has available to it. We again note that the HOPE legislation added no new resources to CBP textile enforcement division while adding considerable new responsibilities.

   In addition, the value-added rule will require domestic companies who import from Haiti to maintain extensive record keeping, while foreign entities may be able to skirt this requirement. Customs audits are required to cover a year's worth of imports, which means that audits, when performed, will be intensive and disruptive. This will upset the competitive balance for legitimate U.S. producers and importers because foreign entities will be beyond the reach of Customs and can "disappear" (e.g., rename themselves) if a Customs audit is ordered. These are major concerns that need to be dealt with in regulations to be issued and enforced by U.S. Customs and the Haitian government.

   In fact, the Canadian FTA had a value-added rule for textiles and apparel which was converted to a transformation rule in NAFTA because of widespread fraud and the resource limitations of CBP.

2. Incentive for Abuse: The incentive to abuse these rules in textiles and apparel is greater than for any other product. Apparel has the highest level of fraud and abuse of any product category: according to Customs records, 85 percent of all Customs seizures are in textiles and apparel. Because average duty rates are relatively high -- 17 percent -- the incentive to try and circumvent these duties is high as well. Importers pay billions of dollars in duties each year to bring in goods from Asia and could stand to save hundreds of millions of dollars a year by bringing Asian goods in illegally and declaring them to be of Haitian origin.

   We recently saw this happen when a trouser category for ramie trousers went quota free – within a matter of months, imports of "ramie" trousers increased so rapidly that according to trade statistics nearly every person in America had bought a pair[3]. Once the trade "understands" that Customs cannot enforce a rule, the floodgates open.

3. Controlling entity: The HOPE bill contains a new term of art – "a controlling entity" --that would be an easy loophole for creating shell companies outside the United States that can be used to bring in Asian goods in violation of the legislation. Setting up shell companies is a common practice in the textile and apparel trade because it enables companies to "disappear" if wrong doing is found and then to reappear under new names and thus avoid substantial penalties. This fraud is already widespread in areas where tariffs are high or antidumping orders are being enforced. Customs cannot go after the companies or even compel them to open their books because they are not registered in the United States. Under such a structure, the value-added chain becomes even more difficult to enforce because the companies that make the goods in Haiti are not even required to vouch for the accuracy of their records. Customs rules must make sure that the rules regarding the "controlling entity" do not become a loophole for widespread abuse.

4. Aggregation: The HOPE bill requires that goods be aggregated on an annual basis. This requires a massive investment of auditing resources, a resource that Customs does not have. The textiles and apparel enforcement branch in Customs consists primarily of import specialists, not auditors. Import specialists monitor individual shipments as they reach the ports whereas auditors review a year's worth of records and, through value assessments, determine whether the goods meet the value-added rule.

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[3] In the course of one year, 190 million "ramie" trousers in Cat. 847 came in from China after the quota was lifted n 2002. The trousers were actually cotton trousers which were evading quota limits by being mis-declared as ramie trousers.

We are concerned that Customs does not have the personnel available to audit a quarter billion garments that currently arrive from Haiti each year. In addition, under this rule, any auditing penalties would take a year and a half to be imposed and the company would be able to easily change names and avoid charges. The main enforcement arm of the Customs textile enforcement program is essentially cut out as is the main enforcement tool, factory verification visits by trained Customs personnel.

The government must demonstrate that Customs will be given the resources to adequately monitor imports under the new program and prevent fraud and that the Haitian government will likewise devote resources to ensuring that proper auditing records are maintained and scrutinized by Haitian producers.

5. Cumulation: Cumulation makes value-added rules even more difficult to enforce: inputs which may legally contribute to the value-added formula can legitimately come from more than 30 countries. It will be extremely difficult for Customs to accurately monitor whether these goods are actually being produced in one or more of these 30 countries, particularly since many of these countries have historically been used as transshipment points.

   In addition, there is a legitimate question as to whether this cumulation component of the program is WTO consistent. The U.S. government has questioned the WTO legality of such cumulation provisions in the past because it provides benefits to preference partner countries on a selective product basis and therefore upsets the balance of obligations clause in the WTO.

6. Corruption in Haiti ranks 155 out of 159: Corruption in Haiti ranks 155 out of 159 on the Transparency International Corruption Index. This raises additional concerns whether Haiti itself has the capability of enforcing a difficult, complex and easily-abused rule. The U.S. government must show strong evidence that Haiti can monitor and enforce this program effectively before the government certifies that Haiti should receive preferential treatment. The Textile Enforcement Division has already indicated that CBP cannot send enforcement personnel to Haiti until important safety issues are resolved.

Review of the Customs Steps Haiti Must Take in Order to be Certified

According to the HOPE Act, Haiti must, prior to being certified, have:

1) Adopted an effective visa system, domestic laws and enforcement procedures;
2) Enacted legislation or regulations that allows U.S. Customs to investigate allegations of transshipments;
3) Agreed to report, on a timely basis, on total exports from, and imports into Haiti;
4) Agreed to fully cooperate fully with the United States to prevent circumvention;
5) Requires all producers and exporters to maintain complete records for five years;
6) Agrees to report to U.S. Customs all documents establishing the rule of origin.

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