U.S. TRADE STRATEGY: WHAT'S NEXT FOR SMALL BUSINESS EXPORTERS?

HEARING

BEFORE THE

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UNITED STATES
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WEDNESDAY, MAY 16, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, Chabot, Mulvaney, Tipton, West, Ellmers, Hanna, Schilling, Velázquez, Schrader, Chu, Cicilline, and Hahn.

Chairman GRAVES. We will call the hearing to order. Good afternoon to everybody. I want to thank you our witnesses on both panels for being here and I look forward to all the testimony that is going to be given today.

As we celebrate World Trade Month, it is only fitting to have Deputy United States Trade Representative before the Committee to discuss the administration's trade strategy. First, I appreciate your effort to expedite the implementation of the free trade agreements with Korea and Colombia, which actually just went into effect yesterday. I hope the FTA with Panama is quick to follow. The certainty and protections provided by these agreements will help thousands of small firms increase their sales, grow their businesses, and ultimately create many more jobs.

Small businesses rely heavily on negotiated agreements to remove trade barriers and to be competitive in the global marketplace. Unlike large corporations, most small firms do not have the personnel and resources to navigate technical trade barriers. As a result, many either do not export at all, or only export to just a few countries. Given the right circumstances and tools, I know America's small businesses can do a whole lot better. We must provide small businesses with the resources necessary to increase their exports.

That means we need an aggressive trade strategy to open new markets, streamline the trade process, and combat unfair trade practices. As we have heard, the president's goal to double exports by 2014 puts small businesses as the number one priority. While I applaud this effort, we have yet to see a real strategy. Small firms and the U.S. economy cannot wait another five years for the next trade agreement.

This Committee has made increasing exports an absolute priority, and that is why I recently introduced the Export Coordination Act of 2012 to make the export process more efficient while reducing duplication and wasteful spending on federal trade promotion agencies. I look forward to working with the administration on identifying ways to improve the system.

Again, I want to thank you for being here and also thank our other witnesses for being here. And I will turn to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Welcome, Ambassador Sapiro.

We have heard time and again about the need to put small businesses at the forefront of our economic recovery, but perhaps no other group is more critical to this effort than small exporters. According to U.S. Treasury Department figures, more than 50 million American workers are employed by more than 250,000 small and medium-sized companies that export goods overseas. Small businesses that export grow faster, create more jobs, and pay higher wages than other businesses. Clearly, in order for the recovery to gain steam, our economy will increasingly depend on foreign trade to fuel new growth.

Despite these advantages, it remains difficult for small businesses to take up the mantle and enter foreign markets. By some estimates, just 1 percent of the 28 million small firms in this country are doing so. Even though they account for 97 percent of America's exporting companies, the exports account for only a third of all goods shipped overseas. Most sell their goods to only one foreign country and to only one customer in that country. Clearly, these theorems possess untapped economic potential and today's hearing will help us understand how this may be accomplished in the wake of passage of the South Korea, Panama, and Colombia free trade agreements last year.

Balanced free trade agreements have the potential to be a significant driver of prosperity. By eliminating tariffs and other barriers, these agreements can help small firms expand sales globally and create jobs at home. In order for these benefits to be fully realized, we must hold our trading partners accountable for unfair practices and ensure that our small businesses receive the level playing field they were promised.

Unfortunately, our history in this area does not inspire much optimism. In 1993, before the North American Free Trade Agreement took effect, the U.S. had a 1.6 billion trade surplus with Mexico, which supported 29,400 jobs here at home. Since then, imports from Mexico have grown much faster than U.S. exports, resulting in large trade deficits that have displaced 682,900 jobs nationwide. Although many of the workers that were laid off due to NAFTA were reallocated to other sectors, the majority were relocated to the service industry where average wages are a fraction of what they received before. As long as the U.S. persists in trying to play by free trade rules while foreign nations are allowed to play the 400-year-old game of mercantilism, we can expect to see similar results. Still, we must be diligent in our efforts to get it right.

In regard to the Trans-Pacific Partnership, this sweeping agreement has the potential to remove numerous barriers and give American small firms access to new markets on the Pacific Rim. However, there are concerns that are reaching beyond areas that have traditionally been the purview of trade policy. Reports have emerged that this agreement may seek to bind the U.S. to new standards for everything from foreign investment to pharmaceutical prices and copyright protections. It will be critical that these issues be discussed in an open and forthright manner before this agreement can be finalized. And it is my hope that the office of the USTR will make good on its commitment to do so.

Now, more than ever, our country needs policies that encourage fair trade and promote small business growth. I look forward to hearing how our existing and potential future trade agreements can achieve these goals, as well as how export assistance programs can assist small firms.

I would like to thank the witnesses in advance for their testimony, and I am pleased they could join us today. I look forward to hearing from them. Thank you, Mr. Chairman.

Chairman GRAVES. Thank you, Nydia.

Our first witness is Ambassador Miriam Sapiro. She is the deputy U.S. trade representative with the Office of the United States Trade Representative. She is responsible for trade negotiations and enforcement with Europe, the Middle East, and the Americas. She also oversees the Office of Small Business Market Access and Industrial Competitiveness at the USTR. Thank you for being here, and I look forward to your testimony.

STATEMENT OF MIRIAM SAPIRO, DEPUTY UNITED STATES TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms. SAPIRO. Thank you very much, Chairman Graves, Ranking Member Velázquez, and Members of the Committee, especially for convening this hearing today and for giving me the opportunity to testify about what we are doing to support small business and thereby support greater economic growth and jobs throughout the country.

Despite a fragile global economy, the growth of U.S. exports over the last year has been a bright spot. Our exports of goods and services have surpassed their pre-crisis peak and we are making good progress towards meeting President Obama's goal of doubling exports by the end of 2014. During the past 12 months, the United States exported more than $2 trillion in goods and services, which is the highest level of exports in any 12-month period in U.S. history. As our economic recovery continues, we have added private sector jobs for 26 straight months, for a total of 4.25 million jobs over this period.

As the President has emphasized, America's small businesses are key engines of our nation's economic growth and job creation. They are a critical source of innovative processes, products, and services. I speak as someone who started and ran a small business before re-entering government and experienced firsthand the challenges, the risks, and the opportunities involved.

America's smaller firms are already playing a major role in international trade, accounting for nearly 98 percent of all exporters. Direct and indirect exports by U.S. small businesses support four million jobs and account for an estimated 40 percent of the total value of our goods and services exports.

These trends are very positive, but we believe our small companies still have significant room for export growth. Only a small fraction, as you both pointed out, currently export, and of those, most tend to go only to one market and have one customer. With 95 percent of the world's customers living beyond our borders, we can, and we must, do better.

To accomplish this, we are pursuing a robust trade policy that supports small business and broader economic growth by tearing down barriers to trade and by creating new opportunities for U.S. farmers, ranchers, manufacturers, and service providers. We are also vigorously enforcing our trade rights, insisting that countries fulfill their commitments and act according to the rules to which they agreed.

Our trade agreements now with nearly 20 countries open the doors for valuable export opportunities for our small businesses.

With this Committee's strong support, Congress approved the FTAs with South Korea, Colombia, and Panama, and as you pointed out, just yesterday the Colombia Agreement entered into force. This makes it easier and less expensive for small businesses, like the meat packers and the dairy farmers in your district, Mr. Chairman, to export their products to this important Latin American country.

And this week we are concluding the 12th round of the Trans-Pacific Partnership negotiations in Dallas, Texas. Relevant to this Committee is our focus on developing specific provisions to help small businesses participate more actively in regional trade, including through information sharing. Our commitment builds upon the joint APEC Trade-SME Ministers' meeting that Ambassador Kirk held last year in Big Sky.

We are also helping small business by opening Russia's market of 145 million customers. Russia's WTO membership will create new export opportunities and bind Moscow to a clear set of rules for trade and transparency. However, for U.S. companies to enjoy these benefits, Russia's WTO membership this summer, Congress will have to act quickly to terminate application of the 1974 Jackson-Vanik amendment to Russia. We hope this Committee will strongly support Chairman Camp's efforts to do just that.

In the Western Hemisphere, we are collaborating with other agencies to connect more of our small businesses to regional partners and entrepreneurs there as President Obama announced last month on his way to the Summit of the Americas.

As we continue to strengthen the international rules-based trading system and hold our trading partners accountable, we are also enhancing our trade enforcement capabilities. The Interagency Trade Enforcement Center, known as the ITEC, recently established by the President will increase our capacity to prioritize and to aggressively challenge unfair trade practices brought to our attention by smaller companies.

Ambassador Kirk and the entire USTR team continue to reach out to small businesses across the country to highlight not only export opportunities that we have created but to hear more about the existing trade challenges. As a result, last year we were proud to launch the FTA Tariff Tool, a free online way for small firms to do market research and look up specific tariffs.

In conclusion, we are very proud of our small businesses that offer high-quality, "Made in America" products and services to customers around the world. We are determined to see that they have the trade policy tools they need to compete and to succeed in the global economy. We look forward to working with you to accomplish that goal. Thank you.

Chairman GRAVES. Thank you very much.

I will turn to Mr. West.

Mr. WEST. Thank you, Mr. Chairman, and also Ranking Member. And thank you, Ambassador, for being here.

We had an Ag roundtable down in our district area, Martin County, and one of the major complaints came from a gentleman who has Yee Farms down there about the flooding of tomatoes coming in and how it is affecting our market out of Mexico. So the big question I am sure that the farmers down in South Florida would like to know, what are the specific things that we are putting in place to help them as far as, you know, the tariffs and the non-tariffs and the NAFTA and also the CAFTA, how we can open up China and other Asian markets for our agricultural products so that they are not penalized.

Ms. SAPIRO. Thank you for that important question. We had a terrific year in 2011 in terms of our Ag exports. We are fully committed to doing everything that we can to help farmers across the country compete in every single global market. With our free trade partners we do that by lowering tariffs and also reducing the non-tariff barriers behind the border that you cannot always see at first. But as you may well know, our ability to fight what we call SPS, sanitary and phytosanitary restrictions that are not justified by science or by risk assessments, is really an important part of what we do every single day at USTR.

Mr. WEST. Thank you, Mr. Chairman. I yield back.

Ms. VELÁZQUEZ. Ambassador, Ambassador Kirk has expressed a commitment to maintaining transparency in the negotiations for the Trans-Pacific Partnership and in all the talks that have been conducted this week in Dallas I just would like to ask you why did he make the decision to further restriction public involvement in the negotiations by eliminating the full day stakeholder forums?

Ms. SAPIRO. The talks that are going on in Dallas right now had a very robust set of stakeholder consultations. The negotiators broke for several hours to sit down with all of our stakeholders who have a very important role in terms of giving us feedback on what they would like to see in the TPP agreement. So we have spent considerable amounts of time working with our stakeholders both before the round in Dallas and also in Dallas.

Ms. VELÁZQUEZ. Why the decision to eliminate the full-day stakeholder forum?

Ms. SAPIRO. I think what we did was break up the consultations into different periods of time so that we could accommodate the schedules of different stakeholders as well as the negotiators. I know, Ranking Member, that we have had a very robust set of consultations with our stakeholders at this round in Dallas, just as we have at previous rounds and just as we will continue to do so.

Ms. VELÁZQUEZ. Yeah, in other rounds that have been conducted, in other places you have not eliminated the full day stakeholder forum. So I am just wondering why. How do you reconcile the fact that he said we are going to maintain transparency and engagement and then yet you cancel this event?

But I would like to ask you who is representing or how are small businesses represented in the stakeholder forums?

Ms. SAPIRO. We have a number of small businesses that are part of the stakeholder groups. For example, we have our advisory committees that are the more formal way in which we receive input, and we have small and minority business advisory group that is very robust and provides terrific input. And we also have informal ways of reaching out across the country. I do not think there is a trip that Ambassador Kirk or Ambassador Marantis or I take where we do not reach out to small business, as well as Ambassador Siddiqui, who is our agricultural negotiator and who meets with farmers across the country.

So outreach and transparency are a critical, critical part of our job that we take very seriously, both in Dallas at this round and in our broader work.

Ms. VELÁZQUEZ. Well, I am glad to hear that. Moving forward I hope that you will not cancel again the full day stakeholder forum so that we can have more engagement.

But talking about small businesses, we hear that small businesses make up 9 of every 10 businesses that export goods from the U.S. But when it comes to the negotiation process for trade agreements, the interests of the small business community often take a backseat to that of large multinational corporations. My question is what is your agency doing to integrate safeguards in the TPP to ensure that the interests of big corporations are not disproportionately favored and expend small businesses. And if you hear a level of pessimism coming from my line of questioning, we have seen this rerun before where we come here, we discuss trade agreements, and we always raise the issue that even though 97 percent of all exporters are small businesses, they are always at a disadvantage.

Ms. SAPIRO. I understand your concern and I would like to reassure you. If I cannot do it in my limited time today then to come back and visit with you. We are working very hard to make a difference and I think we are starting to see the results.

So just to give you a few examples. For the first time we have one person designated to handle SME issues within our TPP negotiating team. So they are looking out just for SMEs. And that role is two-fold. One, it is crosscutting to make sure that SME interests are represented in general chapters on, for example, trade facilitation or business competitiveness. And then also for the chance in this negotiation to have a separate chapter on small and medium enterprises focused on giving them the tools they need to succeed in the TPP region. And I am very pleased that that chapter is going exceedingly well right now and we think we may have agreement with our other TPP partners in terms of the robust approach that the United States is taking towards helping SMEs.

Ms. VELÁZQUEZ. Okay. I have other questions so in the second line I will come back. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Mulvaney.

Mr. MULVANEY. Ambassador, I would like to talk about textiles for a few minutes if we can. One of the members of the TPP assuming it goes through will be Vietnam, one of our major textile trading partners. As most folks know, it is not an open economy. It would be different than some of the other members—New Zealand, Australia, Singapore—in that fashion. It is a government that still has a lot of state-owned enterprises. It is a government that still manipulates its currency. What is the USTR going to be doing as part of the TPP to protect our businesses domestically generally but also the textile industry specifically against market manipulation by the Vietnamese government?

Ms. SAPIRO. We are working very closely with all of our TPP partners to develop a truly 21st century trade agreement. And the obligations obviously run two ways. So we intend to hold each and every one of our partners, including Vietnam, to the highest standards that we succeed in negotiating. And that goes for the range of issues, whether we are talking about goods or non-tariff barriers or state-owned enterprises, which is a very important topic I think related to your question in terms of agreeing on some basic rules of the road.

So with respect, for example, to state-owned enterprises, it is not that countries cannot have them but that we have a common understanding of how they operate when it comes to international trade so that they do not disadvantage businesses. This is a really key piece of the TPP effort that we are undertaking. But our goals for TPP as you know are very ambitious. We have been consulting closely with members of Congress. I believe we have had several hundred consultations at least, and we intend to have many more because this is an issue, including particularly on textiles, where our stakeholders have clear interests and we want to do our very best to be responsive to those interests as we all work together to forge what we hope will be a very ambitious 21st century agreement.

Mr. MULVANEY. Specifically, because Vietnam is a nonmarket economy, are you all looking at extended phase out or phase down provisions for textile tariffs?

Ms. SAPIRO. It is hard to speak publicly about specific negotiating objectives but, we would be very happy to brief you and your staff in more detail.

Mr. MULVANEY. Let me ask a question that hopefully you can answer publicly, which we have heard back home that the Vietnamese negotiators have taken a fairly hard line on this and said that they do not want any restrictions on textile exports in the United States and that if there are any it will be a nonstarter for them for the rest of the negotiations. Can you comment on that?

Ms. SAPIRO. Well, I can say that there is often a lot of posturing in public about trade negotiations, not just with respect to TPP but across the board. What I will say and promise you is that Ambassador Kirk and I, and the whole team are committed to vigorously defending U.S. interests, both with respect to the negotiation of trade agreements and then, of course, with respect to their enforcement so that everybody lives by the rules as I mentioned earlier to which they have agreed. That is a critical, critical piece of what we believe is a robust trade agenda.

Mr. MULVANEY. And as part of our previous robust trade agendas that we have with various countries and various other regions, we have a fairly traditional and fairly standard yarn-forward rule. Are you familiar with what that is?

Ms. SAPIRO. Yes.

Mr. MULVANEY. Is it currently the USTR's position that they will be pushing that same rule as part of the TPP or have you decided to change your position on that?

Ms. SAPIRO. Well, I am not going to speak for our chief textile negotiator who has been down in Dallas working this issue but I do believe that that is an important component of what our general policy is. So I would be happy, if you like, to take a question for the record and get back to you with a specific answer if that is useful.

Mr. MULVANEY. That would be great. Anything you can do. And I recognize you cannot do everything publicly here. I know how negotiating works.

Let me ask one question though that I do get from folks back home, which is what is the schedule? It seems so often that textiles, for example, sort of go to the very end of the line and are negotiated in the last couple of days and weeks before there is a deadline approaching. What is the schedule for the overall negotiation and where do textiles fit in that timeline?

Ms. SAPIRO. Well, the schedule is that President Obama and other TPP Leaders have asked the negotiators to wrap up their work by the end of this year. They asked that last November, and so we have been on an accelerated schedule ever since.

Mr. MULVANEY. End of this calendar year?

Ms. SAPIRO. This calendar year. Correct, 2012. And so as I mentioned, Dallas is the 12th round. We have also had some informal intercessional rounds so we can get our work done. We are scheduling several additional rounds this year with the goal of trying to wrap this up. As you know, sometimes the most difficult issues are those that end up being worked at the end but at the same time each round we are making progress, in our view, on the textile issue as well as all the other issues. It is a 25-chapter roughly agreement and so textiles are a critical piece and other stakeholders have interest in other chapters. So we are really trying to push everything as much as we can in favor of our interests.

Mr. MULVANEY. Thank you, Ambassador. And I will just close by saying that I recognize it is 25 chapters. Mr. Chairman, it always struck me that free trade agreements could be written on one page which is you lower your tariffs, we will lower ours and we will just go and compete. It is a shame that we get into these documents that would make the health care bill look simple, for example. But I appreciate you coming today and I yield back the balance of my time.

Chairman GRAVES. Ms. Hahn.

Ms. HAHN. Thank you, Chairman and Ranking Member Velázquez. Ambassador Sapiro, it is great to have you here.

I am the founder and co-chair of the Bipartisan Port Caucus back here in Congress and I have made it a priority of mine to raise the profile of ports in Congress and the importance for our nation's economy which obviously includes exports. And everyone knows that our trade policies affect all businesses, whether they directly export a project, import a component or a part or sell foreign merchandise. And all these goods need to get to and from our ports of entry in a timely and efficient manner. It was recently reported that goods imported through the Port of L.A. took 48 hours to travel to Chicago and an additional 30 hours to get across Chicago. And it is safe to assume that exports will also be facing transportation bottlenecks.

Last week, I sent a letter to the transportation companies highlighting the critical need for our country to have a national freight policy, to have a national plan on how to best move imports and exports throughout our country. So specifically with this goal to double our exports in a few years, could you discuss if you think it is important for us to have a national policy on moving goods throughout this country, investing in our infrastructure, grade separations, whatever. I am worried that businesses are poised to benefit from exports but we may get bogged down in our infrastructure in this country so that will slow things down.

Ms. SAPIRO. Well, thank you for that question. We are very supportive of efforts to make sure that the United States has modern infrastructure, whether we are talking about ports or airports or highways or railroads. As you know, President Obama is very dedicated to doing everything that the Administration possibly can to create and build an economy that will last. So I think the point that you are making is a very important one and an effort that we are very supportive of from the trade perspective.

Ms. HAHN. You know, with just a few minutes left, one of the things I hear from my small businesses as well is there are particularly women-owned, minority-owned businesses. They would love to get involved in the international trade industry. They would love to get somehow involved in exporting their goods. There is a big disconnect between small businesses and this incredible opportunity. What are you doing? What can we do a better job of in terms of educating our small businesses in how they can access capital and how they can get the experience and how they can get the training to actually be involved.

I have businesses that can literally see the Port of Los Angeles but yet have no idea on how they might benefit from this huge growth opportunity in exports.

Ms. SAPIRO. Well, at USTR, working with SBA and the Commerce Department and others, we are very focused on doing everything possible to publicize our export opportunities to ensure that small businesses have the finance tools and the other tools they need to access these opportunities.

I think one step that they can hopefully take if they are interested in exporting is to contact the local SBDC, the local Small Business Development Center. We have about 2,000 throughout—actually, we have about 1,000 throughout this country and nearly 2,000 in the hemisphere and we are looking to expand more because these SBDCs—and I know the ranking member has at least one in her district—they are great tools to be able to sit down one-on-one and consult with our entrepreneurs and companies that are smaller, to find out what is their product. Are they interested in a market where we have a free trade agreement? If so, the public online tariff tool that I mentioned is a great way to help them look up their product code. They can right away see what is the tariff treatment with respect to Colombia, since the Agreement entered into force just this week, as we noted. We hope Panama will be in force within the next few months. Korea entered into force on March 15th and we have 17 other agreements where we have either zero tariffs or relatively low tariffs.

So I think contacting in the first instance the SBDC that is local could be a very important step to get them started. We are ready to help as well and ready to work with you on other ideas. But publicizing I think what we are already doing as much as possible and the tools we have. While at the same time, within the government, we are looking at ways to be more efficient and make sure as much as possible we have one stop shopping, whether it is our Business USA initiative or going to www.export.gov, or using the tariff tool. We are going to try as much as we can to continue to make this easier for people because we know at first it can seem quite complex. So we would like to work with you to simplify things.

Ms. HAHN. Thank you. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Schilling.

Mr. SCHILLING. Thank you, Chairman, and Ranking Member. And thank you, Ambassador, for being here today. We appreciate your time.

My home state of Illinois ranks second in the country for ag exports to nations and China is a major market, of course, as you are well aware to U.S. ag products. But International Trade Commissions stated China's tariff and non-tariff barriers inhibited between 1.3 billion and 2.1 billion in annual sales. What is the USTR doing with regard to the issue with China?

Ms. SAPIRO. We are very much focused on ensuring that China lives up to the obligations that it took on when it joined the WTO 10 years ago. And so with respect especially to the SPS restrictions we really want to make sure that they are science-based and consistent with valid risk assessments.

We have been very active in using international remedies through the WTO when we feel that China is not living up to its obligations. I am thinking, for example, of broiler parts. We filed an action against China that is proceeding because of the way they were treating our poultry. Because we are so competitive in ag exports. I mentioned how we have had a banner year and we want to have another one this year thanks in part to Illinois. We are also very focused on Russia. We negotiated with Russia for many, many years, and finally wrapped those up last fall successfully so that we could provide greater access to the Russian market for our pork, for our poultry, for our beef, and for a number of U.S. products where we are highly competitive and we want to see more access.

Mr. SCHILLING. Thank you for that.

We often hear about the negative implications of free trade agreements. Do you think the United States economy and small business exporters are better off with them in place or worse?

Ms. SAPIRO. With trade agreements?

Mr. SCHILLING. Yes, ma'am.

Ms. SAPIRO. I think they benefit clearly small business, which simply do not have the tools and the resources that larger companies have to try and figure out what is the trade regime of another country. And unfortunately, the trade agreements cannot be one page. They are sometimes many, many, many pages. But the reason we do that is to try to provide clarity on what the rules of the road are. And that benefits our small business.

So I am very supportive of the efforts I mentioned in TPP, trying to involve more small businesses in this effort and doing it with transparency as I mentioned earlier. I indicated that it was not so much that we canceled an event; rather, we reallocated the time and we had an intensive round of consultations with all of our stakeholders. We simply broke it up, as I understand it, differently than we did in other rounds. But transparency—so small businesses understand what we are negotiating, and when we are done explaining to them clearly how they can benefit—is a critical part of our work and our agenda.

Mr. SCHILLING. Very good. So that leads me to the next question. That is a good lead-in.

Considering only 1 percent of small businesses in the United States export, what do we need to do to get them to participate a little bit more, I guess?

Ms. SAPIRO. I think part of it is continuing to speak forcefully, and I commend the Chairman and all of the members of this Committee for speaking across the country, about the importance of trade and why what we are doing is so critical to help small businesses thrive and help our economy succeed as a whole. So a large part of this is outreach and making clear what the tools are. That we are negotiating TPP. That we have negotiated in APEC, which is a broader group. The Asia-Pacific Economic Cooperation forum is a broader group than TPP.

What we are doing with the European Union, one of our closest trading partners. We, like they, are very committed to making our SMEs a higher priority. They think we are doing something right. We think they are doing something right. So it is a wonderful opportunity for the sharing of best practices.

I mentioned in the Western Hemisphere this effort to connect our SBDCs with those hopefully to the north in Canada, and also down through Mexico and Central America and into South America, particularly in Colombia, our newest trade partner.

So as you look around the world, we are very committed to making things as easy as we can so that our small businesses can thrive. And I would add also we are giving them the confidence to try another customer in an existing market or try a new market. So again, I think it is a collaborative effort working with all of you to try to figure out where the gaps still are, and what we can do together, as partners, to try to fill them because we have the same interest here, which is letting our small businesses thrive and export more.

Mr. SCHILLING. Very good. Thank you, ma'am. With that I yield back.

Chairman GRAVES. Ms. Chu.

Ms. CHU. Well, I also sit on the Judiciary Committee, where I have been working hard to address business concerns about intellectual property rights. And this is a major priority for my constituents in the San Gabriel Valley of California.

Your testimony mentions that you are pursuing a robust trade policy that supports small business and vigorously enforcing our trade rights. How is USTR making sure that the small businesses are protected from overseas intellectual property rights violations? What recourse does USTR provide for small businesses to ensure that they can report violations and seek redress given their limited resources and what can you do to strengthen relationships between these small businesses and regulatory agencies such as the Department of Justice so that these small businesses can have more confidence in exporting overseas?

Ms. SAPIRO. Thank you for that very important question.

The importance of intellectual property rights and enforcement is another reason why I believe that small business can benefit greatly from our trade agreements. In our trade agreements we always seek to have a very robust intellectual property chapter so that we lay out the rules of the road and make clear that if other countries want to partner with us, and have more access to our market through reduced tariffs, they in turn have to provide the kinds of protections that we want to see for all U.S. companies but that particularly benefit the smaller companies that do not have the resources to engage legions of lawyers to bring litigation in foreign countries. So I think that is another reason why small businesses might want to look first and foremost to trade with our partners under an FTA because of the additional comfort that that provides.

For trading partners that are not FTA partners we, of course, have the WTO agreements. I am thinking in particular of the TRIPS agreement with respect to intellectual property rights. We have, for example, prosecuted successfully a case against China in the WTO with regard to audiovisual. And in fact, just a few months ago we reached an important agreement with them on implementing some of their commitments in the film and audiovisual area. So it is an ongoing process where we are very committed to doing what we can to enforce these rights because of the innovation that they foster, and because of the entrepreneurship that depends on them.

I would add also that the new ITEC, the Interagency Trade Enforcement Center is going to be looking at a range of areas to make sure that we are keeping our trading partners focused on our rights and if they are not implementing them, that we have the capacity to launch investigations and do what we can to enforce our rights. And again, small businesses I think, which can be disproportionately affected by barriers can also, we hope, gain by the new ITEC; our additional resources mean that when smaller companies come to us with a problem we will be able to look into it ourselves. The larger companies, again, have the resources to look into these questions on their own and then come to us. The smaller companies do not. By having a robust enforcement capability as a new tool in our arsenal, we believe we will be able to benefit small businesses again in this manner.

Ms. CHU. Thank you for that.

I went on a delegation to China recently and I was very startled to find that half of the wine that the Chinese consume comes from France, while only 5 percent comes from the U.S. And yet we have some of the best wines in the world, particularly from my home state of California. So what programs are available in the national export strategy to help particular industries like the wine industry enter these new markets abroad?

Ms. SAPIRO. Well, I am also a fan of California wines. I hope I do not insult anyone from another state, but they are excellent.

I wonder if we have had a trade mission to China focused on the wine industry or what the great potential is for the export of California wines. I think this is an important industry for California and also for other states, a growing industry certainly in Virginia as well. I think it is something that we can certainly look into in conjunction with the Commerce Department and its ability to lead trade missions.

Ms. CHU. Okay, finally, let me ask, there are many small businesses in my district but nearly two-thirds of my district does not speak English at home. And they have trouble accessing the services that they need in order to export. What do you do to offer assistance to business owners who are not native English speakers?

Ms. SAPIRO. I would certainly hope that an SBDC located in an area where there are business owners who speak other languages could have someone on staff to help. I would have to look into whether that is indeed the case but I am guessing that probably the Commerce Department has done something to address this concern.

Ms. CHU. Okay. Thank you.

Chairman GRAVES. Mr. Hanna.

Mr. HANNA. I heard a couple people mention currency manipulation. Tell me everything you know about it and with Vietnam, with China, it is alleged—I think personally I think maybe some of it is blown out of proportion but what do you know about it?

Ms. SAPIRO. Well, I know it is in the papers a lot. Certainly, it is a hot topic for discussion in Congress and I will say this is something that the Administration is very focused on. Secretary Geithner has been very involved in this question and I would probably best refer that question to him and his team because they really have done the most work on this.

Mr. HANNA. But is that not an integral part of what makes you successful or not successful? I mean, the value of the dollar right now has a lot to do with our changing export picture. So conversely, is it not the same when it is coming in the opposite direction?

Ms. SAPIRO. The value of the dollar can certainly have bearing on the export question. But as I mentioned, Secretary Geithner and his team are focused on the currency fluctuations and discussing that issue with other countries. So I have to defer to him on this question.

What I can say is that we are very focused on, no matter what, is the international climate in terms of monetary policy. We make sure that our companies have the tools that they need to succeed in the marketplace in terms of the free trade agreements and in terms of the other tools, such as enforcement capabilities that we are very committed to pursuing.

Mr. HANNA. But how can you do one without understanding or at least having a handle on a lever, if you will, on the other?

Ms. SAPIRO. As a government, we are very involved across the board in these kinds of questions. But USTR's role is to formulate trade policy and make sure that we can negotiate trade benefits for our companies of all sizes and then, of course, that we have the ability to follow up on the enforcement side. Our jurisdiction does not get into currency questions, and those we defer to the Secretary of the Treasury because that is his expertise.

Mr. HANNA. In terms of dairy policy, in Russia for years we have been shut out. Assuming that the Jackson-Vanik goes away and they join the WTO, do you have an idea—I come from a place that is a lot of dairy farms—how you can encourage our products to go over there and that particular product?

Ms. SAPIRO. If Congress is able to terminate the Jackson-Vanik amendment, then our companies, including our dairy farmers, will be able to enjoy the benefits that we negotiated in terms of, for example, the SPS rules. And if Russia does not abide by the rules to which they have agreed, we would then have the option of dispute settlement. So strict adherence to the SPS rules that can benefit dairy farmers and enforcement tools, should we need them, would be very important benefits I think for the farmers of New York State. But it all depends on whether or not Congress will act quickly this summer to terminate this provision, which dates from 1974, before Russia becomes a Member. Otherwise, our exporters will not be able to enjoy the additional benefits that we negotiated.

Mr. HANNA. Thank you, ma'am. I appreciate it. I yield back.

Chairman GRAVES. Ms. Ellmers.

Ms. ELLMERS. Thank you, Mr. Chairman.

Ambassador Sapiro, I am from North Carolina. I represent the 2nd District. Textiles and tobacco are very important in my district. My first question to you is in regard to tobacco. A moment ago you were mentioning the amount of transparency and trying to increase the amount of transparency. I was recently told as a member of Congress that I am allowed to request the language on tobacco within TPP; however, I am not allowed to share any of this language with my staff or any of my constituents that have concerns. My question to you is why have we not seen this language and why is the USTR attempting to halt the discussion of the tobacco exemption in Dallas as we speak? And why are they unwilling to share the language on this issue in the agreement?

Ms. SAPIRO. The tobacco question is obviously an important one that is being worked first interagency and with Congress and with stakeholders. I know I am not personally involved in that discussion because I am not handling the TPP negotiations on a day-to-day basis, but I know it has been the subject of a lot of discussion and consultation in terms of finding the right proposal to move forward with.

So I just want to reassure you that this is a very important issue, one that the Administration and USTR is taking very, very seriously. And we are doing our utmost to work with everyone to find the right path ahead.

Ms. ELLMERS. But the question being why is, you know, again, on the issue of transparency, why would the language not be readily available for, of course, myself, but I would need to go over that information with my staff and possibly some of my constituents who are tobacco farmers and have these concerns. Why would that be not forthwith? Why are we holding back on that?

Ms. SAPIRO. Well, I cannot speak to the exact details but what I can say is we do a significant amount of outreach with Congress, and at the staff level as well. So I am not sure exactly what happened but I do think in general we try to be very transparent with Congress because it is such an important part of what we do, making sure that we are being responsive to you and your concerns and the concerns of your staff.

Ms. ELLMERS. Great. Well, then I will make sure that my staff is reaching out to you on those issues.

My next question, and I understand that my colleague, Mr. Mulvaney has already touched on this issue, and of course, that is the yarn-forward rule. And my understanding is now we are looking at possibly changing that and going forward with the flexible rule of origin. And of course, you know, again, in some of the discussion that I listened to with my colleague, Mr. Schilling, you were talking about the concerns that we have with China, and yet this will actually benefit China.

So I am wondering why on earth would we consider this rule and once again throw the textile industry under the bus as was done in the South Korean Free Trade Agreement forcing textiles to work against another free trade agreement, as well as, for instance, myself. I ended up, I am a big proponent of free trade, fair trade, but I had to vote no on that agreement because of my textile industry. Do not do that to us again. And I am going to do everything that I can to make sure that that does not happen. But if you could maybe just touch on that again I would truly appreciate it.

Ms. SAPIRO. I would be happy to, Congresswoman. I cannot stress enough how important the textile industry is to our ability to trade. And we take their interests and their concerns very, very seriously. So I just want to reassure you that we are doing that in TPP as well. This is an important issue, an important constituency, and we want to see them succeed.

Ms. ELLMERS. So why would there be some favorable thinking here on the flexible rule of origin rather than the traditional way that we have looked at this issue when it comes to the textile industry? I mean, where is the change and why have we made that?

Ms. SAPIRO. I have not been involved in the specifics. Our chief textile negotiator has been very involved and is working this issue in Dallas. But I can say as a general matter that we are very committed to making sure that all of our exporters, including the textile industry, remain competitive, and that they remain a vibrant part of our own economy.

Ms. ELLMERS. Thank you. I am sure that that will be reassuring to the textile industry. Thank you. And I yield back the remainder of my time.

Chairman GRAVES. Do you have any more questions?

Ms. VELÁZQUEZ. Ms. Sapiro, Ambassador, despite the fact that for the last two decades there has been an emphasis on free trade agreement as a primary tool to increase trade and the facts that we have before us in respect to small businesses is that only 1 percent out of 28 million are exporting a product to a country and then when you come before our committee and there are trade negotiations you are telling us that trade agreements are going to benefit small businesses. So it seems to me that after two decades, and I have been here now for two decades and I have been hearing the same rhetoric, if you will, that those trade agreements are not living up to the promises that were made to small businesses. They are doing great for big corporations but not for small businesses.

And to tell me that SBDCs, small business development centers, they are not experts on trade promotions, they provide technical assistance for startups, microbusinesses, small businesses domestically, but they do not have the expertise. So there has to be a better job, interagency jobs when it comes to trade promotion and we are not seeing that.

Ms. SAPIRO. I want to assure you that one of the key priorities of the National Export Initiative, launched by the President, is focused on SMEs. All of the agencies involved in trade are working together to have the most robust set of tools we possibly can to help our SMEs succeed.

I cannot speak to what happened earlier but I can tell you in the last two years I have seen an unprecedented level of coordination interagency and coordination with our trading partners. In probably every meeting I have had with a foreign counterpart I have raised SMEs. How can we work together to help? And, just like they are the backbone of our economy, they are the backbone of most economies around the world. So there is great interest in working together more closely to establish these regional links between our SBDCs, which link at the micro level, to partners in different countries around the world so that they have a virtual network and they have real resources, too, including access to financing tools and export promotion opportunities to succeed.

This is a challenge, and I am not suggesting that we have answers, but I am suggesting that we have a firm commitment and a real dedication and priority placed on this issue that I do not think has been a hallmark of previous administrations. We are determined to work with you to figure out exactly how to make a difference.

For example, under a number of our FTAs we are starting small and medium enterprise committees so that we can, again together, focus on how do we help. How do we connect our SMEs together so that they have export opportunities in both trading partners, or in additional partners? So it is a challenge but we have done a lot. I think there is a lot more to do and that is part of the reason I wanted to come today and see how we can work more closely together in the future.

Chairman GRAVES. Mr. West.

Mr. WEST. Ambassador, you just mentioned the National Export Initiative. One of the countries that the Administration is pushing hard to get into that is Brazil. And this Committee was contacted by a small business owner, this health care equipment manufacturer, and he faced on average 65 percent import tariffs as opposed to on this side only 3 percent. So how can, if we want Brazil to be a part of this National Export Initiative, how can we level that playing field so the small businesses can participate in that? I mean, 65 percent versus 3 percent? I mean, that is exorbitant. I mean, what can the USTR do to get Brazil to level that playing field out so that, you know, free trade is fine but it has to be fair trade. And again, I have to echo the comments of the Ranking Member. We talk about small businesses but they are put at a severe disadvantage.

Ms. SAPIRO. Brazil is a challenge. We do not have a trade agreement with Brazil. We do not have an investment agreement with Brazil. We did have the first meeting under the new Trade Partnership Agreement that Ambassador Kirk signed last year. We held that meeting in March. So we are very focused on developing a much closer partnership with Brazil. There are many issues we do see eye-to-eye on. Others we are still working towards.

SMEs are an issue where they do want to work with us. Investment is also an issue, not in terms of an agreement but in terms of a dialogue. So we are looking for areas of common ground where we can work together. High tariffs are a concern; so are some of the non-tariff barriers. We have been forthright with them in trying to address these concerns and we will continue to push with Brazil to do that.

Mr. WEST. Well, I guess is there some numerical threshold? You know, part of being a member of this export initiative, we are going to say that this is nonnegotiable with them. I mean, I do not want us to, you know, roll over and allow our bellies to be scratched and our small businesses end up losing out. So is there a threshold? Is there some point of no return where we are going to push the table? Push the envelope?

Ms. SAPIRO. Well, we are pushing the envelope, Congressman, as far as we can with Brazil, through looking for areas where we can work together. So, for example, they are hosting the World Cup, and other events as well, so they have infrastructure needs. In some cases, initially that benefits the larger companies but then they subcontract with the smaller companies. So it is not an ideal solution, but it is something that we are working towards at this point. And as I said, they have focused domestically on SMEs. And so one opportunity might be to link our SMEs through this "Connect the Americas Initiative." Then they can have more access to each other through virtual networks and other forms of assistance.

Mr. WEST. Well, that is an important thing for us because, like Ms. Hahn said, you know, we have got Port of Miami, Port Everglades, and Port of Palm Beach down in our neck of the woods and that is very beneficial. So thank you, Mr. Chairman and Ranking Member. I yield back.

Chairman GRAVES. Mr. Hanna.

Mr. HANNA. Some of the bills, for example, the highway bill has a "Buy America" provision in it. Do you have an opinion about those? And do you have an idea of how the net effect—what the net effect might be on American businesses?

Ms. SAPIRO. Well, we do hear a lot from our trading partners, regarding concerns about "Buy America" provisions. We try to gain as much access as we possibly can to trading partners' procurement markets. We do have to obviously offer access here as well, or they will not allow us to access their markets.

In general, if a country is a trading partner and they are a party to the WTO's Government Procurement Agreement, then they have broad access. But there are, of course, some exceptions. So it is a continuing source of friction with our international trading partners. On the other hand, domestically we know that this is important especially for our small and medium enterprises, so they can compete effectively through those procurement processes here.

Mr. HANNA. Do you think it works?

Ms. SAPIRO. In terms of helping SMEs or in terms of giving us more access overseas?

Mr. HANNA. Both.

Ms. SAPIRO. I think it does help in terms of SMEs. I have seen the statistics and they are certainly getting more and more federal procurement contracts. Overseas, as long as we have exceptions, it is a tougher push for us to make. So I have not seen stats on how that balances out yet. It is a very good question.

Mr. HANNA. Well, thank you, ma'am. I yield back. Thank you, Chairman.

Chairman GRAVES. Any other questions?

Seeing none, I want to thank you, Ambassador, for being here today. It is obviously clear that we have a lot of opportunity, I think, to remove some trade barriers and open new markets for our small businesses. And we need to stay aggressive and continue to make small business a priority. But we very much appreciate you coming in today and I look forward to working with your office. So thank you very much.

Ms. SAPIRO. Thank you. Thank you, Mr. Chairman. Thank you, Ranking Member. Thank you, everyone.

Chairman GRAVES. We will seat the next panel.

[Recess.]

Chairman GRAVES. We are going to go ahead and start. We have a series of votes coming up between 2:25 and 2:30, so that will create a little bit of a problem. We will probably have to recess for those votes and then we will come back, but we will try to get through as much testimony as we can.

STATEMENTS OF THOMAS CRAFTON, PRESIDENT, THERMCRAFT, INC., TESTIFYING ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS; ROBERT B. SINNER, PRESIDENT, SB&B FOODS, INC., TESTIFYING ON BEHALF OF THE AMERICAN SOYBEAN ASSOCIATION; JOSHUA MELTZER, PH.D., FELLOW, GLOBAL ECONOMY AND DEVELOPMENT, BROOKINGS INSTITUTION; MARK A. LUDEN, CEO, THE GUITAMMER COMPANY, TESTIFYING ON BEHALF OF THE CONSUMER ELECTRONICS ASSOCIATION

Chairman GRAVES. I will go ahead and introduce our first witness, which is Mr. Thomas Crafton. He is the president of Thermcraft, Inc., in Winston-Salem, North Carolina. Thermcraft is a leading manufacturer of high quality thermal processing equipment, including industrial furnaces that can reach over 3,000 Fahrenheit. They currently export to 12 countries. He is testifying on behalf of the National Association of Manufacturers. And welcome to the Committee.

I might point out each of you have five minutes and the lights will be green up to the last minute it will turn yellow and then red at the end of five minutes. But Mr. Crafton, thank you for being here.

STATEMENT OF THOMAS CRAFTON

Mr. CRAFTON. Thank you for the invitation. Chairman Graves, Ranking Member Velázquez, and members of the House Committee. You know, we appreciate the opportunity to present our experiences regarding international trade as a small business.

Again, my name is Tom Crafton with Thermcraft, Inc., and we are located in Winston-Salem, North Carolina. Founded in 1971 and we just celebrated our company's 41st birthday and now employ more than 70 people. We manufacture high temperature equipment, supplying to many different types of industries like solar cell industry, aircraft, glass, nuclear components, OEMs, fiber optics, just to name a few industries. We are also a member of NAM, National Association of Manufacturers, which is one of the largest national trade organizations.

Thermcraft started out 41 years ago in a small 5,000 square foot building in a very poor section of Winston-Salem, and we have now grown to having our own building and about 70,000 square feet with about 70 employees. But we grew rapidly from making small laboratory equipment, small systems to much larger systems for high volume manufacturing. Customers currently include most of the Fortune 500 companies, like the General Electrics, Boeings, DuPonts, Corning Glasses, Rockwell, again, just to name a few.

Our customers with international presence actually is what got us started in exports from the standpoint our specialty is designing custom systems for manufacturing. A U.S. customer here would purchase equipment, a custom furnace for a particular manufacturing process. They would be in discussions with sister companies that were overseas. The sister companies would need to duplicate that process so they came to us. And that is how actually we began. Our start in exporting was a result of our dealings with U.S. companies.

But the bulk of our exports have been primarily the semiconductor industry worldwide, mainly Asia and Western Europe. In the early 1990s, we began dealing with an MRO, maintenance repair and overhaul organization in Europe, and they began distributing our heaters to the semiconductor industry there. In the late 1990s, we began to see much of that business move to Asia, so as a result we began relationships with Asian representatives in several Asian countries, including Japan, Taiwan, Singapore, China, and they helped us support that business there.

The business in Asia continued to increase, which again gave us more experience, more exposure to exporting. And again, in a variety of different countries. Each country kind of presents its own different sets of challenges based upon the product that you are shipping into and in Asia, Europe, and even within any of those communities.

By 2008, our export business had actually reached about 35 percent of our total sales which was probably in excess of $4 million a year. And during the same time period, in order to help generate additional export sales, we developed a standard line of equipment that was more of a catalogue distributor-type item versus custom equipment. And we participated in the Commerce Department's new export initiative, Gold Key distribution program in Singapore, which we were very successful in finding a good qualified distributor there.

We also worked with the U.S. commercial service representatives locating distributors in China, Korea, again, Singapore, and many of the other Asian countries. And we are currently working on distributor networks in Europe and the Middle East, but in order to get that Middle East business developed further, there are trade shows we participate in. Most recently, in the Arab Lab Expo, which is a laboratory equipment trade show that was in Dubai. And as a result of doing that show, we have located a number of possible strong prospects that have potential of enhancing our export items through distributors throughout the Middle East.

And that has been the positive side. We have had a lot of help with the U.S. commercial service. We had a lot of export issues arise on a daily basis that continue to be a problem and mainly it is a matter of finding one source for information to be able to help us get the information we need to be able to adequately export to a particular country.

Commercial officers seem to, by our experience, have more or less the big picture and when we start trying to get into the small picture they are just not in a position to help. They do not have that information or expertise to be able to help. You know, regulatory changes are constant and trying to find one source, again, one source in one place, to locate that information is a challenge. It takes hours and hours and people that we simply, we do not have the manpower to be able to support those types of things.

And we have also gone to private export consultants that have helped us and many have experienced the same problem. You know, we always thought it was our problem as a small business but we find out it is more of a small business issue versus just our small business. But, you know, we can all benefit from improved access to markets abroad. And we are looking to see recent implementation, new trade agreements, which we think can be beneficial to us. But we hope the Small Business Administration will redouble efforts to help pursue more FTAs and be able to help find a local single source to be able to help small businesses, like us, get the information we need.

And again, I appreciate the opportunity to be able to testify about my experiences and I am happy to answer any additional questions.

Chairman GRAVES. Thank you, Mr. Crafton.

Next, I would like to introduce Mr. Robert Sinner. Bobby is the president and partner of SB&B Foods in Casselton, North Dakota. He is a family farmer of over 30 years and has extensive experience in international trade. SB&B is a two-time winner of the Export of the Year award from the State of North Dakota and he is testifying on behalf of the American Soy Bean Association. Thanks for being here.

STATEMENT OF ROBERT B. SINNER

Mr. SINNER. Good afternoon, Mr. Chairman, members of the Committee. My name is Bob Sinner. I am a fourth-generation partner in a family farming business and president of SB&B Foods, Inc. Thank you for the opportunity to appear before you today to provide my views concerning trade policy and its effect on small business exporters.

Our company, SB&B, employs approximately 30 people who produce, package, and export an extensive line of Identity Preserved soybean products to customers worldwide. With annual export sales between $20 and $25 million for the past three years, our largest exports are in Asia.

When our business first expanded to the international marketplace, we received funding for promotional activities in Japan from Food Export, USA, a non-profit funded by USDA's Market Access Program (MAP). I cannot overstate the success and value of USDA's export promotion programs in expanding farm exports globally.

One of the challenges we have encountered over the years is we have expanded to other markets is the lack of consistency in international standards, specifically the patchwork landscape of countries that require a phytosanitary certificate, and the inconsistency of our government to provide them. In this regard, the U.S. government must work towards achieving international harmonization of standards in order to facilitate trade between small businesses and global markets.

Under the Korea Free Trade Agreement, food-grade soybean producers now have access to a zero tariff-rate quota (TRQ) for the first time outside of that country's state trading enterprise. But access to the quotas will be a challenge for small exporters because the TRQ is managed by local processor associations and competing member companies. On this point, I strongly urge our government to ensure a certain level of transparency on the implementation and administration of the TRQ so that U.S. exporters can reap the full benefits of the FTA.

I would also like to share some thoughts about our infrastructure and transportation system, which challenges a small exporter's ability to compete effectively. We have a transportation system in the United States that prices equipment into and out of large metropolitan locations in favor of bridging many of the rural supplier states en route to departure ports. This approach ignores the importance and necessity of timely food shipments, and we are concerned that as the world continues to demand more grains and soybeans from the U.S., small exporters may not be able to compete unless we have available container equipment at competitive pricing.

Finally, it is also my hope that the Food Safety Modernization Act does not impose an additional set of burdensome and costly requirements on small businesses in addition to food quality standards already required by our customers and safety requirements already established by foreign governments.

As I have stated, small exporters face enormous competition and a web of international regulatory constraints. Our export promotion programs are among the few tools that help American agricultural exporters stay competitive abroad. And while rapidly growing markets in the Asia-Pacific region are key drivers of the food-grade soybean demand, we must break down remaining barriers to meet increased demand for our products in the region. We hope that a TPP FTA is successful in easing foreign regulatory burdens so that U.S.

companies can operate more seamlessly abroad and help small businesses participate more effectively in international trade.

Thank you, Mr. Chairman, for the opportunity to present our views. I am happy to respond to any questions.

Ms. VELÁZQUEZ. Mr. Chairman, it is my pleasure to introduce Dr. Joshua Meltzer. He is a fellow at the Brookings Institution specializing in global trade and development. His work focuses on issues related to international trade, as well as U.S. trade with key economies such as China, India, Japan, and the European Union. He currently serves as an adjunct professor at the John Hopkins University School for Advanced International Studies in Washington, D.C., as well as an adjunct professor of law at Georgetown University Law School in Washington, D.C. Thank you and welcome.

STATEMENT OF JOSHUA MELTZER

Mr. MELTZER. Chairman Graves, Ranking Member Velázquez, honorable members of the Committee, thank you for this opportunity today to share my views with you on U.S. trade strategy and what is next for small business exporters.

In 2011, it became clear that concluding the WTO Doha Round in its current form is not possible. Efforts are therefore underway to make progress on elements of the Doha agenda and the United States is taking the lead in such areas as services liberalization.

The Trans-Pacific Partnership (TPP) negotiations are really the only other trade negotiation to which the United States is currently a party. The nine countries involved in these negotiations including the United States are Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam. The TPP also has the potential to be the building block for a wider free trade agreement of the Asia-Pacific region, a goal endorsed by APEC leaders and recently reiterated by United States trade representative Ron Kirk at the TPP negotiations in Dallas this week.

Given the focus of the current administration on completing the TPP negotiations this year, I will focus the rest of my testimony on the implications of the TPP for the United States and small businesses. In particular, I will focus on the economic implications of the TPP, the role of the TPP in achieving free trade in the Asia-Pacific region, and finally, we will discuss some of the implications for small businesses.

The Asia-Pacific region is crucial for the United States. It is the fastest growing region in the world and a key driver of economic growth. Indeed, the region already accounts for 60 percent of global GDP and 50 percent of international trade, and is expected to grow by around 8 percent this year.

In 2011, the United States' exports to TPP economies were worth approximately $105 billion and imports were valued at $91 billion, giving the United States a trade surplus in the range of $14 billion. However, the economic benefits to the United States of the TPP will be greatly expanded as more countries join. In this regard already Canada, Mexico, and Japan have expressed interest in joining. And should these countries join, the agreement will end up covering over $800 billion worth of exports and $875 billion worth of imports of goods and services.

The potential economic gains to the United States from the TPP highlights its significance as a template for free trade in the Asia-Pacific region. The recently created free trade agreement which came into effect on March 15th of this year will likely serve as a baseline in the negotiations. USTR is also seeking agreement on a range of new rules such as on regulatory coherence to reduce trade barriers arising from unnecessary regulatory diversity among TPP countries and rules of state-owned enterprises that will discipline the trade-distorting impact that they have when they are not operating according to competitive market-based principles.

The TPP should also address the realities for businesses which rely on supply chains located in different countries, often in the Asia-Pacific region. Developing coherent rules of origin is one way of ensuring that the TPP reflects these business realities. Progress on trade facilitation, which reduce the cost of moving goods through customs is another one.

The TPP can also provide an important framework to develop new rules that protect the free flow of data across borders. The Internet is now a key driver of trade and actually, especially for small and medium-sized enterprises as these companies are now able to use the Internet to access customers overseas and at scale.

The TPP will also address the trend in the Asia-Pacific region toward regional economic integration that excludes the United States. For instance, ASEAN, the Association of South East Asia Nations, has free trade agreements with China, Japan, South Korea, Australia, and New Zealand. These agreements divert trade from the United States, and in the absence of U.S. participation in developing these trade rules undermines the United States' leadership in the region.

In this light, the TPP will also be an important vehicle for pursuing economic integration that is both Asia-Pacific in scope and involves the United States.

Small and medium-sized businesses will stand to gain significantly from trade liberalization under the TPP. In fact, almost 98 percent of all exporters and 97 percent of importers are small and medium-sized enterprises, though representing only 40 percent of goods and 31.5 percent of imports, so there is clearly room for growth.

In addition to this, 94 percent of small and medium-sized enterprises both import and export. Therefore, trade agreements which as the TPP which both liberalize barriers in the United States and abroad should benefit small businesses. Small businesses will also benefit the most from government efforts to reduce trade barriers as the capacity to overcome these barriers, for instance, by establishing subsidiaries overseas, is certainly limited. The TPP has the potential to be a 21st century trade agreement, and if it fulfills these ambitions, small businesses should stand to gain.

Thank you again for the opportunity to testify here today.

Chairman GRAVES. Thank you very much. Our final witness is Dr. Mark Luden. He is the chief executive officer of Guitammer Company in Westerville, Ohio. They manufacture the speaker and sound systems that are used in major theaters around the world, including IMAX. He is testifying on behalf of the Consumer Electronics Association. Welcome. I appreciate your testimony.

STATEMENT OF MARK A. LUDEN

Mr. LUDEN. Thank you very much. Chairman Graves, Ranking Member Velázquez, members of the Committee, thank you very much for having me here today and for your efforts on this important matter. I also very much appreciated the depths of the questions the Committee asked to the ambassador previously.

As Chairman Graves said, my name is Mark Luden. I am the president and CEO of The Guitammer Company. We are based in Westerville, Ohio, a suburb of Columbus, and we make the ButtKicker-brand of consumer electronics products. And what they do is let you feel bass like a silent subwoofer so that you are able to have the full experience without the volume. And our products are used by the world's best musician in home theaters by video gamers and in movie theaters around the world and in Kansas City. I am also a member of the Board of Industry Leaders and of the Consumer Electronic Association (CEA) and past chairman of CEA's small business committee. The CEA represents over 2,100 diverse technology companies, and my company, The Guitammer Company, is proud to be among them. And we are also very proud to be a small exporter.

I would like to briefly talk about two things. First, that well-crafted free trade and free trade agreements can and do help small businesses. And secondly, to recommend three actions Congress can take to continue to help our small businesses grow and thereby allow us to hire more Americans.

So why is free trade important to our small business? Historically, 35 percent of our sales are outside the U.S. In fact, in Q1 of this year, 45 percent of our sales were outside the U.S.—10 percent in Canada and 35 percent outside of North America. In the past six months alone, we have shipped ButtKicker-brand products around the world—Spain, Belgium, France, South Korea, Brazil, the Netherlands, Germany, the U.K., Singapore, Japan, Denmark, Switzerland, Portugal, Kuwait, and more, including product to a Chinese movie theater chain. So we are proud to let you know that we are shaking Chinese movie theaters' "you know whats" with Kentucky-made ButtKickers.

So as you can see, exports are a vital part of our business. For example, the Korea Free Trade Agreement dropped an 8 percent tariff on our products that we sell to a Chinese movie theater chain. It made us much more competitive. The New Colombia Free Trade Agreement should reduce the price of our products exported there about by 11 percent, and we were just recently contacted by their leading cinema company asking about our products. So that will make us, I think, more competitive and have a better chance to win that business. These lower costs help us sell more products and our international customers to buy more of our products.

Trade barriers act as a tax on transactions and create a zero sum gain where no one wins. Trade barriers and trade policies can unfairly and disproportionately affect small businesses who are not able to absorb these extra costs and it can make it harder for us to compete against large multinational companies. But well-crafted free trade agreements do not cause small businesses to lose jobs. Instead, they can be the reason small businesses create jobs.

So what can Congress do to help? I would like to make three recommendations. First of all, I ask you to support the Trans-Pacific Partnership. This agreement is of key importance to CEA members and the tech industry as a whole. Successfully negotiated it will include tariff elimination and removes technical barriers to trade.

Secondly, support the expansion of the Information Technology Agreement (ITA). Guitammer and CEA strongly support the efforts to expand the product coverage within this agreement. Since its passage, which I think was about 15 years ago, ITA has helped drive innovation, create jobs, open new markets, and lower consumer prices across the globe. Yet, since its passage, the product scope of this agreement has never been expanded, leaving products that we all use now, such as tablets and Smartphones outside of the scope of the current agreement.

And finally, pass the TRADE (Transparent Rules Allow Direct Exporting and Jobs) Act as sponsored by Representative Tipton. This act, the TRADE Act, creates an easy-to-use tool for companies to access country-specific information regarding export regulations and trade requirements, and there is something to be said for simple-to-use points tools. And you are right, I do agree the SBDCs, they are not experts in it so the TRADE Act really will help. This tool will make it more cost-effective for a small business to easily access information about foreign regulations, labor requirements, custom declaration information , and more.

So thank you very much for giving me the opportunity to testify. I welcome any questions you may have.

Chairman GRAVES. We are into this vote series. There are three votes, so it may take us—hopefully we will be back within 30 minutes and then we will ask questions if that is all right with you all. So we will recess for a short period of time and we will be right back.

[Recess.]

Chairman GRAVES. We will bring the hearing back to order. Ms. Velázquez.

Ms. VELÁZQUEZ. Mr. Meltzer, critics of the USTR have complained that negotiations for the Trans-Pacific Partnership have been conducted behind closed doors, and in fact, one of the congress ladies was questioning about the tobacco issue. And nobody will know what the proposal will look like until it has been signed off by all the parties involved. Does this secretive approach to the negotiating process pose risks that the agreement may not be able to garner public support once it sees the light of the day?

Mr. MELTZER. Thank you for our question. And I am a very big supporter personally of transparency throughout government, certainly as far as possible in the trade negotiating process. My sense is that generally speaking USTR has done a very good job of trying to be transparent in its trade negotiating processes with the TPP as well as with its other free trade agreements. I do understand that often these issues involve somewhat of a tradeoff between providing as much information as possible to stakeholders and keeping them informed of the developments in the negotiations while at the same time providing a certain level of confidentiality for negotiators from the United States and other countries to also express their views freely and frankly. And I think that is always an ongoing balance.

Ms. VELÁZQUEZ. Thank you.

I think, Mr. Sinner, you spoke about the lack of coordination in terms of trade promotion assistance. What in your opinion would be the quickest and most cost-effective means of improving coordination between the different agencies and harmonizing their support when it comes to putting together strategies that will help small businesses and medium-sized businesses reap the benefits of trade agreements?

Mr. SINNER. Well, in agriculture you have regional divisions of Food Export USA, which is a division of MAP. And those are funds that are available for export promotion, export promotional materials, and those are actually, you know, quite helpful to help a small business get started. Many of the trade offices in the states in cooperation with the Department of Agriculture which have a conduit link to Food Export USA or the regional offices of MAP are also very helpful to small exporters to looking at the regulatory regulations and some of the things, the first steps to get started. So, I mean, there is a process and I think at the ground level those have been helpful.

Ms. VELÁZQUEZ. Okay. Mr. Crafton. Thank you, sir.

While the recently passed trade agreements and Trans-Pacific Partnership improve access to foreign markets, they will not translate into improved market share for small businesses if problems accessing credit go unresolved. How might the ongoing lack of trade financing impact your industry's capacity to export abroad?

Mr. CRAFTON. We have been fortunate that it has not made a major impact simply because we have forged partnerships with distributors. We utilize them to handle the financial transactions. At the same time, we also were dealing with some larger potential projects at this point and having the association with EX-IM Bank has been a tremendous boon to allowing us to actually get orders that we otherwise probably would not be able to handle.

Ms. VELÁZQUEZ. So when you say "we," are you referring to your company?

Mr. CRAFTON. Yes, to the company. Yes.

Ms. VELÁZQUEZ. And do you have any kind of anecdotal stories coming out of the manufacturing sector?

Mr. CRAFTON. Not specifically. I mean, again, it has just been a lot of cases. We deal with markets that are maybe Middle East and someone's maybe marginal credit so that we have to deal with financing that, you know, EX-IM allows us to do that where otherwise we just do not have the resources to do otherwise.

Ms. VELÁZQUEZ. Okay. Thank you.

Mr. CRAFTON. You are welcome.

Chairman GRAVES. Mr. West, questions?

Mr. WEST. Thanks to the panel and thanks you Chairman and Ranking Member. You all were here when the ambassador was here. If you could trade places with the ambassador or the actual USTR ambassador and there were two things that you would implement which would help our small businesses and the arena of free trade, fair trade, what would be the two policy initiatives that you would enact?

Mr. SINNER. Congressman West, I will respond to that first. And it was addressed by Ranking Member Velázquez a couple times earlier today.

Those of us that are involved in international trade would like to be involved and would like to be somehow in the discussion of some of the negotiation.

Mr. WEST. At the table?

Mr. SINNER. At the table so that we understand what is on the table. I hear all the time from customers in Asia their fear of what this is going to be. They are asking me questions about what is involved in this TPP. To be honest with you, I do not know the nuts and bolts of the TPP. But I would like to be more involved in that. So, that is one thing.

Mr. WEST. And that concerns me because, Mr. Luden, you asked us to make sure we support the TPP, but Mr. Sinner just said he does not exactly know what is in it. And that is one of the problems we have up here on Capitol Hill sometimes. We pass things that we do not know what is in it. But next?

Mr. MELTZER. Congressman, if I might, the two things that I would think would help small businesses the most in the United States on the trade liberalizing front generally speaking, reducing tariffs and tariff barriers both overseas but also importantly here in the United States I think would be significantly beneficial. You know, it always needs to be remembered that when we talk about improving the opportunities for small businesses and businesses generally to be competitive internationally, imports are an important part of that equation. And in fact, the statistics do demonstrate that approximately 55 percent of imports into the United States are actually used as imports into production processes into making other goods which are then sold. So actually reducing those types of barriers can also be particularly helpful.

The other thing which is probably not particularly necessarily in the purview of the USTR but I think would go a long way towards improving the competitiveness generally of small businesses are some of the more longer term but really crucial policies which evolve around things like education, innovation, infrastructure, and creating really the environment here in the United States which allows these businesses to be highly productive and competitive.

Mr. LUDEN. And if I may answer, Representative West, I would agree with Mr. Sinner that the inputs from the SMEs to the USTR to these processes, although I am sure they are getting them, maybe a wider ask to the SMEs so that they knew it was available to speak on those topics, a way of soliciting comments, of soliciting input maybe in a more aggressive manner I think would be very helpful.

The other point I would go back to is Brazil that one of the representatives brought up. It is a booming market. It is a burgeoning market for our type of product. The disparity, I think you brought that up.

Mr. WEST. Yes, 65 percent.

Mr. LUDEN. Yes, the disparity is something that although the USTR is working on it, that is something that if that is equalized out could certainly open new markets for us.

And to your point about the TPP, I do urge you to support it but only as all the members have said, if it is well crafted and if it makes sense. So in the old review standpoint of being able to reduce tariffs and to break down trade barriers, that makes sense and I am totally in favor of that. But done poorly, no. A bad bill is not a good bill.

Mr. WEST. Absolutely.

Mr. CRAFTON. I agree with Mr. Sinner and Mr. Luden for the most part. From our standpoint, the free trade agreements do not directly impact us quite as greatly only from the standpoint of we have such a diversity of industries that we cater to. We are not focused through electronics, through textiles, through one other one necessarily. But the bottom-line is it is important that the organizations that are supposed to be helped have some input into what has been crafted in the bill.

Mr. WEST. And if I may, Mr. Chairman, last question. Will there ever come a time when we do not need the Export-Import Bank?

Mr. CRAFTON. I think not. When you are dealing with smaller companies, smaller, you know, our sales are 10 to 15 million range and we simply do not have the resources and any other way—it is also a safety net. If a customer defaults on a bill or defaults on payments, the Ex-Im Bank is able to—acts as an insurance policy in addition to it, so it allows us to go after things which otherwise might be too risky.

Mr. SINNER. My comment is we do not use Ex-Im Bank. We use an International Credit Insurance Company. It works fine. We did use some Ex-Im Bank a few years ago but the level of protection was a little bit lower than going with an International Credit Insurance Company.

Mr. WEST. Okay.

Mr. LUDEN. We do not take advantage of the Ex-Im Bank either at this point.

Mr. WEST. Thank you, Mr. Chairman and Ranking Member. I yield back.

Chairman GRAVES. You all have been successful in or experienced some success at least with exporting and creating jobs. Do you have any recommendations you would give to businesses who are struggling with starting that process or not wanting to start that process just because they are afraid of it or whatever the case may be? Any advice? What would that advice be?

Mr. CRAFTON. Our main benefit is there are a lot of U.S. government and state resources that are available to help companies like us export. You know, North Carolina, for example, has six offices scattered throughout the world and those offices have a dedicated employee that their sole job is to help companies like me be able to develop export markets within that country or that region. So again, just through a little research, finding those resources, government resources that are available because most of the time they are of no expense to the company.

Chairman GRAVES. Mr. Sinner.

Mr. SINNER. That is a good question. And I am quite involved on the state level, involved in the North Dakota trade office and we are very proactive with companies, encouraging them and put together resources on the state level through export assistance with companies that have experience in helping smaller companies get started. We have done okay with that, and a lot of companies at first, you are right, they are scared. I do not really need this. And once they get started and involved they do very well.

You know, people are people and doing business with someone is no different than how you want to be treated. If you can develop an honest relationship, Americans are notorious for wanting to make a quick buck, but when you get outside the borders of this country it is all about relationships and building integrity with a relationship. Of course, quality is always important but it can be done.

Mr. MELTZER. I will just say briefly, Chairman, that the preamble to the World Trade Organization in fact says something along the lines of I am ensuring the predictability of the instability of the world trading system and I think that from a business perspective, even though these are long and certainly at times complex rules, the key underlying goal here is really to create a certain degree of certainty and reduce the risk for businesses when they do want to engage in trade overseas. So despite the what can appear at times daunting length of some of these trade agreements, taking time to understand the extent at which they provide them with actually more certainty and predictability than without them might actually be some help.

Mr. LUDEN. I would like to answer that may be a little differently. And I think what we need to do is to help convince people that you can do it. That you must need to take the jump. And with no disrespect, you know, the saying is, one of the worst things you hear is we are the government. We are here to help. And I guess in this case that that is really—the government from state, local, and federal level on the export, you guys have done a masterful job on this. And I do not know that that message is quite getting out of how much on a bipartisan effort that you are really trying to make it something that is accessible. And so I think what happens to an SME, especially a very small one, is the amount of regulations and the ensuing possible risk can be very daunting. And then the question is where do you find the help? How do you get the help? And will anybody help me? And again, as a small businessperson, it is all about the level of risk you are comfortable with. Right? You do not want to take more risk not to get the reward.

In this instance, just look at what you are doing here with this hearing by bringing the USTR ambassador in. You were kind enough, Ranking Member, to meet with us when I was with the SBC Small Business. I mean, it has been something that you folks have really lived and have put your hearts into. And there are some real resources out there that make it possible. We were not born with this knowledge. Our lady who does our export and does the harmonizing codes and learns that, we have gotten help. And candidly, we have gotten help from the government.

So I think one of the things—I would answer this just to summarize in two ways, Chairman. One is the message I think would be jump in, the water is fine. And secondly, that your government—state, local, and federal—is really trying to pave the way and has the sense of focus to make it a level playing field because when given that chance American small businesses really do compete and they compete well. So I thank you for the question and I thank you for your efforts on this.

Ms. VELÁZQUEZ. Are you sure you were not my witness?

Mr. LUDEN. I was born in Queens as you remember.

Chairman GRAVES. Well, with that the Committee is going to obviously continue to closely follow the impact of trade policy on small businesses. And I appreciate all of you coming in today. Some of you came a long way and that is very much appreciated. And your testimony was very helpful. And with that I would ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. Without objection, so ordered. And with that the hearing is adjourned. Thank you.

[Whereupon, at 3:39 p.m., the Committee was adjourned.]

Testimony of Ambassador Miriam Sapiro
Deputy U.S. Trade Representative
Before the House Committee on Small Business
May 16, 2012

Chairman Graves, Ranking Member Velazquez and Members of the Committee, thank you for convening this hearing today and for the opportunity to testify about the efforts of the Office of the U.S. Trade Representative (USTR) to help U.S. small businesses export, thereby creating greater economic growth and jobs.

Under President Obama's National Export Initiative, I am pleased to report that USTR is working more closely than ever with our partner agencies to provide American businesses of all sizes with the export opportunities and resources to succeed in the global marketplace.

Despite a slowly growing global economy, the growth of U.S. exports over the last year has been a bright spot. America's exports of goods and services have surpassed their pre-crisis peaks and we are making progress towards meeting the President's goal of doubling exports by the end of 2014. During the past 12 months, the United States exported more than $2 trillion in goods and services, the highest level of exports over such a period in U.S. history. As our economic recovery continues, we have added private sector jobs for 26 straight months, for a total of 4.25 million jobs over this period.

In particular, U.S. manufacturing continues to grow. We have added nearly 500,000 manufacturing jobs since January 2010 – the strongest growth for any 26-month period since 1995. And our manufacturing production is up 13 percent over the same period, which represents a 6 percent annual rate of growth that is the fastest since the 1990s.

I note these figures because America's small businesses are key engines of our nation's economic growth, job creation, innovation and success. In the past two decades, nearly two-thirds of new private sector jobs were created by small businesses. Small businesses are also a critical source of designing innovative processes, products and services.

I speak as someone who started and ran a small business before re-entering government in 2010 and knows well the challenges, risks and opportunities involved.

America's small businesses are already playing a major role in international trade – accounting for nearly 98 percent of all U.S. exporters. Direct and indirect exports by U.S. small businesses support about four million American jobs and account for an estimated 40 percent of the total value of U.S. exports of goods and services. The latest available Census data shows that the value of exports by U.S. small businesses in 2010 was over $380 billion, an increase of more than 24 percent from 2009. The number of identified small exporters increased by six percent in 2010, to 287,000 firms. And small businesses that export tend to grow faster, add jobs faster, and pay higher wages than those that do not.

These trends are positive, but we believe that our small businesses still have significant room for export growth. Only a small fraction of small businesses in the United States currently export. And of those small businesses that do export, most tend to do business in only one market overseas. With 95 percent of the world's consumers living beyond our borders, we can – and must – do better.

President Obama is deeply committed to this mission. He has already cut taxes for small businesses and facilitated access to the capital they need to expand further and create more jobs. Just last week, the President asked Congress to invest in small businesses by passing legislation that would give a 10 percent income tax credit to firms that create new jobs or increase wages in 2012.

A Robust Trade Agenda Benefits SMEs

As part of the President's Export Promotion Cabinet, USTR is collaborating closely with other agencies to develop new ways to make trade work for the benefit of America's small businesses. We are pursuing a robust trade policy that supports small businesses and broader economic growth by tearing down barriers to trade and creating new opportunities for U.S. farmers, ranchers, manufacturers, and service providers of all sizes. We are also vigorously enforcing our trade rights, insisting that countries fulfill their commitments and act according to the rules to which they have agreed.

Our free trade agreements (FTAs) with nearly 20 countries offer valuable export opportunities for small businesses. Trade agreements help them, in particular, by reducing costs through tariff reduction and elimination, increasing transparency in customs procedures, creating more predictable regulatory and legal frameworks, and promoting stronger intellectual property rights protection and enforcement. In a number of FTAs, we have established Small and Medium-size Enterprise (SME) Working Groups to engage with our trading partners on ways small businesses can take advantage of the export opportunities that these agreements provide, and to address specific trade barriers these companies face.

With this Committee's strong support, Congress approved FTAs with South Korea, Colombia, and Panama last October, providing small businesses with important new market access opportunities. The United States–Korea Trade Agreement, which entered into force on March 15, opens significant new export opportunities for our small firms in that trillion dollar economy, which was the 8th largest market for U.S. small business goods exports in 2010. Almost 20,000 U.S. small and medium companies already export to South Korea, selling over $11 billion in merchandise. As a result of the FTA, South Korea's $580 billion services market is now open to our companies, including in areas where U.S. small businesses are particularly competitive, such as computer systems design, software publishing, and other information and communications technology services. The Agreement also targets services barriers that can be especially challenging for small businesses, such as having to establish a local office before conducting trade.

Likewise, the United States-Colombia Free Trade Agreement, which entered into force just yesterday, makes it easier and less expensive for our small businesses to export to this important Latin American market. In 2010, almost 13,000 of our small firms exported $4 billion in merchandise to Colombia. Under the Agreement, over 80 percent of U.S. exports of consumer and industrial products to Colombia are now eligible for duty-free treatment. The majority of our agricultural exports to Colombia are also now eligible for duty-free treatment, including soybeans, wheat and high-quality beef.

Moving Forward

In the fast-growing Asia-Pacific region, USTR is negotiating with eight trading partners (Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam) to expand substantially U.S. exports through the Trans-Pacific Partnership (TPP). U.S. small businesses exported nearly $220 billion to the Asia-Pacific region in 2010, and we would like to see them do even better in the future. We are focused in TPP on developing specific new provisions to help small businesses participate more actively in regional trade, including an SME work program that will help the United States and its TPP partners assess how well the Agreement is working for small companies.

Through the Asia Pacific Economic Cooperation (APEC) forum, which we hosted last year, the United States and other APEC economies are also addressing barriers facing small businesses trading in the region. APEC's work includes initiatives that make it easier to access basic customs documentation and information about regional preferential trade agreements, which enhances small business participation in global supply chains.

Turning to Europe, the United States and the EU have conducted two SME "best practices" exchanges on policies and programs to support small businesses, including their participation in transatlantic commerce. We are planning additional best practices exchanges with the EU this year, focused on identifying specific trade challenges facing small businesses and initiatives to expand their access to finance.

Another way we are helping small businesses is to open Russia's market. Last fall, Russia concluded 18 years of negotiations to join the World Trade Organization (WTO). Russia now has until July 23, 2012 to ratify its accession protocol and notify the WTO that it has done so. Thirty days after that, Russia will become a WTO Member. Russia's membership will open the country's market of 145 million consumers further to U.S. exports and bind it to a clear set of international rules governing trade and transparency, including mandatory dispute settlement. However, for U.S. companies to enjoy the full benefits of Russia's WTO membership, Congress must act quickly to terminate application of the 1974 Jackson-Vanik amendment to Russia. If that happens, the growing Russian market will become more accessible, transparent and predictable for U.S. small businesses. If, however, Jackson-Vanik remains in place, then U.S. farmers, ranchers, manufacturers and workers will be put at a competitive disadvantage. We therefore hope this Committee will be a strong voice for terminating Jackson-Vanik and enabling our small businesses to enjoy the benefits we negotiated for them.

In the Western Hemisphere, USTR is collaborating with other agencies to connect more of our small businesses to regional partners and foster entrepreneurship. The Small Business Network of the Americas, announced by President Obama prior to the Summit of the Americas last month, will help SBA-supported U.S. Small Business Development Centers (SBDCs) and the small businesses they serve connect to counterparts in Central and Latin America, in order to build further trade links and networks.

In the Middle East and North Africa (MENA) region, we are partnering with several countries in transition, including Tunisia and Egypt, on efforts to support SME development. At the G-8/Deauville Partnership meeting at the Dead Sea, Jordan, last month, we agreed to work with MENA governments and other partners to address trade barriers that disproportionately affect SMEs and share SME best practices, in order to boost trade within the region and beyond.

As we continue to strengthen the international rules-based trading system and hold our trading partners accountable for their obligations, we are also thinking creatively about how to enhance our trade enforcement capabilities. The Interagency Trade Enforcement Center (ITEC), which was recently established by the President, will significantly enhance the Administration's capabilities to challenge aggressively unfair trade practices around the world. Small businesses typically have less time and fewer resources than larger companies to prepare information to enable us to coordinate potential enforcement actions. The ITEC's more aggressive "whole-of-government" approach, and Congress' support for this initiative, will enhance the Administration's ability to investigate and pursue enforcement cases critical to U.S. companies, regardless of their size.

Of course, our trade policies and tools are only as effective as our ability to communicate how they can help small businesses. Ambassador Kirk and the entire USTR team continue to reach out to small business leaders across the country to highlight not only export opportunities we have created, but also to learn more about new trade challenges and how we might help. For example, we frequently hear that SMEs do not have the resources to hire staff with the specialized skills needed to identify export opportunities and understand foreign market regulations and requirements. As a result, USTR, Commerce and SBA collaborated last year to launch a free online tool to make it easier for SMEs to do market research and look up the tariffs for specific products under existing U.S. FTAs. The new FTA Tariff Tool (www.export.gov/FTA/FTATariffTool) permits online searches for tariff treatment for specific industrial products under each FTA, and also provides trade data and market research.

In conclusion, we are proud of our small businesses that offer high-quality, "Made in America" products and services to customers around the world. We are determined to see that they have the trade policy tools they need to compete, thrive, and succeed in the global economy. We look forward to working with you to accomplish that goal.

Thank you again for the opportunity to testify about USTR's efforts to help U.S. small businesses export, grow and prosper.

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Statement by
Thomas Crafton

President, Thermcraft Incorporated

For the

House Committee on Small Business

Hearing on

"U.S. Trade Strategy: What's Next for Small Business Exporters?"

Wednesday, May 16, 2012

Chairman Graves, Ranking Member Velázquez and members of the House Small Business Committee, thank you for the opportunity to testify regarding our experiences with international trade as a small business. My name is Tom Crafton, and I am the president of Thermcraft, Inc., of Winston Salem, North Carolina. I appreciate the opportunity to present our experiences with international trade and how it impacts business.

Thermcraft is located in Winston Salem, North Carolina and was founded in 1971 by my father, Morris Crafton. He started out with 2 two employees: just him and my mother. We celebrated the company's 41st birthday in January and now employ over more than 70 people. We have a number of employees with long tenure: three employees have more than with 15 years of service with us, four with more than 20 years plus and one with more than 30 years of service. We manufacture high temperature (up to 3200F) customized equipment for manufacturing production lines, for research and development, and for use as a component of a complete system. We have a niche business that supplies to a wide variety of industries. We supply to companies that manufacture semiconductors, electronic components, fiber optic materials, solar cells, aircraft, glass, and components used in nuclear applications – just to name a few. Practically all manufacturing has some heat requirement in its operation, which gives us an extremely wide customer base to draw from.

to name a few. Practically all manufacturing has some heat requirement in its operation, which gives us an extremely wide customer base to draw from. Our laboratory furnaces and ovens are used in universities, manufacturing R&D facilities, national research labs, destructive testing labs and scientific institutions all over the world.

Thermcraft is also a member of the National Association of Manufacturers (NAM). The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Its membership includes both large multinational corporations with operations in many foreign countries, and small and medium-sized manufacturers that engage in international trade. The manufacturing sector employs nearly 12 million Americans and is the engine that drives the U.S. economy by creating jobs, opportunity and prosperity.

Exports are vital to the success of American manufacturing, as they constitute 20 percent of U.S. manufacturing production and have increased at a rapid rate in recent years. In fact, over the past decade, exports grew more than five times as fast as shipments to the domestic market-exports grew by 48 percent while domestic shipments grew by only 9 percent. The U.S. exported almost $1.5 trillion in goods last year, mostly in industrial supplies and capital goods. In my home state of North Carolina, for example, we exported more than $24 billion worth of merchandise in 2010 – and nearly $10 billion of that went to our FTA partners. More than 75,000 jobs in North Carolina are directly supported by exports.

Thermcraft started out in a 5,000-square foot facility located on the second floor of an old building located in the "low rent" district of Winston Salem. Within three years, we had outgrown that facility and moved to another building that gave us 20,000 square feet on two separate floors. We continued to grow, and after another three years we began construction on our own 34,500-square foot manufacturing and office facility. We moved into our new facility in 1978, and in less than 10 years we had more than doubled our floor space through several additions that included a hi-bay area with a 10-ton overhead crane.

Our business rapidly grew from laboratory and small systems to much larger systems for high-volume manufacturing companies. Our customers include Fortune 500 companies such as Corning Glass, Westinghouse, General Electric, DuPont, Boeing, Rockwell and many more. Our customers with international presence actually got us started in exporting. It was common that we would build a custom system for one of our customer's U.S.-based facilities and their engineers from a sister plant overseas would become aware of what was being done in their U.S. facility. The foreign operation would often try to duplicate that operation in their factory, so they needed a furnace similar to what we had manufactured for the U.S. facility. Thus began our start with exporting.

The bulk of our exports have been to the semiconductor industry worldwide, primarily in Asia and Western Europe. Late in the 1970s, we purchased a company in Florida that had begun to rebuild furnaces used in the diffusion process of semiconductor manufacturing. Up to this point, the only option for a company with one of these systems was to go back to the Original Equipment Manufacturer (OEM) for replacement parts, including heating elements. Our niche in this market was to offer a second source supplier for the replacement diffusion furnace heating elements. Thermcraft could then offer a replacement furnace that was equal (or better) in quality and less expensive than the OEM. As a small business, we certainly were concerned with the customer. So in addition to better quality & price, we were also able to offer improved customer service including quick delivery in comparison to the system OEM. This approach helped solidify our position as one of the top suppliers of semiconductor heating elements.

In the early 1990s, we began dealing with a Maintenance, Repair and Overhaul (MRO) distributor in Europe. This relationship led to more frequent exports from our North Carolina factory, which in turn yielded growth for the semiconductor portion of our business. In the late 1990s, much of the semiconductor production began to move to Asia. As a result, we teamed up with manufacturing representatives in several Asian countries – including Japan, Taiwan, Singapore and China – to support the business there. Business increased significantly in these countries, giving us a better understanding of what was involved in the export process. In 2008, our export business accounted for approximately 35 percent of our total sales.

During this same period, we developed our "Expressline" series of standard off-the-shelf laboratory furnaces. In an effort to promote sales of this product, we began developing a distributor network both domestic and internationally. Last August, as part of the Commerce Department's New Market Exporter Initiative (NMEI), we participated in a Gold Key distributor search in Singapore. With the assistance of the U.S. Commercial Service representative, we were able to find a highly qualified distributor. We now have distributors in China, Korea, Singapore, Malaysia, and India as well as the SAARC countries (Sri Lanka, Bhutan, India, Maldives, Nepal, Pakistan, and Bangladesh). We are currently working on distributor networks in Europe and the Middle East.

We also recently participated in the Arab Lab Expo, which is a laboratory equipment trade show in Dubai. We made numerous contacts for potential distributors in that region, and we are in contact with several that are strong candidates. The U.S. commercial service officer helped with some of the arrangements for the expo and stopped by our booth during the show. In April, we attended the North Carolina Department of Commerce Road Show and met with Commercial Officers who are stationed in various countries abroad. This week, we are participating in the "Trade Winds – Asia" business development conference and trade mission that is taking place in Singapore and the surrounding southeast Asian countries of Malaysia, Indonesia, Thailand and Vietnam. It is sponsored by the U.S. Commercial Service and provides opportunities for companies to meet with senior Commercial officers stationed in different countries across the globe. The conference also facilitates business-to-business meetings with potential distributors that are coordinated by the U.S. Commercial officer in each country. These are some examples of the valuable assistance that we receive from the state and federal government.

On the flipside, we have export issues that arise on a daily basis and continue to be an ongoing struggle. For example, it can be difficult to get consistent and reliable information and help from the local representatives stationed abroad. Commercial Officers seem to see only the big picture and often fail to address the details and help small businesses through the ongoing process of exporting. Regulatory changes are constant, and the burden lies on us to keep up with those changes and decide on classifications for specific products. There is a lack of a single source for info regarding export embargoes. They are listed across multiple websites that take countless hours to research, and it is difficult to know if all requirements have been addressed. We are held responsible for the end-use of our products and many times we are unable to get adequate information from the purchaser due to many factors, one of which is the language barrier. In some cases, not getting the answers we need has cost us the order. The list goes on. It seems that there is a large gap that small businesses fall into when it comes to exporting. We can't afford to hire a different person to handle each different export function like large multi-billion dollar corporations. As in many small companies across the U.S., one employee must wear many different hats. The government agencies that regulate or promote exports are not set up to support small businesses.

We have even gone so far as to hire a private export consultant to help find the answers needed in order to expand into other countries. That consultant handles U.S. export issues and helps our customers with their country's import processes. We were surprised to hear from the professional export consultant about the difficulties that were encountered when trying to find information and get answers from the various Commercial Services. We thought the difficulties we encountered were due to our limited export knowledge. It seems like the Commercial Service representatives have a set agenda and priorities, and if your objectives don't match that agenda then you don't get the necessary assistance to accomplish your export goals. There doesn't seem to be any cohesion within the different government departments that deal with exports. I get the impression that they are all pulling in different directions instead of working together to help businesses increase their export sales.

It would be ideal if a small business could be assigned a commercial service officer to help with its export initiatives – someone to help establish export guidelines and policies and stay current and up-to-date on the constantly changing regulations. It would also be helpful if someone could help small companies decide which market to try and penetrate next. The NMEI program provides market research that is helpful on that front, but we could use a lot more information. Small businesses tend to get lost in the process of trying to operate within the law and trying to ensure that every "T" is crossed and every "I" is dotted, instead of spending that time and money trying to increase export sales. The government wants small businesses to increase export sales but the system in place does not provide adequate assistance to get the job done. It is a constant struggle.

Small businesses can also benefit from improved access to new markets abroad. Manufacturers were pleased to see the recent implementation of new trade agreements with Korea and Colombia, and I hope the Administration will redouble their efforts to pursue more FTAs. The Trans-Pacific Partnership (TPP) agreement, for example, will lead to critical new market openings in key economies like Malaysia, New Zealand and Vietnam. Furthermore, the TPP model could form the basis of new initiatives. Economies like Brazil, Argentina and others are key growing markets and by removing their tariff and non-tariff barriers for U.S. exports, we will tap into important new avenues of growth.

Another potential market for increased U.S. exports is Russia. Russia offers an excellent opportunity for U.S. manufacturers, and the President's Export Council has estimated that U.S. exports to the country could double over the next five years to $12 billion. This will create manufacturing jobs in a wide variety of industries and boost economic growth, if Congress establishes Permanent Normal Trade Relations (PNTR) with Russia.

Again, I appreciate the opportunity to testify about my experience as a small manufacturer who is engaged in exporting. I would be happy to answer any additional questions.

Statement of Bob Sinner
President, SB& B Foods, Inc.
American Soybean Association

before the

Committee on Small Business
U.S. House of Representatives

May 16, 2012

Good afternoon Mr. Chairman and Members of the Committee. My name is Bob Sinner. I am a fourth-generation partner in a family farming business started in 1906. I am here as president of SB& B Foods, Inc., and as a member of American Soybean Association. I also serve on the advisory committee of the U.S. Soybean Export Council, the organization that implements international market development activities for the American Soybean Association, the United Soybean Board, and soybean exporters. I appreciate the opportunity to appear before you today to provide my views concerning trade policy and its effect on small business exporters.

Soybeans and soybean products are the most significant U.S. agricultural export commodity. Exports of U.S. soybean products exceeded $22 billion last year, representing more than 60 percent of U.S. soybean production. My company, SB&B Foods, Inc. supplies specific varieties of non-biotech, identity preserved soybeans to food companies around the world. Our parent company Sinner Bros. & Bresnahan; our marketing entity SB&B Foods, Inc.; and our processing facility, Identity Ag Processing LLC, together employ approximately 30 people who grow, package and export an extensive line of Identity Preserved products to customers worldwide. Sales for our exporting entity, SB&B Foods, Inc. have totaled between $20 million and $25 million annually for the past three years. Our largest markets are in Asia.

When our business first expanded to the international marketplace in 1988, we focused our efforts on Japan. We were fortunate to receive cost-share funding for promotional activities from Food Export USA, a not-for-profit organization funded by USDA's Market Access Program (MAP). Food Export USA provides a range of services to facilitate trade between local food suppliers and importers around the world. In this regard, I cannot overstate the success and value of USDA's export promotion programs in expanding U.S. agricultural exports globally. USDA's Agricultural Trade Offices (ATOs) are also incredibly helpful in helping exporters navigate foreign regulations and importing requirements.

One of the challenges we have encountered over the years as we have expanded to other markets is the lack of consistency in international standards. As you know, each country brings a new set of challenges, and one persistent challenge is the inconsistency of countries that require a phytosanitary certificate, and the inconsistency of our own government in providing such certificates. Japan and Singapore for instance, do not require a phytosanitary certificate but Taiwan does. Yet, if a Japanese customer might request a phytosanitary certificate, our own government has refused to provide one – even at the customer's request – because Japan's regulations do not require one. And while a phytosanitary certificate can add an additional cost to the small exporter, it can provide that extra assurance to customers that our food products are safe. In this regard, I believe the U.S. government must work toward achieving international harmonization of standards in order to create more consistency in global markets. It is nearly impossible for small exporters to combat the multitude of challenges in the international marketplace on their own. World markets are already characterized by unjustified sanitary and phytosanitary barriers not supported by sound science.

With the recent implementation of the South Korea Free Trade Agreement (FTA), U.S. food-grade soybean producers will have access to the Korean market for the first time outside of that country's state trading enterprise. Under the FTA, Korea agreed to establish a zero tariff-rate quota (TRQ) for identity preserved soybeans for food use. This TRQ will be 10,000 tons in the first year of the agreement, increasing to 20,000 tons in year two, and 25,000 tons in year three. For years four and beyond, the TRQ grows three percent annually, in perpetuity. The new TRQ distributed by the Korea government will be operated by the local Associations of food-grade soybean processors. However, the challenge for a small exporter to develop a trade relation with an importing Company in Korea, will be their relationships ability to access the quotas administered and controlled by the local Associations. There is also some question that the Associations may be expected to meet the requirements and specifications outlined by the state trading enterprise, which has historically favored Asian suppliers. At the same time, member Companies of Associations will likely be subject to fees or costs associated with the access to the available quotas. On this point, I strongly urge our government to ensure a certain level of transparency on the implementation and administration of the TRQ, and to facilitate private sector understanding on how to conduct business outside the state trading monopoly. If the TRQ becomes too political, U.S. food-grade exporters may not reap the full benefits of the FTA.

Although the Asia Pacific region has been a top market for food-grade soybean producers over the past decade, substantial potential exists for expansion in agricultural and soybean trade between the United States and the region. In China, for instance, we are seeing a growing need for imports of food-grade soybeans, but we do not yet export to China due to the insurmountable restrictions imposed by the Chinese. Vietnam and Indonesia are also growing markets for food-grade soybean products and it is my hope that a Trans-Pacific Partnership (TPP) free trade agreement will provide significant market opportunities for exports of soybeans products and other U.S. agricultural exports, especially with its long-term objective of establishing a broader Asia-Pacific trade arrangement.

I would also like to share some thoughts about our own infrastructure and transportation system which challenges a small exporter's ability to compete effectively. The growing demand for identity preserved grains and the "just-in-time" delivery specifications required by customers, challenges us to make certain that container equipment is available in rural America. But we have a transportation system in the United States that prices equipment into and out of large metropolitan locations in favor of bridging many of the rural supplier states en route to the departure ports. This approach ignores the importance and necessity of timely food shipments, and also undermines the economic fabric of rural America. There is a very real concern that if the world demands more grains and soybeans from the U.S., small exporters may not be in a position to meet demand at competitive prices unless container equipment is available and competitive pricing solutions are implemented.

Finally, I would like to make a simple cautionary statement regarding the Food Safety Modernization Act. As I mentioned earlier, exporters are already challenged by a multitude of regulatory and importing requirements in the international marketplace. The food safety bill has the potential of exacting a hefty cost to exporting companies by imposing an additional set of burdensome requirements. While there is some justification for some of the safety requirements outlined in the bill, we need to recognize that we also already have the safest food system in the world. And some of the safety provisions in the bill are already addressed in contractual agreements with customers that have specific quality standards, in addition to the food safety requirements established by foreign governments.

In summary, small exporters face enormous competition and a web of regulatory constraints abroad. The export promotion programs are among the few tools that help American farmers promote U.S. commodities and remain competitive in the global marketplace. While the rapidly growing markets in the Asia Pacific region, led by China, are key drivers of U.S. soybean demand, there are significant barriers that we need to break down to meet increased demand for U.S. commodities in the region. We hope that the TPP free trade agreement is successful in making the regulatory systems of member countries more compatible so U.S. companies can operate more seamlessly in these markets, and help innovative, job-creating small- and medium-sized enterprises to participate more effectively in international trade.

Thank you again, Mr. Chairman, for the opportunity to present our views. I am happy to respond to any questions.

Global Economy and Development
at BROOKINGS

Committee on Small Business, United States House of Representatives

Hearing on "U.S. Trade Strategy: What's Next for Small Business Exporters?"

May 16, 2012

The Significance of the Trans-Pacific Partnership for the United States

Dr. Joshua Meltzer
Fellow in the Global Economy and Development program at the Brookings Institution
Adjunct Professor at John Hopkins University School for Advanced International Studies and Georgetown University Law School

Introduction

Chairman Graves, Ranking Member Velázquez, honorable members of the committee, thank you for this opportunity to share my views with you on U.S. trade strategy and what's next for small business exporters.

In 2011, it became clear that concluding the WTO Doha Round in its current form is not possible. Efforts are therefore underway to make progress on parts of the Doha agenda and the U.S. is taking the lead in areas such as services liberalization.

The Trans-Pacific Partnership (TPP) negotiations are the only other trade negotiation to which the U.S. is a party. The TPP has the potential to be the building block for a wider Free Trade Agreement of the Asia-Pacific Region (FTAAP) - a goal endorsed by APEC Leaders at the 2006 APEC Summit in Hanoi. U.S. Trade Representative Ron Kirk reiterated this goal for the TPP at the most recent round of TPP negotiations in Dallas this week.[1]

Given the focus of the current administration on trying to complete the TPP negotiations this year and what appears to be good progress so far, I will focus the rest of my testimony on the implications of the TPP for the U.S. and small business exporters.

The TPP builds on the original P4 Agreement between Brunei, Chile, Singapore and New Zealand which came into effect in 2006. In 2008, the Bush administration notified Congress of its intention to negotiate an FTA with the P4 countries. In the same year, Australia, Peru and Vietnam joined what is now known as the TPP and Malaysia joined the negotiations in 2010.

[1] Inside US Trade, May 12 2012

Concluding the TPP will have important economic and strategic benefits for the U.S. These benefits need to be understood in light of the TPP as a template for a future Free Trade Agreement of the Asia Pacific, where the gains to the U.S. will increase as more countries join the partnership.

The Economic Benefits to the U.S. from the Trans-Pacific Partnership

The Asia-Pacific region is of crucial importance for the U.S. It is the fastest growing region in the world and a key driver of global economic growth. Indeed, the region already accounts for 60 percent of global GDP and 50 percent of international trade. And the Asia-Pacific region is expected to grow by around 8 percent this year.[2]

In 2011, the TPP countries had a total GDP of $17.8 trillion, of which almost 85 percent comprised the U.S. economy (see table 1 below). U.S. exports to current TPP members were worth approximately $105 billion in 2011, and imports were valued at $91 billion, meaning that the U.S. had a trade surplus with current TPP member economies of almost $14 billion (see Table 2 below). These trade flows represent approximately 5 percent of total U.S. trade.

Table 1 – TPP member's GDP (in USD trillion 2011)⁺

	GDP	Percentage of TPP 9	Percentage of TPP 12
United States	15.1	84.6	56.9
Other TPP	2.742	15.4	10.3
Total TPP 9*	17.842	100	
TPP 12**	8.758		33.1
Total TPP 12	26.6		100

⁺ IMF
*TPP 9 – current TPP members
**TPP 12 – TPP 9 plus Canada, Mexico and Japan

Economic modeling estimates that the benefits to the U.S. from the TPP will be $5 billion in 2015, rising to $14 billion in 2025.[3] However, the economic benefits are likely to be larger as this figure does not capture the impacts from investment liberalization under the TPP. Yet, the economic benefits for the U.S. from concluding the TPP negotiations with the current members will be limited by the market access the U.S. already has under its existing free trade agreements with Australia, Chile, Peru and Singapore. Moreover, already low U.S. tariffs on imports limits the gains to the U.S. since the main benefits from trade liberalization accrue to the country liberalizing its trade.

However and as noted, the economic benefit for the U.S. of the TPP needs to be viewed in terms of it being a pathway towards a FTAAP. In this respect, Canada, Mexico and Japan have already expressed interest in joining the TPP. It is unclear at this stage whether these countries will join the current negotiations or accede to a completed TPP. In either event, the addition of

[2] World Bank East Asia and Pacific Economic Update 2011
[3] Peter A. Petri, Michael G. Plummer and Fan Zhai, "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment" Work Paper No. 119, October 24, 2011, p. 37

Canada, Mexico and Japan would significantly increase the size of TPP GDP to $26.6 trillion, making it much more important in economic terms for the U.S. Such a TPP agreement would cover almost $650 billion of U.S. goods exports and over $800 billion of US goods imports, representing approximately 40 percent of total U.S. trade.

The US also stands to grow its services trade under a TPP agreement. There is limited data on services trade with Brunei, Peru and Vietnam but for the other five TPP members U.S. services exports in 2010 were $28.9 billion and services imports were $13.5 billion, leaving the U.S. with a services trade surplus of $15.4 billion. Including Canada, Mexico and Japan in the TPP would lead to the TPP covering US services exports worth $148.3 billion and services imports of $76.4 billion. The gains to the U.S. from these countries' participation would also double.[4] And should the TPP evolved into an FTAAP, the gains to the U.S. in 2025 would increase to around $70 billion.[5]

Table 2: US Goods Exports and Imports in 2011 (in USD billions)[+]

	Exports	Imports	Total	Balance
TPP 9				
Australia	27.5	10.2	37.7	17.3
Brunei	0.184	0.024	0.208	0.169
Chile	15.9	9.0	24.9	6.9
Malaysia	14.2	25.8	40.0	-11.6
New Zealand	3.6	3.2	6.8	0.4
Peru	8.3	6.2	14.5	2.1
Singapore	31.4	19.1	50.5	12.3
Vietnam	4.3	17.5	21.7	-13.2
Total	*105.4*	*91.0*	*196.3*	*14.4*
TPP 12				
Canada	280.9	316.5	597.4	-35.6
Mexico	197.5	263.1	460.6	-65.6
Japan	66.2	128.8	195.0	-62.6
Total	*649.9*	*799.4*	*1,449.3*	*-149.4*

[+]United States Census Bureau

The Impact of the Trans-Pacific Partnership on Small Businesses and the Manufacturing Sector

The TPP should lead to increased opportunities for growth for American small business exporters. As a starting point, the TPP will increase U.S. GDP and exports, and these benefits will increase as more countries join. In fact, under a FTAAP, U.S. exports of manufactured goods are expected to increase by almost $120 billion and services exports are expected to increase by almost $200 billion.[6]

[4] Ibid at p. 44.
[5] Ibid.
[6] Ibid.

The TPP's impact on American small businesses and the U.S. manufacturing sector can also be inferred by looking at the impact of other free trade agreements. For example, under the North American Free Trade Agreement (NAFTA)[7] and the U.S.- Central American-Dominican Republic Free Trade Agreement (CAFTA-DR)[8], the U.S. has a trade surplus in manufactured goods of $12 billion and $3 billion, respectively.[9] In addition, U.S. exports of manufactured goods to NAFTA and CAFTA-DR countries are growing faster than imports.

These figures demonstrate that the U.S. manufacturing sector is world class and highly competitive, and in many sectors the U.S. already operates behind low tariff barriers. Moreover, competition from abroad has also driven U.S. productivity gains and has enabled American manufacturers to source inputs from the lowest cost providers, further enhancing overall competitiveness. Further trade liberalization under the TPP is therefore likely to provide additional opportunities for the U.S. manufacturing sector overseas.

U.S. small and medium-sized enterprises (SMEs) also stand to gain from trade liberalization. In fact, almost 98 percent of all exporters and 97 percent of all importers are SMEs, representing almost 40 percent of U.S. goods exports and 31.5 percent of goods imports.[10] In addition, 94 percent of SMEs are exporters and importers. Therefore, trade agreements that liberalize trade barriers, like the TPP, should disproportionately benefit SMEs. In contrast with large businesses, SMEs generally benefit the most from government efforts to reduce trade barriers overseas as their capacity to overcome these barriers by establishing subsidiaries in other countries is much more limited.

Setting the Trade and Investment Rules for the Asia-Pacific Region

The economic gains to the U.S. from the current TPP members highlight the significance of the TPP as a template for further economic integration in the Asia-Pacific region. As the TPP is an ongoing negotiation, the details of what is being proposed have not been released. However, we do know that the recent Korea-U.S. FTA will be a baseline and that USTR is seeking agreement on a range of new rules. For instance, in addition to including rules such as on goods and services, non-tariff barriers, investment and intellectual property, the United States is seeking to include new rules on regulatory coherence to reduce trade barriers arising from unnecessary regulatory diversity among TPP member countries. The U.S. is also seeking rules on state-owned enterprises in order to discipline the trade distorting impact that they can have when they do not operated according to competitive market-based principles.

The TPP should also address the realities for American businesses that rely on supply chains located in different countries, often in the Asia-Pacific region. Developing coherent rules of origin is one way of ensuring that the TPP reflects these business realities. Progress on trade facilitation rules which reduce the costs of moving goods through customs is another important one.

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[7] Comprises the US, Canada and Mexico
[8] Comprises the US, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua
[9] US Department of Commerce, International Trade Administration statistics
[10] US Department of Commerce, International Trade Administration-
www.trade.gov/mas/ian/smeoutlook/index.asp (visited on 12 May 2012)

The TPP can also provide an important framework for the U.S. to promote rules that can protect the free flow of data across borders. The internet has become a key driver of trade, especially for SMEs, as companies have been able to use the internet to access customers overseas and at scale.[11]

Getting these rules right is important as they will establish the framework for trade and investment in the Asia-Pacific region. A rules-based trading system backed by an effective dispute settlement mechanism, which increases market access and the certainty and predictability of international trade and investment, will reduce risk and facilitate U.S. and global growth.

Deepening U.S. Economic Integration in Asia

The TPP will also address the trend in the Asia-Pacific region toward regional economic integration that excludes the United States. For instance, ASEAN has free trade agreements with China, Japan, South Korea, Australia and New Zealand. And economic cooperation among ASEAN +3 (ASEAN, China, South Korea and Japan) has been closed to U.S. participation. China, South Korea and Japan are also considering a trilateral FTA. These agreements divert trade from the United States and the absence of U.S. participation in developing these trade rules undermines American leadership in the region. Recent U.S. membership in the East Asian Summit (ASEAN+3, Australia, New Zealand, India and Russia) should go some way toward addressing this problem, but the U.S. has so far not pursued economic integration in the EAS. In this light, the TPP will be an important vehicle for the U.S. to pursue economic integration in the Asia-Pacific region.

Completing the TPP will be an economic complement to President Obama's declaration of a U.S. strategic "pivot" toward Asia.[12] It will build on the Korea-U.S. FTA which came into effect on March 15, 2012. As Secretary of State Hillary Clinton said recently, "One of the most important tasks of American statecraft over the next decade will therefore be to lock in a substantially increased investment – diplomatic, economic, strategic, and otherwise – in the Asia-Pacific region."[13]

Conclusion

At the APEC Summit in Hawaii last year, President Obama said that "the TPP has the potential to be a model not only for the Asia Pacific but for future trade agreements". This message underlies the need to assess the benefits to the U.S. of the TPP in both economic and broader strategic terms. In economic terms, the gains from completing the TPP with the current members will be positive but small for the United States. However, should the TPP become a template for regional economic integration then the gains to the U.S. from broadening out the TPP will be significantly magnified.

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[11] McKinsey Global Institute, *Internet Matters: The Net's sweeping impact on growth, jobs and prosperity*, May 2011.
[12] Remarks by President Obama to the Australian Parliament, November 17, 2011.
[13] Hilary Clinton, "America's Pacific Century", Foreign Policy, November 2011

The strategic benefits stem from the TPP as a vehicle for further economic integration in the Asia-Pacific region. In this sense, the relatively small immediate economic benefits from liberalizing trade with the current TPP members should not obscure the importance of designing the rules of the game, so to speak, for trade and investment in what will likely be the most dynamic and fastest growing region of the world over the coming decades. From this perspective, the rules rule, and new disciplines in areas such as state-owned enterprises and regulatory coherence— in addition to the more traditional rules on goods, services, investment and intellectual property— will ensure that economic growth in Asia remains market orientated, largely open and non-discriminatory. It is only under these terms that U.S. trade with the Asia-Pacific region should be expected to prosper for the years to come.

Hearing on Small Business Trade Policy

United States House Committee on Small Business

May 16, 2012 1:00 PM

Room 2360 of the Rayburn House Office Building

Mark A. Luden, CEO
The Guitammer Company
Westerville, OH

Introduction

I am Mark Luden, CEO of the The Guitammer Company. Based in Westerville Ohio, Guitammer is a leader in low frequency sound products and technology. Our innovative and award winning line of patented ButtKicker-brand low frequency audio transducers allows users to feel the full impact low-frequency sound (bass).

ButtKicker brand products are used around the world by leading entertainment and movie theater companies, by world-famous musicians; in home theaters, simulators and in high-end mobile audio systems. ButtKicker products patented design makes them musically accurate, powerful and virtually indestructible.

Our newly patented broadcast technology, ButtKicker LIVE! enables the excitement, impact and feeling of sporting events to be broadcast along with the sound and video.

Guitammer outsources the manufacturing of all its products. Some products are sourced as finished goods in China; some are sourced in China and assembled by a manufacturing partner in Kentucky and some products are sourced in the US. For example, we currently assemble the "Buttkicker" in Kentucky with parts imported from China, and we currently export finished product to China. The Company has and will continue to evaluate whether certain products can be brought back for manufacturing in the US as part of a "re-sourcing" initiative.

ButtKicker is a member of the Consumer Electronics Association ("CEA") and I serve on CEA's Board of Industry Leaders. CEA is the preeminent trade association representing the technology industry, and its more than 2000 corporate members are located in every state in the country. CEA is also the owner and producer of the International CES held every January in Las Vegas NV.

Even in these troubling economic times, the technology industry is driving the American economy. Today, the consumer electronics sector directly generates $1.4 trillion in output, $325 billion in labor compensation, $145 billion in tax payments, and 4.4 million jobs in the United States. This economic activity translates into a direct contribution of

$585 billion by the CE sector to U.S. gross domestic product ("GDP") — 4.6 percent of the entire national economy.

Trade is an important component of U.S. economic activity in the CE sector, and exports remain the largest element of trade's contribution. Exports of goods and services account for 10 percent of total CE sector output. This translates into approximately 1.5 million U.S. jobs reliant on CE exports and 2.4 million jobs reliant on trade overall. Tax payments of $6 billion are attributable to the sale of U.S. CE goods and services overseas. That number grows to approximately $30 billion when indirect and induced effects are included.)

This robust industry picture has developed despite the fact that CE markets around the world are not as open as they should be. The World Trade Organization ("WTO") Information Technology Agreement ("ITA"), while an important boon to the global technology industry, does not include most CE products. Consequently, many CE products are still subject to significant tariffs and non-tariff barriers around the world.

Removing these tariff and non-tariff barriers and opening up new markets is one of the consumer electronics industry's top priorities. CEA views bilateral trade agreements, for instance those negotiated with Colombia, Panama and South Korea, and the Trans-Pacific Trade Partnership (TPP) currently under negotiation, as vital steps in reaching the larger goal of multilateral trade liberalization.

Lowering trade barriers on a reciprocal basis will have a positive effect in terms of maximizing areas in which the US CE industry has competitive edges, such as in high technology parts, research and development, design, and the launching of new products. Agreements should be as broadly based as possible. While bilateral trade agreements are helpful, global trade liberalization provides the greatest benefits to consumers while avoiding the trade distortions that may benefit some members while disadvantaging others.

The Impact of Trade Policy on Small Businesses

The Administration's goal to double exports in 5 years is welcome, ambitious and necessary. This goal can only be met by an aggressive effort to bring down trade barriers.

After a long period of delay, we are finally moving forward. I commend Congress and the administration on the recent approval of Free Trade Agreements with Panama, Colombia and Korea. There is no question that these agreements will help provide new opportunities for U.S. exporters of goods and services.

For example, enactment of the Korea Free Trade Agreement (KORUS) has a direct impact on our business. Our product, the ButtKicker LFE is used in numerous Korean movie theaters. Prior to the KORUS, our customer in Korea paid 8% duties for importing our products. With the duty now removed by KORUS our product is significantly more competitive.

Additionally, KORUS included market opening measures on the US film industry. With US film producers able to export more of their content, we expect to see an increasingly vibrant Korean movie sector and with it the possibility of increased demand for our products.

Unfortunately, at times foreign and domestic regulations and policies intended to assist companies, actually act as barriers. Those barriers can unfairly and disproportionately affect small businesses which are not able to absorb or pass along costs of compliance. Unlike larger and often multi-national competitors, small businesses typically cannot afford to house divisions of their company overseas to reduce costs.

As a result, small US businesses compete in foreign markets with built in disadvantages: 1) they are competing against local companies whose products are not subject to import duties and 2) they are competing against the local division or operating company of large multi-nationals, which are often not subject to import duties since they can produce locally, or secure the benefits of the host country's existing free trade agreements.

In addition to tariffs, small companies who wish to engage in global commerce face a mountain of regulations, foreign labeling requirements, laws and investment policies, technical barriers and standards, and compliance issues to navigate. This regulatory burden can be challenging, since small businesses necessarily have fewer resources to devote to compliance.

Also, as discussed further below, I applaud and support Congressman Tipton's proposed TRADE Act (Transparent Rules Allow Direct Exporting for Small Businesses and Jobs Act) as a good first step to helping small companies understand and successfully navigate those foreign export market requirements. The optimal solution would be to remove these non-tariff barriers entirely. However, having a "one-stop-shop" to clarify foreign requirements and rules, as proposed in the TRADE Act, would be of great advantage to small businesses.

Guitammer's story shows that a small business can succeed in the global marketplace – but the process is not intuitive or easy. Like many US small businesses, we are fortunate to have high-quality products that people around the world wish to purchase. The only difference between us and many other small US businesses is that we have deliberately made exporting a key strategic focus of our business plan.

For the first three months of 2012, 45% of Guitammer's sales came from outside the US. Approximately10% were to Canada and 35% to the rest of the world, mostly concentrated in Europe and Asia.

Guitammer's manufacturing process is US and China based. Some products are sourced as finished goods in China; some are sourced in China and assembled by a manufacturing partner in Kentucky and some products are sourced in the US. Gross Margin dollars from products made in China are developed by and sold by Guitammer, a small US business, to companies around the world, including back to China. They create a virtuous cycle of free enterprise that benefits the US economy directly and indirectly.

100% of Guitammer's gross margin dollars, from sales around the world, come back to Ohio. What happens to those gross margin dollars? A mostly US based value chain of commerce is created. Guitammer's employees get paid and therefore spend or invest those dollars directly into the US economy – jobs are created or saved. Guitammer as a company spends those gross margin dollars on goods and services – shipping, supplies, materials, consultants, etc. – and more jobs are created and saved.

Adversely, tariffs artificially raise the cost of a US company's products to its international reseller or distributors, and force the reseller or distributor to raise prices, thereby reducing sales. Otherwise, the reseller would absorb duties, and make less gross margin dollars on a US company's products.

Either way, the result can be harmful to a US small business as the reseller loses incentive to import the US company's products.

The end result is zero gain for all. The US company loses out on sales it otherwise could have had, or the international reseller or distributor loses out on sales it could have had-- With no profit for the US company, no additional gross margin dollars are able to be spent in the US economy. And of course, no additional US workers are hired.

Opportunity for a small business to compete on global basis creates a new paradigm for small business growth in America. It is made possible because of our government's aggressive commitment to promoting free trade and lowing market barriers. We encourage this commitment to continue.

What Congress Can Do Now

Trans-Pacific Partnership (TPP): A successful and expeditiously concluded Trans Pacific Partnership is of key importance to the CEA members and the tech industry. This proposed agreement with nine developed and developing nations of the Pacific, along with Canada and Mexico will include tariff elimination on industrial goods, and agriculture, AND REMOVE technical barriers to trade. It will have the additional benefit of harmonizing various national regulatory bodies and addressing investment barriers.

We are concerned, with intellectual property language proposed by some in the content industry that would go beyond current US law. These proposals risk injecting significant controversy and delay into what should be a straightforward negotiation and approval process. Counterfeit product is a widespread problem in our industry, and enforcement mechanisms provided in trade agreements are vital to us. However, we urge negotiators to reject extreme proposals and ensure that the intellectual property language in the agreement mirrors that found in US law.

Information Technology Agreement: The Guitammer Company and CEA strongly support the efforts to expand product coverage of the Information Technology Agreement (ITA), which we regard as one of the successful trade agreements in the World Trade Organization (WTO). From 1996 to 2008, ITA product trade increased more than 10 percent annually, from $1.2 trillion to $4.0 trillion. Since its passage, ITA has helped drive innovation, create jobs, new markets, and lower consumer prices across the globe.

Yet in the fifteen years since its passage, the product scope of the Agreement has never been expanded, leaving products such as tablets computers and smart phones outside of the scope of the current agreement. Tariff elimination on electronics products opens markets for all businesses, including small businesses such as Guitammer. . Preliminary estimates are that an expanded ITA could completely remove tariffs on a least an additional $800 billion in electronics trade globally, a 20 percent increase over the $4 trillion now covered annually.

I strongly urge Congress to support expeditious expansion of product coverage for the Information Technology Agreement.

TRADE (Transparent Rules Allow Direct Exporting and Jobs) Act.

Sponsored by Rep. Tipton, the TRADE Act would direct the agencies to monitor and collect up-to-date information on tariff and non-tariff laws, creating a single resource portal where companies may go to access information such as foreign trade barriers and changes to foreign trade requirements.

This one-stop-shop information portal would address a key challenge for small business exporters, who currently cannot easily access information about foreign regulations labeling requirements or customs declaration information.

Currently, of the 281,668 small businesses exporters, 58 percent export to only one market, and 83 percent only export to one to four countries. With limited time and resources, small businesses tend to go with what is safe and proven. For many, the cost of understanding foreign compliance is too costly to absorb, and they simply do not have the resources to hire personnel dedicated to navigating the regulations.

By simply creating an easily-accessible database of foreign regulations, the TRADE ACT will help provide small businesses with the confidence and knowledge they need to export to new markets.

Conclusion

In the past, small businesses were primarily concerned with the economy of their state or region. Today – thanks to the Internet and other new technologies that render distance largely irrelevant – we exist in and have access to a worldwide marketplace.

Free trade creates and keeps U.S. and Ohio jobs, and access to foreign markets is now a key determinant in a small-businesses' success.

If you want to hear about the benefits of free trade, just ask my employees. Or, for a more frustrating conversation my friend who owns a family business that manufactures heavy equipment in central Ohio. He tells me they are finding it hard, if not impossible, to enter the Brazilian market because of their high tariffs on imports.

I commend Congress for its advocacy of free trade, and I urge you to seize every opportunity to open new markets and reduce tariff and non-tariff barriers. The future of the US economy – and that of America's small businesses – depends on it. The Guitammer Corporation pledges its full support, and we look forward to helping you in any way we can.

Questions for the Record
Committee on Small Business Committee Hearing entitled
"U.S. Trade Strategy: What's Next for Small Business Exporters?"
May 16, 2012

Rep. Renee Ellmers

1. I was recently told that as a member of Congress I am allowed to request the language on Tobacco within TPP. However, I am not allowed to share any of this language with my staff or any of my very concerned constituents. My question to you Ms. Shapiro, is why have we not seen this language? I understand the need for discretion when it comes to negotiating trade deals, however the members of the US House that will be voting on said trade deals need to be able to see the legal documents that accompany these negotiations in order to be fully aware of the possible outcomes for the citizens they represent. Is USTR willing to relinquish the legal briefs/memos explaining the need to treat tobacco differently during these ongoing negotiations?

2. I am concerned that TPP discussions are contemplating going in a different direction with textiles than has been the case in other trade agreements. It has been our policy to use a so-called "Yarn Forward Rule" to determine domestic content for purposes of duty free treatment. Now we are looking at something called a Flexible Rule of Origin, a rule that would benefit China, a country not even a party to the talks. This rule would allow any product that is sewn in-country to get duty free treatment, even though most of the inputs originate in other countries like China. Why on earth would we consider such a rule that once again throws our own textile industry under the bus, forcing them and their elected Representatives to oppose yet another free trade agreement?

Congressman Mick Mulvaney

Questions for the Record

Committee on Small Business Committee Hearing entitled

"U.S. Trade Strategy: What's Next for Small Business Exporters?"

May 16, 2012

For Ambassador Miriam Sapiro, Deputy United States Trade Representative:

Q: As part of our nearly all of previous free trade agreements since North American Free Trade Agreement, the United States has used what is known as the yarn forward rule of origin – meaning that the yarn used to form the fabric must originate in a country that is party to the free trade agreement. Does the United States Trade Representative plan to use the yarn forward rule for the Trans-Pacific Partnership Agreement, or have you changed your position on this rule?

Questions for the Record
Committee on Small Business Committee Hearing entitled
"U.S. Trade Strategy: What's Next for Small Business Exporters?"
May 16, 2012

Chairman Sam Graves

1. As you know the administration is currently considering how long the "access window" period should be, that is, the maximum period of time that should be allowed to lapse between the time a company is granted marketing approval in any one TPP country and its application for marketing approval for that same product in other TPP countries. The biotech industry argues that a short access window will simply not work, as many biotech companies are small startup operations with minimal staff focused exclusively on U.S. approval. Are you taking the interest of these smaller innovators into account as you develop the "access window" proposal?

2. Free trade agreements sometimes require companies to maintain complicated recordkeeping and burdensome paperwork so they can do business under the FTA. These burdens end up discouraging companies from using FTAs. As the USTR negotiates a "21st century" TPP and as we look for continuous improvement in the FTAs we have in effect, what steps is the administration taking to make sure FTAs become more user-friendly, particularly to small businesses?

COMMITTEE ON SMALL BUSINESS – QUESTIONS FOR THE RECORD
(FROM AMBASSADOR SAPIRO'S MAY 16, 2012 HEARING)

REP. RENEE ELLMERS

1. I was recently told that as a member of Congress I am allowed to request the language on Tobacco within TPP. However, I am not allowed to share any of this language with my staff or any of my very concerned constituents. My question to you Ms. Shapiro, is why have we not seen this language? I understand the need for discretion when it comes to negotiating trade deals, however the members of the US House that will be voting on said trade deals need to be able to see the legal documents that accompany these negotiations in order to be fully aware of the possible outcomes for the citizens they represent. Is USTR willing to relinquish the legal briefs/memos explaining the need to treat tobacco differently during these ongoing negotiations?

Any Member of Congress may see proposed U.S. text for a trade negotiation, upon their request, in order for them to fully represent their constituents. As you note, however, there is a need for discretion when negotiating trade deals. To ensure that stakeholders have the ability to provide constructive input into our negotiations, we have provided a detailed summary on our website of our draft proposal, including the reasons we believe there is a need to treat tobacco as a unique product in the Trans-Pacific Partnership (TPP) negotiations.

2. I am concerned that TPP discussions are contemplating going in a different direction with textiles than has been the case in other trade agreements. It has been our policy to use a so-called "Yarn Forward Rule" to determine domestic content for purposes of duty free treatment. Now we are looking at something called a Flexible Rule of Origin, a rule that would benefit China, a country not even a party to the talks. This rule would allow any product that is sewn in-country to get duty free treatment, even though most of the inputs originate in other countries like China. Why on earth would we consider such a rule that once again throws our own textile industry under the bus, forcing them and their elected Representatives to oppose yet another free trade agreement?

As a general matter, we have proposed a yarn forward rule of origin for the TPP. However, in some areas we have gone beyond yarn forward to require that fiber originate in the region, and in some areas we have proposed more liberal rules, where doing so would best address U.S. interests.

We have carefully reached out to stakeholders to ensure we are taking into account the sensitivities of our industry and their export interests. We believe that a well-designed market access package coupled with strong rules of origin offers our industry export opportunities, particularly in some of the higher value added products that we proudly make here in the United States. We are being careful to look at all aspects of textiles, including, industrial and technical fabrics, geo-textiles and advanced materials.

In addition to carefully designed rules of origin, we are proposing an approach that offers immediate market access benefits to our partners that meet the rules of origin, while maintaining some tariffs over an extended period to allow our industry to invest in the best state of the art equipment available and fully amortize their investment.

COMMITTEE ON SMALL BUSINESS – QUESTIONS FOR THE RECORD
(FROM AMBASSADOR SAPIRO'S MAY 16, 2012 HEARING)

We have been working closely with AMTAC, NCTO, NTA and AYSA as we navigate the details of this agreement, and try to assess how to level that playing field. We do not want to just protect the industry; we want to create opportunities for growth.

We would be delighted to offer you a more detailed discussion of our proposal at your convenience.

COMMITTEE ON SMALL BUSINESS – QUESTIONS FOR THE RECORD
(FROM AMBASSADOR SAPIRO'S MAY 16, 2012 HEARING)

REP. MICK MULVANEY

As part of our nearly all of previous free trade agreements since North American Free Trade Agreement, the United States has used what is known as the yarn forward rule of origin – meaning that the yarn used to form the fabric must originate in a country that is party to the free trade agreement. Does the United States Trade Representative plan to use the yarn forward rule for the Trans-Pacific Partnership Agreement, or have you changed your position on this rule?

We have proposed a yarn forward rule of origin for the Trans-Pacific Partnership (TPP). We have carefully reached out to stakeholders to ensure we are taking into account the sensitivities of our industry and their export interests. We believe that a well-designed market access package coupled with strong rules of origin offers our industry export opportunities, particularly in some of the higher value added products that we proudly make here in the United States. We are being careful to look at all aspects of textiles, including, industrial and technical fabrics, geo-textiles and advanced materials. In some areas we have gone beyond yarn forward, to require the fiber to come from the region, and in some areas we have more liberal rules, where that would best address our interests.

In addition to carefully designed rules of origin, we are proposing an approach that offers immediate market access benefits to our partners that meet the rules of origin, while maintaining some tariffs over a period to allow industry to invest in the best state of the art equipment available and fully amortize investment. After all, our manufacturers tell us that "they can compete with anyone, as long as we offer them a level playing field".

We have been working closely with AMTAC, NCTO, NTA and AYSA as we navigate the details of this agreement, and try to assess how to level that playing field. We don't want to just protect the industry; we want to create opportunities for growth.

COMMITTEE ON SMALL BUSINESS – QUESTIONS FOR THE RECORD
(FROM AMBASSADOR SAPIRO'S MAY 16, 2012 HEARING)

CHAIRMAN SAM GRAVES

1. As you know the administration is currently considering how long the "access window" period should be, that is, the maximum period of time that should be allowed to lapse between the time a company is granted marketing approval in any one TPP country and its application for marketing approval for that same product in other TPP countries. The biotech industry argues that a short access window will simply not work, as many biotech companies are small startup operations with minimal staff focused exclusively on U.S. approval. Are you taking the interest of these smaller innovators into account as you develop the "access window" proposal?

Let me assure you that achieving strong standards of intellectual property (IP) protection and enforcement and creating a climate for enhancing innovation are top priorities for the Administration in our Trans-Pacific Partnership (TPP) negotiations. Our goal in the TPP is to achieve high standards of IP protection and enforcement in the Asia-Pacific region that will stand alongside previous U.S. free trade agreements (FTAs), including the U.S.-Korea trade agreement (KORUS). We also share a clear appreciation that biopharmaceutical drugs are a vital area of pharmaceutical innovation, now and in the future.

With respect to our "access window" proposal, we have not yet come to a decision on the appropriate period of time for the window. We have, and continue to, consult closely with the biopharmaceutical industry, including small- and medium-sized enterprises that may be affected as we move forward in this process.

2. Free trade agreements sometimes require companies to maintain complicated recordkeeping and burdensome paperwork so they can do business under the FTA. These burdens end up discouraging companies from using FTAs. As the USTR negotiates a "21st century" TPP and as we look for continuous improvement in the FTAs we have in effect, what steps is the administration taking to make sure FTAs become more user-friendly, particularly to small businesses?

We share your view about the need to ensure that the TPP is designed in a manner that will facilitate its use by all businesses, both large and small. USTR has spent a considerable amount of time consulting with small- and medium-sized businesses around the country to get their input on precisely this question. Our efforts related to TPP build on work we did last year during the U.S. host year for the Asia Pacific Economic Cooperation (APEC) forum, where addressing this issue was one of our top priorities. Based on this input, we are working to make the TPP as trade facilitative as possible, with revisions in all areas on which small- and medium-sized businesses raised concerns, including relating to customs, rules of origin, and tariffs. We also are seeking to address specific regulatory issues that were raised, including new commitments on making the regulatory systems of our countries more seamless so that complex regulatory issues between the countries do not thwart the ability of small- and medium-sized businesses to trade. Finally, many small- and medium-sized businesses raised concerns about their ability to obtain basic information about trading and investing abroad, and we have developed new proposals for TPP to address these concerns.

NCTO
NATIONAL COUNCIL of TEXTILE ORGANIZATIONS

Statement of the National Council of Textile Organizations
Before the House Small Business Committee
U.S. Trade Strategy: What's Next for Small Business Exporters?
May 16, 2012

The National Council of Textile Organizations (NCTO) appreciates the opportunity to present a written statement to the U.S. House of Representatives Committee on Small Business regarding today's hearing entitled "U.S. Trade Strategy: What's Next for Small Business Exporters?" The National Council of Textile Organizations (NCTO) is a unique association representing the entire spectrum of the textile industry. From fibers to finished products, machinery manufacturers to power suppliers, NCTO is the voice of the U.S. textile industry.

NCTO would like to outline our concerns with current U.S. trade negotiations related to the Trans-Pacific Partnership (TPP). As this hearing takes place, negotiators from the nine TPP countries are participating in the twelfth negotiating round in an effort to wrap up negotiations by the end of the year. The U.S. textile industry has a strong interest in the outcome of free trade agreements like TPP that could negatively disrupt the industry's supply chain in the Western Hemisphere. Since the enactment of NAFTA and CAFTA the industry has built an integrated supply chain in the Western Hemisphere which employs nearly 2 million workers and has resulted in $25 billion in two-way trade. Therefore, NCTO strongly believes that the rules governing textile and apparel trade as part of the TPP must be as strong as or stronger than the rules negotiated in NAFTA and CAFTA especially given the inclusion of Vietnam in the TPP trade negotiations.

The U.S. textile industry is one of the largest manufacturing employers in the United States, with the overall textile sector employing more than 390,000 workers in 2011. The U.S. textile industry is the third largest exporter of textile products in the world. Exports in 2011 grew 15.0 percent to more than $22.4 billion. Total textile shipments amounted to $53.3 billion in 2011. The U.S. textile industry exported to more than 170 countries, with 22 countries buying more than $100 million a year. Importantly, nearly two-thirds of U.S. textile exports during 2011 went to our Western Hemisphere free trade partners.

Past trade agreements which have included strong textile rules are now driving trade and ultimately jobs – in textiles back to the United States. This is why NCTO and the textile industry have been strong supporters of free trade agreements, including the NAFTA, CAFTA, Andean Trade Preferences Act and the Colombia, Chile, Peru and Panama FTAs, among others. Thanks to these agreements, U.S. textile and apparel exports hit an all time record of $22 billion in 2011, an increase of 15% over 2010. In fact, U.S. textile and apparel exports to our free trade partner countries in the Western Hemisphere are increasing at an even faster rate, an average of 26 percent. NCTO believes that strong textile rules in the TPP can similarly drive increased exports of U.S. textile products, including apparel yarns and fabrics, to Asia.

The importance of this agreement is heightened because the U.S. economy has been struggling with high unemployment, record trade deficits and declining real wages. This combination of problems has been spurred in part by the steepest drop in U.S. manufacturing jobs in history. During the last ten years, over five million workers, nearly one-third of the U.S. manufacturing workforce, have lost their jobs. As a result, we believe that TPP will be heavily scrutinized for the impact it will have on U.S. manufacturing jobs, including textile jobs, and overall job creation. We strongly believe that as a 21st century trade agreement, the TPP will need to make job creation in the United States an important priority if it is to be successful.

Given the inclusion of Vietnam in the TPP, NCTO also recognizes that these negotiations pose unique challenges – in addition to new opportunities – for the U.S. textile industry and its partners in the existing FTA and preference areas. Because of the size of Vietnam's apparel industry and its government's aggressive plans for its expansion, NCTO believes that the textile rules in the TPP have the potential for having the greatest impact on U.S. textile jobs of any FTA during the last twenty years.

Because of the interdependent nature of textile and apparel trade, the textile rules in the TPP will impact not only the U.S. textile industry but our export partners in the NAFTA, CAFTA and Andean regions. In addition, other regions with trade preference arrangements – particularly in Africa and the Middle East – will be impacted as well. All in all, nearly two million textile and apparel jobs either in the United States or in the FTA and trade preference areas will be impacted by the decisions made during the TPP negotiations.

In recognition of these impacts, NCTO, along with textile and apparel groups from 25 countries representing African, Central American, the Andean region, Mexico, and Haiti recently sent a letter to Ambassador Kirk[1] in support of strong textile rules within the TPP negotiations. Textile and apparel groups in these countries – which depend on strong textile rules in their FTAs to export to the United States market – agree that in order for the TPP to become the high standard, 21st century trade agreement desired, strong textile rules must be included. In addition, on May 1, 2012 76 Members of Congress sent a letter to the USTR conveying a similar message.

The following outlines the textile industry views on the three major elements of textile negotiations in the TPP: 1) a yarn forward rule of origin, 2) fair market access duty phase-outs and 3) strong customs enforcement rules and implementation.

1. **The "Yarn Forward Rule" – A 21st Century Rule That Promotes More Manufacturing Jobs in the United States.**

[1] "Trade Associations from 25 Countries Urge Strict Textile Rules in TPP Negotiations," NCTO release, Sept. 9 2011.

The standard textile rule in FTAs for the past 25 years, and which the Obama Administration has tabled during the TPP negotiations, has been the "yarn forward" rule. This manufacturing rule[2], which has been consistently supported by both Democratic and Republican Administrations, ensures that the benefits under a FTA accrue to the manufacturers within the FTA region[3]. This in turn creates and fosters economic development amongst the partnering countries and, for the United States, investment in higher value textile manufacturing and textile jobs.

The "yarn forward" rule of origin requires that the yarns, fabrics and the final garment (a "triple transformation" rule) are produced within the FTA countries in order to get benefits under the FTA. The standard rule of origin since the NAFTA agreement in 1993, the "yarn forward" rule has created and sustained more than $25 billion in two-way trade between the United States and its FTA partners. Today, this rule of origin supports more than 2 million jobs in the textile and apparel supply chain which includes over 1.5 million textile and apparel jobs in countries bordering the United States. Finally, the "yarn forward" rule has been essential to establishing the U.S. textile industry as the third largest exporter of textile products in the world.

In the United States, the "yarn forward" rule has been an essential factor in the creation of nearly $14 billion in textile exports to our NAFTA, CAFTA, and Andean trade partners. The rule has been the primary force behind the 250,000 textile jobs in the United States and hundreds of thousands of indirect jobs in the United States that are supported by the U.S. textile industry.

Under the rule, U.S. yarns and fabrics are exported to FTA partner countries, which then process them into apparel and home furnishings products. Most of those final products are then sent back to the United States duty free. For textile and apparel importers, these duty savings are large, averaging 15 percent, and save importers billions of dollars a year. However, without the "yarn forward" requirement, most of this export trade would instead be sourced by Chinese producers, who get significant subsidies in terms of currency undervaluation and multiple industrial subsidies from the Chinese government[4].

- Flexible Rule of Origin – A Pro-China Investment Model that Outsources more U.S. Textile Jobs Overseas

Opponents to the "yarn forward" rule are instead promoting a "flexible rule of origin," which is, in reality, a "single transformation" rule. Such a rule would require only that the sewing of the garment be done in a TPP country in order to get duty free status under the TPP.

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[2] Rules of origin in FTA negotiations govern manufacturing processes only; e.g., they determine how much of a good must be manufactured in an FTA region in order to get duty-free status. .

[3] One demonstration of the commercial viability of the "yarn forward" rule is that no major importing group has ever asked Congress to oppose an FTA that contains the yarn forward rule.

[4] "Analysis Details Vast Chinese Subsidies for Their Textile Exporters," NCTO release, Oct. 5, 2011.

The "flexible rule" proponents, primarily importing groups with no domestic manufacturing, are seeking this rule because they wish to receive over one billion dollars in tariffs they pay to the U.S. government while still purchasing yarns and fabric from China and other Asian countries that are used in apparel exported from Vietnam. (Vietnam currently imports most of its yarn and fabric needs, though it is beginning to develop its own textile sector.) However, under existing FTA rules for textiles, importers would not receive duty free benefits unless the yarns and fabrics used in Vietnamese apparel were made in the United States or Vietnam, e.g., the TPP countries.

From a U.S. textile perspective, the "flexible rule" proposal has several fatal flaws:

a) A "flexible" rule of origin would cost jobs in the United States and in our neighboring free trade partners, including Haiti and Sub-Saharan Africa.

   The "flexible rule" concept undermines the more than $25 billion in existing two way trade in textile and apparel that have been built up over the last 25 years under the "yarn forward" rule of origin encapsulated in the NAFTA, CAFTA, Colombia and Peru FTA's. This includes nearly $14 billion in U.S. textile exports to that region. It does this by giving more liberal terms to TPP member countries than it does to aforementioned countries.

   The rule proposed by importers would even be more liberal than preferences given to the least developed countries. Least developed countries have been granted relaxed trade terms in acknowledgement of their development problems; but under the importer proposal, Vietnam, already an apparel super-competitor, would get better terms than Lesotho, Madagascar or Haiti[5].

Comparison of "Yarn Forward" Rule Vs. "Flexible Origin" Rule		
	"Yarn Forward"	"Flexible Origin Rule" for TPP

[5] This is because trade from these LDCS is capped and the preference programs have time limits; under the importer proposal for TPP, Vietnam would get access in perpetuity to Chinese yarns and fabrics with no caps. Over the past ten years, apparel imports from Vietnam have grown faster percentage-wise than any other country and Vietnam has moved from being the sixth largest supplier to the US to the second largest supplier.

Jobs in United States	Has created hundreds of thousands of textile jobs in United States, plus: - A U.S. textile job supports three other jobs in the U.S.	Would outsource U.S. textile jobs to China, other Asian countries - Would outsource other U.S. jobs that depend on U.S. textile industry. Would NOT create any additional new jobs in the United States[6].
Jobs in Western Hemisphere	Created and sustained 1.5 million textile and apparel jobs in Mexico, Central America, Haiti and the Andean region.	Would outsource Western Hemisphere jobs that depend on "yarn forward" rule to Vietnam and China.
U.S. Exports	Created more than $14 billion in U.S. textile and apparel exports to FTA countries.	Would destroy U.S. textile export markets to the Western Hemisphere by transferring those export orders to Chinese and other Asian producers.
Manufacturing Investment	U.S. textile manufacturers currently invest $1 billion a year in new plants and equipment in the U.S. each year.	Investment by U.S. textile mills would decline sharply while Chinese textile mills would increase investment and expand production.

Under a "flexible rule of origin," Vietnamese apparel exporters would receive an enormous cost advantage over CAFTA, NAFTA and other producers because they would be able to continue to source subsidized yarns and fabrics from China and other countries while also getting a new 15 percent cost advantage through the elimination of duties under the TPP.

Under such a scenario, Vietnam, with its access to Chinese yarns and fabrics intact, would become the low cost supplier to the U.S. market in virtually every product segment that the NAFTA, CAFTA and AGOA countries produce goods in. This would cause a profound shift in sourcing away from the Western Hemisphere and Africa and into Vietnam.

As a result, this new rule would not only devastate U.S. textile exports to the preference countries – and cost tens of thousands of U.S. textile jobs – but it would cripple production in the NAFTA, CAFTA, Andean countries as well as the AGOA region and Haiti. Hundreds of thousands of textile and apparel workers in countries on the U.S. border and other Western Hemisphere trade

[6] In a creative turn of phrase, proponents cite 3.8 million jobs in the "US apparel industry" that would be supported by a "flexible rule of origin." US government statistics however show that the US apparel industry actually employs 170,000 workers. The proponents have merged different sectors – the retail trade has been merged into the apparel industry - to show increased job numbers. These retail jobs, however, are unaffected by where a yarn or fabric is sourced in the TPP region. Claiming that retail jobs could suffer under a "yarn forward" rule undervalues the real impact that a change in rules could have on actual US workers. US textile mills will clearly suffer if Chinese yarns and fabrics are sourced rather than US yarns and fabrics are sourced under the "flexible rule" proposed by importers; contrary to what proponents imply, WalMart, JC Penney or the Gap, will not add or subtract a single store clerk whatever the final rule for textile manufacturing in the TPP is.

partners could be lost as billions of dollars in orders shift to Vietnam from the trade preference countries.

b) A "flexible" rule of origin would benefit China and retard the development of higher value textile manufacturing in the TPP area.

A "flexible" rule of origin essentially means that yarns and fabrics used in apparel can be sourced anywhere. As no preference is given to the producer of the textile inputs, sourcing under this rule will inevitably go to the lowest cost supplier.

That supplier today is China, which, through the implementation of 12 Five Year Plans, now dominates world production of textiles and apparel. As recent testimony[7] before the United States Trade Representative's Office demonstrated, China today employs more 30 subsidy programs which deliver billions of dollars of funding to its textile and apparel export sectors each year. As a result, China exports are now seven times larger than the next biggest producer of textile and apparel. Today, China has an import market share in the United States of 47 percent in textiles and apparel, with the next biggest supplier being Vietnam at 7 percent. China is also by far the largest supplier of textile products to Vietnam. Most of these products are used in the production of apparel for export overseas, primarily to the United States.

As the major supplier of textile inputs to Vietnam, China would benefit more than any other country from a "flexible rule of origin." This is because apparel orders would quickly switch from U.S. FTA partner countries to Vietnam in order to get duty-free access to subsidized Chinese yarns and fabrics. As the Western Hemisphere loses apparel orders, orders for yarns and fabrics from U.S. textile mills would shrink as well, leading to widespread plant closures and job losses.

The same scenario would face textile producers throughout the TPP region. By giving Chinese producers special access under a "flexible rule," there would be little incentive to put textile plants – and textile jobs – in the TPP region. Instead, the importers proposal would drive new investment in China as importers shift apparel orders to Vietnam and, in turn, increase their sourcing of Chinese yarns and fabrics to fill those orders. This is the opposite of what the United States economy needs, which is more export jobs for US workers. A "flexible" rule of origin cuts out the possibility for more U.S. textile exports to the TPP region, including Vietnam, by cutting out the requirement that textile products be produced in the region.

In FTA countries with strong textile rules, the "yarn forward" rule has helped to jumpstart apparel *and* textile production. This has been particularly true for countries in the Western Hemisphere which have concentrated on textile and apparel production and whose relatively low labor rates have enabled them to compete with Asian producers. Mexico and the CAFTA countries now export

[7] "Analysis Details Vast Chinese Subsidies for Their Textile Exporters," NCTO release, Oct. 5, 2011

nearly two billion dollars in textile products each year, in addition to the nearly $15 billion in apparel they send to the United States. Hundreds of new textile companies have been created in the CAFTA region to service the apparel trade. Using El Salvador as a case study, 59 new textile companies have invested in the country since CAFTA was passed.

c) A "flexible" rule of origin hurts the major U.S. jobs producing sector in the TPP apparel chain and destroys manufacturing investment in the U.S.

Because of relatively higher labor costs, over 95 percent of all apparel consumed in the United States is made abroad. The same, however, is not true in the textile sector, which is more capital intensive and has remained firmly embedded in the United States. This result was an intentional policy decision by past Congresses and Administrations that recognized that higher value, higher paying textile jobs were important to retain in the United States. In fact, retaining textile manufacturing jobs in the United States was the primary reason that previous FTAs have mandated that textile inputs be made in the FTA region. The FTA's recognized that as apparel orders migrated overseas, it was important that the textile jobs that are tied to those orders remain in the United States. As a result, at least half the value of the apparel coming from the Western Hemisphere is content made in the United States by U.S. textile workers.

The U.S. textile industry has remained committed to maintaining U.S. plants and U.S. employment. While other manufacturing sectors have moved overseas, U.S. textile companies have increased their investment in U.S. plants and in U.S. jobs. Over the past two years, five new plants have opened in the United States, including a new $500 million textile fiber facility in South Carolina. The industry spends over one billion dollars a year on new plants and equipment in the United States.

The U.S. textile sector employs directly over 250,000 workers and, according to U.S. government statistics, indirectly supports hundreds of thousands of other workers in the United States. A textile job in the United States supports cotton growers, man-made fiber producers, chemical manufacturers, machinery companies, trucking companies, energy generators, packaging companies and the like.

In contrast, the groups that are supporting a "flexible" rule of origin will not add – or lose – a single job in the United States if such a rule is adopted. As importers and retailers, their domestic workforce will not be significantly impacted regardless of the final rule of origin. While importers and retailers would undoubtedly increase their profits under a "flexible" rule of origin, the rule itself would not bring any new jobs to the United States because the rule only impacts where the textile manufacturing occurs. Thus while Wal-Mart or the Gap would see a "flexible" rule of origin as benefiting their corporate bottom lines because they can continue – and even increase – their access to subsidized Chinese yarns and fabrics, they will not add store clerks or management to their U.S. workforce. Efforts to imply that a "flexible" rule of origin supports U.S. jobs are simply inaccurate.

Instead, what these groups would get is higher profits. Currently, they pay over one billion dollars to the U.S. Treasury in duties for apparel products imported from Vietnam that are made with Chinese yarns and fabric. Under the 'flexible rule of origin' proposal, they would get that 15 percent duty removed, which would add billions of dollars over time to their bottom lines.

The cost of such a strategy is borne by U.S. textile workers, U.S. textile companies and by apparel workers in countries bordering and near the United States who depend on orders from these companies for their jobs. As importers shift more orders to Vietnamese apparel plants and Chinese yarn and textile mills, U.S. workers and U.S. companies suffer and the U.S. loses more manufacturing jobs.

The overall U.S. economy suffers as well because this strategy continues the cycle of transferring U.S. manufacturing jobs overseas in return for increased importer profits, and it has played a significant role in the decline of living standards in the United States. Textile jobs, as with other manufacturing jobs, produce more wealth and value added benefits to the rest of the U.S. economy than any other type of labor. Numerous studies show that once a textile, or other manufacturing job, is lost, it is usually replaced by a lower paying job in the retail or service sector which supplies fewer worker benefits. That is, when the job is replaced at all.

2) Fair Market Access Rules

Market access rules define how quickly tariffs under a TPP agreement will phase-out. In past agreements, tariff phase-outs have been extended for longer periods of times if products were import-sensitive, either because of significant production or government assistance to a home industry.

In the case of the TPP, Vietnam has both a large apparel industry and significant government support of that industry. Vietnam's apparel exports constitute the great majority of its export trade, and the government continues to target that export sector with large subsidies and other types of support. As has been past practice, the United States should insist on extended tariff phase-outs and other adjusting mechanisms for textile and apparel products where Vietnam could surge into the U.S. market.

<u>Vietnam – State Owned Enterprises – Vinatex</u>

In terms of trade flows, Vietnam, paying full duties, is the second largest supplier of textiles and apparel to the United States, only behind China. And Vietnam has a long history of supporting and promoting state-owned enterprises, especially within the textile and apparel sector. For instance, Vinatex, the state-owned textile and apparel consortium in Vietnam, is the tenth largest garment producer in the world. Furthermore, 57 percent of the U.S. merchandise trade deficit with Vietnam is in textiles and apparel.

The Government of Vietnam (GOV), like China, still provides overall direction to its textile sector through the use of Ten Year Plans. Through the plans, the GOV sets production targets for its fiber, fabric and apparel sectors. The 2001-2010 plan set incentives that would allow apparel production to double. The most recent plan, through 2020, has a goal of nearly tripling that figure.

Government Ten Year Plans make it clear that the GOV intends to drive this extraordinary growth through a range of preferential policies and subsidies that target the sector for "rapid development." Given the GOV ambitious targets for its textile sector, export-oriented products such as textiles and apparel will continue to benefit from GOV support for the foreseeable future.

As a study supplied to the U.S. government by NCTO shows, Vietnamese textile and apparel producers and exporters receive subsidies from the GOV that include:

1) Discounts on loan rates (as much as 50 percent)
2) Access to state capital for financing needs
3) Free or discounted land and preferential access to land
4) Income tax reductions and postponements
5) Preferential exemptions and reductions for other taxes and fees
6) Preferential duty-free imports of parts, accessories and other goods
7) Subsidies for research and development, trade promotion and technology transfer
8) Special subsidies on export promotion and financing for exporters impacted by the Global Financial Crisis
9) Excessive rebates of import duties for inputs to goods to be re-exported
10) Worker training subsidies
11) Cotton subsidies (currently being introduced)

Vinatex is one of the most glaring examples of a state owned enterprise in Vietnam. Vinatex, a state-owned company, is the largest producer of garments in Vietnam, the tenth largest producer of garments in the world and currently controls about 25 percent of Vietnam's textile and apparel export sales.

State intervention – which is anathema to our free market system – cannot be allowed to damage or possibly destroy a large and successful textile and apparel platform that has been developed over the past 20 years through a succession of carefully constructed U.S. government trade initiatives.

The depth and range of Vietnam's support for its textile and apparel sector is a primary reason that NCTO has asked for the longest tariff phase-out terms and other mechanisms for sensitive textile and apparel products. NCTO also supports language that would force

Vietnam to divest from its state-owned entities and halt subsidization of its textile and apparel sector.

3) Strong Customs Enforcement Rules

The past five years have demonstrated that the present set of customs rules developed under the CAFTA agreement are easily evaded by fraudulent producers, most of whom reside in China. The loopholes exploited by these fraudulent players have significantly cost both the domestic textile industry and U.S. Treasury. In order to ensure the laws are being enforced and that fraudulent players are not allowed duty free access to our market, customs rules must be updated to include an effective tracking system of yarn and fabric inputs, in addition to other measures. Given Vietnam's heavy reliance on China for yarns and fabrics, strong customs rules are mandatory if fraudulent activity is to be contained.

The U.S. textile industry urges the U.S. government to develop a customs enforcement system that builds trust in the system by effectively eliminating illegal transshipment of goods. The industry believes that effective customs enforcement must move away from a paper-based tracking system where fraud is common place and detection occurs after-the-fact. Instead, negotiators should include an electronic customs enforcement system that would eliminate the potential for fraud and errors that accompany paper-based record keeping systems. Electronic documentation makes record keeping easier for producers and importers alike and would ensure that benefits from the TPP rules are realized by partner countries, not by illegal producers.

In order to make an electronic customs enforcement tracking system a reality for other FTAs as well, legislative action is necessary. The industry urges the House Ways and Means Committee to incorporate H.R. 2754, the Textile Enforcement and Security Act, into its overall Customs Reauthorization effort. H.R. 2754 would make the statutory changes necessary to move textile and apparel customs enforcement from a paper-based system into an electronic system as well as make other changes to reduce textile fraud.

Conclusion:

The United States government has a unique opportunity to develop a high-standard, Twenty-first Century, forward thinking agreement through the Trans-Pacific Partnership negotiations. In the textile chapter, the "yarn forward" rule of origin supports hundreds of thousands of U.S. textile jobs as well as 1.5 million textile and apparel jobs in countries bordering and near the United States. This rule is today bringing back jobs and production from Asia.

In contrast, a "flexible" rule of origin would reverse that trend, causing widespread plant closures and job losses in the U.S. textile sector and destroying enormous export markets that our free trade partners in the CAFTA, NAFTA, Andean, Haiti and African trade programs depend on. It would also enrich Chinese textile manufacturers who would displace U.S. production and retard textile development in the entire TPP region. The other principal beneficiaries would be importers and retailers who would get more than

$1 billion in new duty savings while displacing more U.S. manufacturing at a time when the need for more jobs in the United States, particularly U.S. manufacturing jobs, is extremely high. NCTO and its many partners overseas strongly urge that the "yarn forward" rule, along with the principles of fair market access and strong customs enforcement, that have been encapsulated in every major FTA during the last 25 years be continued in the Trans-Pacific Partnership Agreement.

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COMMENTS OF

eBay Inc.

BEFORE THE

United States House of Representatives Committee on Small Business

Chairman Graves, Ranking Member Velazquez and Members of the Committee: Thank you for the opportunity to submit comments on the Trans-Pacific Partnership (TPP) and its impact on small businesses.

eBay Inc. was founded in 1995 and is headquartered in San Jose, California. Our business connects millions of buyers and sellers across the globe everyday through the eBay platform, which is the world's largest online marketplace; through PayPal, which enables individuals and businesses to securely, easily and quickly send and receive online payments; and through GSI Commerce, which facilitates e-commerce, multichannel retailing and digital marketing for global enterprises. We also reach millions of consumers through specialized marketplaces such as StubHub, the world's largest ticket marketplace; and eBay Classifieds sites, which together are available in more than 1,000 cities around the world.

Among those that use the eBay platform are hundreds of thousands of U.S. small businesses and entrepreneurs located in every state and congressional district across the country. The Internet and the eBay marketplace provide these small businesses and entrepreneurs with low-cost access to potential buyers far outside the limits of their traditional geographic footprint. eBay Inc. provides global platforms that enable small businesses to engage in exporting and importing. With one-click eBay retailers – from an individual trying to clean out his garage to a small business focused on wholesale electronics – can utilize our platform and services to market their goods to the global marketplace. eBay is able to convert English-language listings of small businesses into several other languages in order to better access foreign buyers. Moreover, PayPal, allow for payments in 25 currencies. eBay also offers a host of services, from website backend design to fulfillment, that can aid small businesses in establishing their own website and engaging in global trade. Currently, over 20% of transactions on eBay.com involve cross-border trade. This translates into approximately $3.5 billion dollars in goods were exported over the eBay platform in 2010. 97% of the commercial sellers on eBay export.[1] The idea that a small business can engage in global trade is now a reality thanks to the technology involved in the eBay global e-commerce platform.

eBay Inc. supports reducing barriers to trade and therefore is excited about the prospect of reducing trade barriers in the most dynamic economic region in the world through the TPP. The removal of regulatory barriers and the streamlining of regulatory processes are particularly beneficial to small business exporters that utilize the eBay platform. eBay is supportive of the United States Trade Representative's (USTR) focus on improving supply chains. Also, eBay is supportive of USTR's decision to hone in on small business trade facilitation. Facilitating small business exporting over through e-commerce platforms is what a 21st century trade agreement ought to be about.

eBay has concerns in the Customs and Intellectual Property chapters of the TPP.

I. Customs Issue – De Minimis

eBay is concerned that the issue of de minimis may not be addressed in the Customs chapter of the TPP. The de minimis is the threshold below which goods being imported are not subject to duty and paperwork requirements. Currently, the de minimis threshold in the US sits at $200. The following chart compares the de minimis rates of the other eight TPP parties:

Country	De Minimis in US Dollars	Country	De Minimis in US Dollars
Australia	1,075	Peru	200
Chile	30	Singapore	324
Malaysia	166	Brunei Darussalam	319
New Zealand	320	Vietnam	48

[1] Commercial Sellers have annual sales above USD 10,000 on eBay.

A pathfinder initiative was agreed to at the Asia-Pacific Economic Cooperation (APEC) Ministers Meeting in Hawaii in November, 2011. This pathfinder initiative committed APEC economies to implement a de minimis value of $100 or higher by the end of 2012. The initiative also committed signatories to work towards broader application of de minimis in the region. Finally, the initiative found that high de minimis levels provide considerable economic benefits to customs administrations as well as the private sector as a result of facilitating the immediate release of low-value shipments.

Higher de minimis levels are particularly beneficial for small businesses. Small businesses that source products with low value shipments will see benefits through cost savings and efficiency. Moreover, small business exporters can also benefit from a higher de minimis because they are able to offer returns on low value shipments.

eBay encourages the adoption a uniform baseline de minimis threshold across TPP economies. The level of the de minimis can be the subject of discussion. There is a currently legislative proposal in the US to raise the de minimis level to $1,000, which provides a more accurate reflection of the threshold in the rapidly growing nature of e-commerce in low value shipments. The current $200 level in the US could also be used as a baseline threshold. Finally, the $100 level agreed upon at the APEC ministers meeting should at a minimum be included as the de minimis threshold for TPP nations. The inclusion of a baseline de minimis is key as it would provide harmonization across TPP economies.

The US should make achieving agreement that TPP countries at least raise their de minimis levels to $200 a high priority. Moreover, the US should include a provision in the TPP that affirms that higher de minimis levels are beneficial to small businesses.

II. Intellectual Property Issue – Ensuring Balance to Protect Small Businesses

eBay is an innovator and a market leader when it comes to protection of intellectual property rights. eBay actively and successfully fights to stop the trade of illegitimate goods. At the same time, eBay facilitates small businesses that trade in legitimate goods. eBay supports an intellectual regime that supports the free flow of e-commerce.

Small businesses frequently use innovative sourcing methods to acquire product. Small businesses source goods from a variety of wholesellers and resellers, and therefore do not always have a direct relationship with the manufacturer or brands-owner. In the US, there are important balancing provisions in intellectual property law to ensure that these small businesses can legally obtain products on secondary markets and resell those products on secondary markets. This balance creates a robust secondary market that is beneficial to the overall economy, and particularly helps innovative small businesses. Free trade agreements should encourage the innovative sourcing methods and wide-ranging selling practices that small businesses currently utilize.

There is a provision being discussed in the Intellectual Property chapter of the TPP that is troublesome as it could require businesses to have to obtain permission from a copyright owner before they are able to sell a legitimate good. Without a balancing provision that allows resale of goods after a first sale, small businesses are limited in their ability to freely engage in global e-commerce.

eBay would propose two possible solutions to address our concern. First, include a robust balancing provision, which states that once an authentic good is purchased anywhere in the TPP region it can be resold without requiring authorization by the rights-owner. Or, at a minimum, eliminate the concerning language since it is not properly balanced.

Small businesses would benefit from a provision, which states that once an authentic good is purchased within a TPP country, it can be freely resold. Such a rule would encourage robust secondary markets and would create positive economic externalities.

eBay Inc. appreciates the opportunity to present comments on these very important issues.

Congress of the United States
Washington, DC 20515

May 1, 2012

Ambassador Ron Kirk
600 17th Street, N.W.
Washington, DC 20508

Dear Ambassador Kirk:

As members of the United States House of Representatives representing substantial domestic textile and apparel industry interests, we write to underscore the economic imperative of a strongly negotiated Trans-Pacific Partnership (TPP). In particular, we stand ready to work with USTR to ensure that the textile and apparel chapter reflects the trade sensitivities of an agreement with Vietnam and that the TPP respects the economic investments that past trade and preference agreements have made in the establishment of global textile and apparel supply chains and the nearly two million textile and apparel jobs created as a result.

The TPP negotiations are particularly important because they include Vietnam, which is the second largest exporter of apparel to the United States. Vietnam's exports have grown dramatically – up 15,000 percent over the last ten years. This enormous growth has been fueled by Vietnam's large state-owned, state-subsidized apparel sector. Without strong textile rules in the TPP, state-subsidized producers in Vietnam could easily overwhelm U.S. and other producers in the Western Hemisphere and around the world, destroying billions of dollars worth of export markets and causing job losses in the hundreds of thousands.

As chief negotiator for the United States, we encourage you to incorporate important criteria for the textile and apparel chapter that will stimulate private investment, exports and job growth within free trade partnering countries, including the United States. To date, we are pleased at the strong position the United States has taken regarding Rule of Origin issues and we urge USTR to likewise take a strong stance in support of other key textile and apparel negotiating objectives regarding market access and customs enforcement. We hope you will focus on the following objectives:

1) Yarn-forward rule of origin. This rule has been the cornerstone of the textile and apparel provisions for nearly all U.S. free trade agreements dating back to North America Free Trade Agreement (NAFTA). A comprehensive yarn forward rule ensures that the benefits in the agreement accrue to workers and companies in the United States and other TPP partner countries. Moreover, inasmuch as Vietnam has one of the largest and most competitive apparel industries in the world, there is no reason to depart from the traditional rule of origin.

2) Market access rules. Special rules should be negotiated under the TPP given Vietnam's non-market economy status and the anti-competitive advantages Vietnam provides to its state-owned textile and apparel sector. Various approaches for sensitive products should be considered, including extended duty phase-down/phase-out periods, new safeguard procedures and prohibitions on goods from state-owned enterprises, etc.

3) Customs enforcement rules. The enforcement rules should be updated to include electronic

tracking of yarn and fabric inputs as well as other measures that target fraudulent activity. Given Vietnam's heavy reliance on China for yarns and fabrics, strong customs rules are mandatory if illegal activity is to be contained.

The domestic textile and apparel industry has built a competitive and integrated supply chain in the Western Hemisphere through the NAFTA, Central America Free Trade Agreement and regional preference programs. This supply chain supports hundreds of thousands of agricultural and manufacturing workers in the United States and more than one million workers in countries on our border. Without strong textile rules in the TPP, this trade will shift out of the Hemisphere. In addition, many textile and apparel workers in Africa would see their export markets to the United States devastated. Strong textile rules are important to ensure the U.S. textile industry will not lose any export opportunities the TPP might otherwise offer.

Thank you for your consideration of our views, and we look forward to your response on this important matter.

Sincerely,

Trey Gowdy
Rep. Trey Gowdy
Member of Congress

Larry Kissell
Rep. Larry Kissell
Member of Congress

Rep. John Barrow
Member of Congress

Sanford D. Bishop Jr.
Rep. Sanford Bishop
Member of Congress

Rep. Bruce Braley
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Mo Brooks
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Rep. Joe Courtney
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Rep. Rick Crawford
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Rep. Danny Davis
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Rep. Rosa DeLauro
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Rep. Jeff Duncan
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Rep. John Duncan
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Rep. Renee Ellmers
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Rep. Jo Ann Emerson
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Rep. Stephen Fincher
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Rep. Chuck Fleischmann
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Rep. Virginia Foxx
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Rep. Barney Frank
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Rep. Marcia Fudge
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Rep. Phil Gingrey
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Rep. Tom Graves
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Rep. Morgan Griffith
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Rep. Raúl Grijalva
Member of Congress

Rep. Rubén Hinojosa
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Rep. Tim Holden
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Rep. Hank Johnson
Member of Congress

Rep. Marcy Kaptur
Member of Congress

Rep. Dennis Kucinich
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Rep. Dan Lipinski
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Rep. Thaddeus G. McCotter
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Rep. Patrick McHenry
Member of Congress

Rep. Mike Michaud
Member of Congress

Rep. Mick Mulvaney
Member of Congress

Rep. Randy Neugebauer
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Rep. Robert Hurt
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Rep. Walter Jones
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Rep. Jack Kingston
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Rep. James P. McGovern
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Rep. Mike McIntyre
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Rep. Tim Ryan
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Rep. Janice Schakowsky
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Rep. Mel Watt
Member of Congress

Rep. Lynn Westmoreland
Member of Congress

Rep. Joe Wilson
Member of Congress

Rep. Robert A. Brady
Member of Congress

Association of Small Business Development Centers

Statement of

C. E. "Tee" Rowe, President/CEO

Association of Small Business Development Centers

Committee on Small Business

United States House of Representatives

May 16, 2012

Chairman Graves, Ranking Member Velazquez, Members of the committee, thank you for the opportunity to submit testimony on strategies to improves small business participation in international trade.

The small business development center network offers a wide variety of programs and services to assist small businesses in their efforts to access market opportunities overseas. Barely one percent of small businesses export their goods and services and their reluctance or inability to conduct international trade severely inhibits both their growth and the growth of the national economy.

Over 90% of the world's markets lie outside the United States' borders and the 99% of small businesses that don't export are missing amazing opportunities for success. True, not all small business are ready or even interested in international trade but those that are ready deserve the assistance and opportunities to access those markets.

The International Trade center SBDCs operate over 24 International trade centers all around the country in coordination with our total network of nearly 1,000 centers. At International Trade Centers small businesses can receive assistance in preparing for and tackling international trade. In the small business development center network we strive to identify those firms that are or are close to being "export ready" and assist them with developing the tools and strategies they need to succeed. What SBDCs consistently find is that small businesses are daunted by the complexity of trade regulations and the potential uncertainty of international business transactions. Their first question is usually not, "how do I sell?" but, "who can I trust?" However, even before you can answer that question a small business has to be ready.

Export Readiness

At SBDC International Trade Centers small businesses receive consulting and training on the state of their firm and their readiness to participate in the global marketplace. The Small Business Development Centers assist small business owners in developing and executing international trade strategies. Through one-on-one counseling, training and workshops, customized research, and access to a network of trade professionals, the SBDC provides clients with the tools to successfully and profitably navigate the world of international trade. Meeting with small businesses SBDC consultants help determine the exportability of products or services, identify appropriate markets and buyers, develop market entry strategies, establish shipping and distribution networks, determine appropriate payment methods and identify export financing and insurance needs.

Our international trade centers also offer training seminars on the Fundamentals of Importing and Exporting, NAFTA, Global Market Series-Importing, Global Market Series-Exporting and many other seminars to help small business build and maintain their trade skills.

Trade Research

To aid in the process of getting a small business export ready SBDC Export/International Trade Centers also provide international market research to help clients make informed decisions on their international business activity. The Export Centers have access to a wealth of information on export markets, ranging from general country information to specialized information on markets for specific industries/products in countries worldwide. In some cases, Export Centers can also conduct primary research for small business clients needing specific information unavailable through secondary sources. Examples of research SBDCs provide to clients include:

- General information on doing business in different countries
- Demographic, economic, political and cultural information on different countries
- Information on specific industries/products in export markets, including:
  - market size, characteristics and trends
  - competitive environment
  - trade barriers and regulatory environment
  - pricing infrastructure
  - sales & distribution channels
  - key contacts (manufacturers, distributors, end-users, trade associations and journals, government offices, etc.)
  - trade shows
- Detailed statistical information on U.S. exports by state, product and country

Compliance Assistance Programs

A major hurdle small businesses face is the various export control regimes and regulations that govern international trade. Several SBDC ITCs offer Export Compliance Assistance Programs. Through these programs, they educate small businesses on export regulations and practices that can be implemented to ensure compliance.

In recent years, the federal government has significantly tightened export regulations in response to growing threats to national security. Government export enforcement officials are actively pursuing companies whose export operations are not compliant with U.S. regulations. Lack of export regulatory awareness on the part of an exporter can lead to audits and a whole host of penalties, including fines, revocation of export privileges and debarment from contracting.

Many small businesses mistakenly believe that they are not affected by export regulations because they produce innocuous products or sell only to "friendly" countries. Whether they know it or not, all exporters operate under U.S. export control laws, which are broad and far-reaching. Even with the help of a freight forwarder, small businesses can unknowingly violate these laws. The exporter is ultimately responsible to have a thorough understanding of export regulations and to establish operating procedures aimed at preventing violations.

At SBDCs export compliance assistance is a *free* service offering:

- Counseling and technical assistance on the full range of U.S. export regulations
- ECCN classification guidance
- Export license determination assistance
- Assistance in establishing an Export Management System

- In-house training on the Export Administration Regulations, documentation and procedures
- Targeted referrals to government authorities responsible for export controls
- Low cost seminars on export compliance issues
- Onsite assistance available through the network of offices

SBDCs also regularly collaborate with the US Census Bureau's Foreign Trade Division to host seminars on the Foreign Trade Regulations (FTR) and the Automated Export System (AES). These seminars provide two days of training on changes to the FTR, common mistakes and how to avoid them, Export Controls and Enforcement and Commodity Classification. In addition, the seminars help familiarize small businesses with the Census bureau's extensive trade statistics system.

By working with the Census Bureau and other agencies SBDCs help small businesses get their documentation done right the first time and develop the skills they need to handle exports on their own.

Export Financing

Helping small businesses attract and handle financing has always been a strength of the SBDC network. In international trade SBDCs work closely with SBA's Export Loan program, the Export -Import Bank and conventional financial institutions to help small businesses support their international trade activities. Without these funds many small business would face uncertainty and potentially unnecessary losses.

Conclusion

As you can see, SBDCs offer a wide range of international trade services, but these services are extremely resource intensive. Also, international trade assistance is incredibly complex. SBDCs do an outstanding job but it is difficult to cover all situations. SBDCs assist small business whenever and wherever they want to do business and help navigate the regulatory maze but efforts to streamline and coordinate export services are necessary. ASBDC welcomes the committee's focus on unraveling some of this complication and bringing a small business focus to the national effort to increase trade.

The complexity and the cross-agency jurisdictions are not the fault of the Obama Administration, the Bush Administration or Congress. Rather they are a product of years of changing economic realities and the many responses to those issues. However, it isn't just assistance and guidance that is necessary. We need Free Trade Agreements that are clear and focus on small business interests, and we need tariff and export controls that are uniform, clear and specific. The ASBDC appreciates the efforts of the Trade Promotion Coordinating Committee, there are a great help in our efforts to educate small business on trade. Likewise, the US Trade Representative has been a solid advocate for small business concerns and a solid supporter of SBDC expansion worldwide. Those efforts are vital but there is much more work to be done.

Thank you.

AMERICAN
FROZEN FOOD
INSTITUTE

Testimony of Kraig R. Naasz

President & CEO

American Frozen Food Institute

Before the House of Representatives Committee on Small Business

May 16, 2012

Chairman Graves, Ranking Member Velazquez and members of the committee, on behalf of the American Frozen Food Institute (AFFI), and its more than 500 members, I am pleased to submit this testimony regarding opportunities to create new and expanded export markets for U.S. frozen food producers. AFFI is the sole national trade association that represents every sector of the $70 billion frozen food industry, including food producers, growers and distributors.

AFFI serves the frozen food industry by advocating on behalf of frozen food companies in Washington, D.C., and communicating the value of frozen food products to the public. The U.S. frozen and packaged food industry supports nearly 2 million U.S. manufacturing and agricultural jobs, and accounts for nearly 15 percent of U.S. manufacturing output. Most of these jobs are provided by small and medium-sized companies.

AFFI member companies have seen first-hand how increased trade and market access openings can benefit U.S. food makers. Over the last decade and a half, the North American Free Trade Agreement (NAFTA) has opened major new export opportunities in Canada and Mexico for U.S. frozen food producers, boosting U.S. exports and jobs. In addition, NAFTA has allowed U.S. frozen fruit and vegetable producers to take advantage of different growing seasons to secure new supplies of high-quality Mexican and Canadian inputs that can support U.S. frozen food production and jobs.

We commend the recent work of Congress and the administration to open new markets for U.S. frozen foods in key economic regions through approval and implementation of the Korea, Colombia, and Panama Free Trade Agreements (FTA) in October 2011. These agreements provide welcome new economic opportunties, but there are many additional opportunties worthy of our attention. The U.S. is a global leader in exporting packaged food and beverage products, with annual export sales of more than $50 billion to more than 200 markets around the world. In this time of economic uncertainty, we should be pursuing many new avenues to expand export markets for U.S. food and agricultural products.

In order to continue the trade momentum ignited by passage of the trade agreements with Korea, Panama and Colombia, it is vital for U.S. food makers that America's global trade agenda include the following priorities: 1) work to finish the implementation of the FTAs with Korea, Panama and Colombia and ensure the laws and regulations of participating countries comply with FTA commitments; 2) focus on opening new trade opportunities, such as inviting Japan, Mexico and Canada into the Trans-Pacific Partnership Trade Agreement (TPP); and 3) protect the organizational structure of our trade agencies and bolster their expertise and focus on promoting U.S. food and agriculture interests globally.

Implementation of Korea, Colombia and Panama Free Trade Agreements

AFFI applauds congressional approval of the Korea, Colombia and Panama FTAs and commends Congress for reviving the Generalized System of Preferences and the Andean Trade Preferences and Drug Eradication Act. These critically important trade preferential agreements provide the frozen food industry with access to a ready supply of globally-sourced and duty-free inputs, while spurring economic activity in developing nations.

All three recently approved FTAs will not become effective until all sides have fully implemented their FTA obligations and the President issues a proclamation that the agreements have entered into force. Implementation involves an arduous process of combing through various foreign laws and regulations to ensure that they comply with FTA commitments. As the Office of the U.S. Trade Representative (USTR) moves into the implementation stage on these agreements we would urge USTR to complete this process as expeditiously as possible, as competitors to U.S. food products are trying to take advantage of this critical window of time.

As an example, the U.S. is currently the largest supplier of frozen sweet corn and the fourth largest exporter of frozen orange juice and frozen potatoes to South Korea. The new FTA gives U.S. exporters significant advantage over the major competitors of Brazil and Israel, which do not have a pending FTA. Tariff eliminations on frozen strawberries, raspberries, blueberries and blackberries provide another especially important economic opportunity to small and medium-sized U.S. fruit growers and processors seeking increased market access in South Korea.

However, speed of implementation is critical. One of the Pacific Northwest's most respected family run frozen berry companies has been attempting to introduce frozen U.S. blueberries to South Korea for the past six years. Demand has risen to approximately $20 million in exports according to the North American Blueberry Council. However, on a recent visit, AFFI's member company found that Chile is aggressively marketing the fact that its fruit currently has a lower duty rate than U.S. fruit. This AFFI member company worries that by the time the U.S.-Chile FTA is fully implemented, and the duties on U.S. and Chilean fruits are equal, the Chileans will enjoy an entrenched position of dominance.

AFFI urges the committee to closely monitor the implementation process. It is critical to our success that USTR continue to press foreign governments to fix FTA-inconsistent laws and regulations and ensure these agreements take effect as quickly as possible.

Expanding the Trans-Pacific Partnership Trade Agreement

In November 2011, Japan, Mexico and Canada expressed interest in joining the TPP, a multilateral free trade agreement that aims to further liberalize trade amongst the economies of the Asia-Pacific region.

Japan, Canada and Mexico represent three of the four largest export markets for U.S. foods. All offer major opportunities for future U.S. export growth. AFFI sees the TPP as the potential foundation of a dynamic and expanding Asia-Pacific marketplace.

However, each country is unique in the challenges it brings to the TTP alliance. Although AFFI welcomes the interest by Japan, Canada and Mexico in joining the TPP, we encourage the committee to stress with USTR that the participation of each country in the negotiations should be conditioned on acceptance of the broad principles and ambitious goals underlying the TPP, including the "Outlines of the Trans-Pacific Partnership Agreement," which was agreed at the APEC Leaders' Summit in Hawaii last November. USTR should not permit TPP to turn into another Doha Development Round, which has been crippled by the lack of commitment by some World Trade Organization members to embrace further trade liberalization and an unwillingness by many to contribute to a balanced outcome.

We encourage U.S. negotiators to continue to pursue a dynamic and ambitious TPP that:

- Leads to the comprehensive elimination of foreign tariffs on U.S. frozen food products with no exclusions or exceptions;

- Provides enhanced sanitary and phytosanitary disciplines that ensure that food safety rules and regulations in TPP member countries are science-based, consistent with international standards, and formulated through transparent rule-making processes;

- Establishes uniform rules of origin across TPP members that are compatible with global sourcing of key inputs, do not operate as non-tariff barriers to U.S. frozen food products, and are objective, transparent and predictable;

- Promotes the development of integrated supply chains that expedite the manufacture, movement, distribution and sale of frozen food products within the TPP region;

- Promotes regulatory coherence through new disciplines that require greater transparency in the drafting of government regulations, incorporate notice and comment procedures and cost-benefit analyses by TPP members, and work to reduce redundancies in testing and certification requirements; and

- Requires customs procedures that are predictable, timely and transparent; expedite and facilitate trade in frozen foods; and do not serve as an obstacle to efforts by AFFI members to link their production, distribution and supply chains across an integrated Asia-Pacific marketplace.

Time is of the essence if the negotiations are to continue to progress this year. We urge USTR to continue to move forward with the TPP negotiations. While we have individual market access goals and challenges for each country, which we will review here, AFFI urges the committee to support a TPP process that is focused on comprehensive market access commitments that eliminate tariff and non-tariff barriers by all participants.

TPP Negotiations with Japan

Japan is the fourth largest export market for U.S. agriculture, and one the best opportunities in the world for U.S. exporters of frozen foods. Japan's food and beverage market is one of the biggest in the world with annual consumption totaling approximately $700 billion. Exports of U.S. grains, meat, fish, fruits and vegetables, and frozen food products totaled $11.8 billion. The U.S. is the largest exporter of frozen foods to Japan by volume, with exports of 318,853 tons in 2010, and the second largest by value after China. In 2010, the U.S. exported over $300 million of frozen French fries to Japan with a 70 percent market share. The U.S. also exported large quantities of frozen sweet corn, frozen strawberries, frozen vegetables, frozen orange juice, frozen dairy products and frozen prepared foods.

However, Japan's compliance with TPP standards remains the biggest concern for the U.S. frozen food industry. Today, there are a number of barriers to trade the committee should be aware of as negotiations develop, including:

Tariffs — Although Japan is a major consumer of U.S. frozen foods, it maintains comparatively high tariffs on many U.S. products. For example,

Product	Tariff
Frozen Potatoes	8.5 - 10 percent
Frozen Corn	10.5 - 12.5 percent
Frozen Vegetables	6 - 23.8 percent
Frozen Pineapple	24.5 percent

Sanitary and PhytoSanitary (SPS) Measures — Although Japan is an important trading partner, it maintains overly restrictive SPS requirements that are out of step with accepted international standards.

Monitoring of Chemical Residues — Japan introduced a chemical residue monitoring policy in 2006 that calls for 100 percent testing of imported food products after only two violations. For example, in 2008, after a shipment of U.S. fresh potatoes was found to have exceeded levels for a pesticide, Japan required 100 percent testing of fresh and processed U.S. potatoes until January 2009.

Country of Origin Labeling — Japan requires extremely detailed country-of-origin labeling of food ingredients, including mixtures, under the Act for Standardization and Proper Labeling of Agricultural and Forestry Products.[1] This imposes added burdens on U.S. firms that use imported and domestic ingredients.

Genetically Modified Organism (GMO) Labeling — Since 1999, Japan has required mandatory labeling of GMO foods and processed products under the Act for Standardization and Proper Labeling of Agricultural and Forestry Products and the Food Sanitation Act.[2] This requirement differs greatly from U.S. food standards and would be a tremendous burden for U.S. food manufacturers.

Food Additives/MRLs — Japan restricts the use of many commonly used food additives, including additives that have been reviewed and approved by the Codex Alimentarius, the global standard setting body. The process for adding a new food additive to the Japanese list and establishing new Maximum Residue Levels (MRLs) is time-consuming, complex and costly.

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[1] JETRO, Guidebook for Export to Japan (Food Articles) 2011: Vegetables, Fruits, and Processed Products, p. 9 (March 2011).

[2] Id.

Product Standards — Japan maintains numerous idiosyncratic, mandatory product standards that deviate from internationally accepted Codex specifications. This practice limits the ability of AFFI members to market U.S.-origin ingredients and prepared foods in Japan, and imposes an added cost of developing products specifically for the Japanese market.

TPP Negotiations with Mexico

In 2010, the U.S. exported $14.6 billion of agricultural products to Mexico. Under NAFTA, Mexico has emerged as the third largest export market for U.S. agricultural and processed food products, an important and growing market for U.S. frozen food products, and a source of high-quality fruits and vegetable ingredients for the U.S. frozen food industry. On Jan. 1, 2008, Mexico eliminated its remaining tariffs and tariff-rate quotas on U.S. farm products under NAFTA, and fully opened its market. Mexico is a major market for U.S. frozen potatoes. In recent years, the U.S. has exported approximately $80 million of frozen French fries annually to Mexico.

Although our exports of frozen foods to Mexico have continued to expand, further integration of supply chains and regulatory coherence should be set as priority items if Mexico joins TPP. AFFI believes Mexico's approval process for registering U.S. beef and pork plants is slow and leads to unnecessary delays. Our members find that approvals for labels and label changes can be slow and inconsistent.

Mexican growers are vital as a source of high-quality fruit and vegetable inputs for the U.S. frozen food industry. However, in building sourcing and ingredient supply cross-border relationships, many U.S. small businesses struggle to navigate Mexico's trade bureaucracy.

USTR should seek to further improve the transparency of Mexico's regulatory processes to ensure meaningful consultation with U.S. stakeholders, adequate time for implementation of new rule changes and regulations, and adequate public comment periods.

AFFI believes the integration of supply chains, improved regulatory cooperation, and streamlined customs procedures on both sides of the border should be a priority for USTR in TPP negotiations with Mexico.

TTP Negotiations with Canada

Under NAFTA, U.S. exports of frozen foods to the Canadian market have increased sharply. The U.S. now accounts for approximately 70 percent of Canada's imports of frozen foods. However, trade barriers still exist. U.S. frozen food companies also use Canada as a supply source. Because of this, AFFI recommends USTR not only focus on increasing the trade of U.S. goods with Canada, but also promoting an integrated North American supply chain in TPP negotiations.

Under its supply management scheme for dairy and poultry, Canada strictly controls production of dairy products, chickens, turkeys and eggs in order to regulate price and supply. As part of this scheme, Canada restricts imports through a combination of tariff-rate quotas and prohibitively high tariffs. Canada's over-quota tariff on frozen yogurt, for example, is more than 200 percent. In addition, Canada subsidizes certain dairy and poultry inputs in order to maintain the competitiveness of Canadian processed food producers, e.g. frozen pizza, to ensure they are not put at a competitive disadvantage *vis á vis* U.S. producers with access to lower-cost ingredients.

AFFI recommends that TPP commitments with Canada should prioritize enhanced market access and believes USTR should concentrate its work on customs cooperation, transparency and regulatory coherence in order to enhance supply chain efficiency, reduce costs and border delays, and promote expanded trade.

Trade Agency Reorganization

On January 20 of this year President Obama announced a plan to reorganize federal trade agencies, and requested fast-track negotiating authority from Congress to implement his proposal. The president's plan would consolidate USTR, the Commerce Department, Small Business Administration, OPIC, Export-Import Bank, and U.S. Trade and Development Administration into a single "Department of Trade."

However, Congress and the business and agricultural communities have often noted the effectiveness USTR enjoys as a separate entity within the Office of the President, which enables it to act responsively to negotiations and implement and enforce U.S. trade objectives. Over the last decade, U.S. trade in agricultural, consumer and manufactured goods and services has accounted for an increasing share of U.S. economic growth and has contributed significantly to the high standard of living enjoyed by American workers and their families, in no small part due to the trade and market-opening agreements USTR has negotiated.

According to the U.S. Department of Agriculture (USDA), farm exports in fiscal 2011 were $137.4 billion and the trade surplus in farm exports hit a record of $42.9 billion. U.S. food and agriculture producers continue to be a bright spot in America's economy and a driving force behind export growth. For the U.S. food and agricultural communities, USTR and USDA play an important role in growing U.S. exports, eliminating foreign market barriers and improving the overall competitiveness of U.S. farm and manufactured goods and services in the international economy.

In response to the administration's proposal to consolidate trade agencies, over 80 U.S. business and farm groups, including AFFI, signed a joint letter opposing any efforts to move USTR into the Commerce Department on the grounds that it would weaken USTR's effectiveness. I would like to submit that letter with my testimony.

AFFI would recommend the committee oppose this effort and work to strengthen resources and government functions at USTR and USDA that focus on promoting increased trade in U.S. food and agriculture products.

Conclusion

On behalf of AFFI's more than 500 members, thank you for your consideration of our testimony. The frozen food industry prides itself on a history of innovation to produce food that maximizes nutrition and convenience, while minimizing costs. We see ourselves with the vast American agriculture resources at our reach as capable of feeding the world.

In keeping with the great advances the U.S. food and agriculture industry have made to spur growth in the economy and add to the trade surplus, AFFI recommends that the committee urge USTR to remain focused on implementing the recently enacted trade agreements; commit to a swift TPP process that does not individualize trade agreements; and communicate to the Administration that we need strong, separate trade agency structures if we are to move boldly into the future.

AFFI and the frozen food industry look forward to working with the committee to maximize trade opportunities for U.S. frozen food producers.