

**WRITTEN STATEMENT ON THE INTERNATIONAL TRADE ADMINISTRATION'S
FY 2008 BUDGET REQUEST
BY FRANKLIN L. LAVIN
UNDER SECRETARY FOR INTERNATIONAL TRADE**

**HOUSE APPROPRIATIONS SUBCOMMITTEE ON COMMERCE, JUSTICE, SCIENCE
AND RELATED AGENCIES
March 20, 2007**

OPENING

Mr. Chairman, Ranking Member Frelinghuysen and members of the Subcommittee, thank you for the opportunity to testify today in support of the FY 2008 budget request for the Department of Commerce's International Trade Administration (ITA).

Mr. Chairman, the mission of the International Trade Administration is to create prosperity by strengthening the competitiveness of U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements which enhance the ability of U.S. firms and workers to compete and win in the global marketplace. At ITA, our goal is to ensure that U.S. companies can compete fairly in foreign markets and take advantage of overseas commercial opportunities. We aggressively work to counter unfair market access barriers that impede U.S. exports. Moreover, when U.S. businesses seek to promote their goods and services in overseas markets, our programs smooth the way. In short, ITA helps America's firms and workers navigate through the often complicated and unpredictable waters of foreign trade -- so that U.S. firms' sales abroad help to ensure their growth here at home.

Our FY 2008 request represents the level of resources necessary to carry out ITA's mission by our four operational units: Manufacturing and Services (MAS), Market Access and Compliance (MAC), Import Administration (IA), and Trade Promotion and the U.S. & Foreign Commercial Service (US&FCS) with the oversight and support of Administration/Executive Direction. The FY 2008 budget request for ITA is \$412.4 million and 2,250 FTE. This is a \$16.7 million or 4 percent increase over the amounts provided by the full year FY 2007 continuing resolution.

The FY 2008 increase will fund inflationary adjustments to the base (ATBs) of \$15.4 million. Funding of ITA's ATBs, including those for personnel compensation, the State Department's Capital Security cost Sharing Program (CSCSP) and other costs, are essential to maintaining the performance of ITA's staffing and field operations. In addition, a small, but critically important program increase of \$1.3 million is requested to aggressively monitor and enforce compliance with Free Trade Agreements (FTAs) and to educate U.S. companies on opportunities provided by negotiated FTAs in order to increase export successes. Between 2001 and 2007, the number of countries that will have signed FTAs with the United States will increase fivefold and make this bloc of countries our third largest trading partner.

TRADE AND THE U.S. ECONOMY

The mission of ITA has never been more important. Trade is booming, and our economy is more closely tied to the global economy than ever before. Exports comprised 11.1 percent of our GDP in 2006 – the highest ever in dollar terms. Four years ago, it was 9.6 percent. Clearly America's innovative companies depend more and more on the fact that 95 percent of the world's consumers live outside the United States.

In 2006, for the first time in nearly a decade exports grew at a faster rate than imports, exports grew by 12.7 percent while imports increased by 10.5 percent. These numbers also reflect significant export growth to almost all of America's key trading partners, with America's exports rising to 29 out of 30 of our largest trading partners, including export growth of more than 20 percent to countries diverse as Germany, Brazil, China and Chile. While the goods and services trade deficit was a record \$763.6 billion in 2006, as a percentage of GDP, the goods and services deficit was virtually unchanged from 2005 at 5.8 percent.

One of the most important export trends was the continued boom in trade with advanced developing countries such as China, India, and Brazil. Ten years ago, U.S. exports to China were \$12.0 billion. Today, China is the fourth-largest export market for the United States, as well as the second-largest trading partner. Exports to China grew by 31.7 percent to \$55.2 billion in 2006 over 2005. U.S. exports to India increased by 26.3 percent in 2006, while exports to Brazil increased by nearly as much, to 25.1 percent. To put this in some context, U.S. exports to China were greater than exports to Argentina, France, Italy, Russia, and Spain combined.

Among the industries that made headway last year in those challenging markets were energy , electrical machinery, organic chemicals, aircraft and medical equipment.

Among the fastest-growing sectors in manufacturing exports were capital goods, such as airplanes, semiconductors, and industrial machines; industrial supplies, such as petroleum products, organic chemicals, and precious metals; and automotive vehicles, parts, and engines. In services, travel and passenger fares stood out, with a record \$107.4 billion in receipts last year.

While these record numbers show tremendous progress, we still need to do more to grow our exports, open new markets, and promote U.S. exports. Our trade agenda is working. By continuing to focus on opening new markets, either through multilateral agreements such as the Doha Round, or through bilateral Free Trade Agreements (FTAs), our firms and workers are gaining ever greater access to world markets. Indeed, the positive impact of our FTA agenda is clear. In 2006, our FTA partners made up 7.3 percent of the world's GDP (excluding the U.S.) but our exports to these countries comprise almost 43 percent of our total worldwide export. If you compare U.S. exports to two markets -- Spain and Chile – you will note that our FTA with Chile has had a very positive impact in our bilateral trading relationship. Chile's GDP per capita (based on purchasing power parity) is less than half that of Spain's, and Spain's population is more than twice the size of Chile's. Yet, last year, exports to Chile increased by 30 percent, while exports to Spain increased by 7 percent. Today, Chile is our 28th largest trading partner, and Spain is our 27th largest in terms of exports..

Given the positive impact of the FTAs, extension of the President's Trade Promotion Authority is all the more essential as we move forward.

ITA - FOCUSING ON ENFORCEMENT, MARKET ACCESS, COMPLIANCE, COMPETITIVENESS AND PROMOTION

While these facts clearly illustrate the increasing ability of America's firms to compete and win in world markets, our efforts -- aimed at deepening our exporter base, growing our exports, focusing on competitiveness, opening new markets, enforcing our trade laws, and ensuring compliance with our trade agreements -- must continue apace. Your support for our programs will enable us to continue to serve America's firms and workers competing in global markets, thus promoting continued economic growth here at home.

I would like to briefly outline for you ITA's key recent achievements, and share with you our near term priorities.

Import Administration – Enforcing U.S. Trade Laws: \$63.6 million; 383 FTE

The Import Administration (IA) enforces the U.S. unfair trade laws (i.e., the anti-dumping and countervailing duty laws - AD/CVD) and develops and implements policies and programs aimed at countering foreign unfair trade practices. IA efforts to provide a level playing field for U.S. industries include:

- Maintaining 276 orders -- 241 antidumping duty, and 35 countervailing duty orders -- affecting imports of products from 41 countries. This includes 61 orders on products from China, which represents 25 percent of all antidumping duty orders currently in effect, and includes those cases where the Petition Counseling and Analysis Unit aided the U.S. industry through the petition filing process;
- Determining whether or not China remains a non-market economy and on November 18, 2006, initiating the first countervailing duty investigation against China since 1991;
- Implementing a broad textile and apparel agreement with China, including a staged entry program for the massive quantity of goods shipped in excess of safeguard restraints, allowing for the orderly release of embargoed goods to avoid a massive influx of imported goods; and
- Negotiating the Mexican cement and Canadian lumber agreements to remove longstanding unfair trade and market access issues, improving bilateral relations with our closest neighbors.

We will continue to vigorously enforce our trade laws. Although there has been a recent decline in the number of petitions filed by domestic industry, there has been a marked increase in the number of cases filed against Chinese products, which involve analyzing more complex issues and require significant time and resources.

Market Access & Compliance – Ensuring our Trading Partners Comply with Their Commitments: \$42.9 million; 217 FTE

Ensuring that our trading partners fully comply with their trade agreements with us is a top priority for ITA’s Market Access and Compliance (MAC) unit. MAC is proactively monitoring compliance and helping U.S. firms gain market access as quickly as possible. The most timely and effective way to achieve compliance goals is often through prompt diplomatic efforts. To this end, MAC staff are currently working on over 200 active cases where agreements are in place to assist in gaining market access

The largest number of cases involve technical regulations and standards followed by a broad category of market restrictions. Many of these issues do not involve trade agreement violations but do restrict our market access when a company has to retool or otherwise adjust a product in order to sell in a particular market. We work with countries to ensure that regulations on trade are as free of restrictions as possible while meeting a legitimate public policy objective. Most of our case work involves Europe and Asia. Where warranted and U.S. industry wishes to press its case through formal proceedings, Commerce does not hesitate to refer unresolved matters to USTR for potential WTO or FTA dispute settlement.

Beyond casework, MAC’s country desk officers are experts on the commercial, economic, and political climates in their assigned countries. They focus on resolving trade complaints and market access issues, such as intellectual property, standards, customs, and transparency.

MAC also manages bilateral and regional commercial dialogues with all of our major trading partners including NAFTA, China, India and Brazil. These dialogues are designed to address real-time market access barriers, impediments to doing business and opportunities for cooperation.

Manufacturing and Services - Focusing on Competitiveness: Request: \$49.6 million; 238 FTE

Manufacturing and Services (MAS) focuses on both the domestic and international aspects of U.S. competitiveness by working with our industries to evaluate the needs of both the manufacturing and service sectors, conducting economic and regulatory analysis to strengthen U.S. industry, obtaining input and advice from U.S. industries for trade policy, and participating in policy and trade negotiations. MAS pursues its mission by combining its analytical capabilities and its in-depth industry knowledge to provide assessments and recommendations to improve U.S. business competitiveness. Specifically, MAS:

- Provides critical economic and policy analysis and information to USG policymakers and U.S. industry.
- Ensures appropriate industry and other stakeholder input into trade policy development and domestic policy development, assessment and implementation through Industry Trade Advisory Committees, the Environmental Technologies Trade Advisory Committee, the Tourism Policy Council, the Manufacturing Council, the President’s Export Council, and the Travel and Tourism Advisory Board.

- Compiles and disseminates data on U.S. and world trade, economic performance, and industry competitiveness, and travel and tourism market intelligence.
- Supports industry market access issues in key foreign markets through industry analysis, bilateral activities, leading industry delegations to key markets, and leading industry-focused subgroups.

A recent example of MAS's analytic capability was a study requested by Congress on the relationship between jobs and the differential between U.S. and world sugar prices. Our analysis found that more than 10,000 U.S. jobs were lost between 1997 and 2002 at sugar-consuming companies, such as confectioneries. The report suggests that high sugar costs are a major factor in U.S. companies' decisions to relocate to other countries and that for every sugar growing and harvesting job saved through high U.S. sugar prices, approximately three confectionery-manufacturing jobs are lost.

Other examples of MAS working with industry to facilitate trade include:

- MAS completed a World Wine Trade Group (WWTG) Agreement on Labeling that will facilitate increased wine trade among the U.S., Canada, Mexico, Chile, Argentina, Australia, New Zealand, and South Africa. This agreement will reduce labeling costs by \$1 per case, saving industry an estimated \$7-8 million dollars on export sales to WWTG countries. In addition, exports to WWTG markets are expected to increase by over 10 percent, to nine million cases annually.
- MAS worked with the National Oceanic and Atmospheric Administration (NOAA) to create a tool for rapid assessment of the economic impact of the closure of one or more key U.S. seaports as a result of a natural disaster or national-security-related emergency. The tool has received high praise from industry and will be instrumental in terms of reducing the number of days of lost operations and the time it takes to reroute cargo to safer destinations.

Trade Promotion and U.S. and Foreign Commercial Service -- Promoting U.S. Goods and Services: \$229.7 million; 1,259 FTE

Trade Promotion and The United States and Foreign Commercial Service (US&FCS) conducts trade promotion programs intended to broaden and deepen the base of U.S. exports, particularly of small and medium-sized firms. Through its overseas network of 108 offices throughout the United States and in U.S. Embassies and Consulates in 80 countries overseas, the Commercial Service works to reduce foreign trade barriers and to realize market opportunities for American firms. Our domestic office network serves as a gateway for U.S. exporters by providing reliable trade counseling and assistance through a wide range of export promotion initiatives. The US&FCS offers export assistance through information, referral and follow-up services through its integrated global field network, and leads interagency advocacy efforts for major overseas projects, including early involvement in project development and assistance to resolve post-export transaction problems.

An example of what US&FCS does every day on behalf of American exporters is captured by the exporting success of Supracor Inc, of San Jose, CA, which worked with the Commercial Service to break into Japan's growing home healthcare market:

- Supracor Inc., based in San Jose, CA, has developed a fusion-bonded honeycomb technology used in products including (1) wheelchair cushions and mattresses for the prevention and healing of pressure sores, (2) saddle pads to help prevent sore backs in horses, (3) personal care and fitness products, and (4) high-performance applications such as bullet-proof vests, sports protective equipment and bumpers for amusement park rides. Aiming to penetrate Japan's burgeoning home healthcare market, Supracor leveraged the export promotion expertise of the federal government in the latter half of 2004. Through the help of Commercial Service offices in San Jose and the Commercial Section of the U.S. Embassy in Japan, Supracor located a qualified Japanese partner, Parker Corporation. Midway through 2005, Parker Corporation's orders of Supracor products topped \$80,000 and kept growing. These orders contributed to the company's expanding export sales that help support 75 jobs at Supracor's San Jose, CA, manufacturing facility. "With the help of the U.S. Commerce Department's Commercial Service, we are able to rapidly enter into this multibillion dollar international marketplace. It is allowing us to grow the business and in turn increase our activities to purchase more from our American vendors. The U.S. Government's assistance is outstanding and invaluable," said Curt Landi, Supracor President and CEO.

Highlights of Recent Achievements:

Trade Missions -- Last December was the trade mission to India. With more than 250 executives from 200 U.S. companies, the mission to India was the largest ever organized by the U.S. government. The mission began with a business summit in Mumbai, with spin-off missions to Bangalore, Chennai, Hyderabad, Kolkata, Mumbai and New Dehli. Already, we have seen tangible results. Shortly after the mission to India, Secretary Gutierrez led a mission to China. Together, these trade missions promoted U.S. exports and helped hundreds of American firms of all sizes pursue

Strategic Partnerships – Through force multipliers, such as Federal Express, eBay, PNC Bank, Dow Jones Asia, M&T Bank and UPS, we are reaching out to more small and medium-sized exporters. This effort is absolutely key to our future success. Through these partnership arrangements, we are reaching thousands of companies that are either new, or potential exporters. This is a new development and one that changes the dynamics of the public/private relationship, allowing the CS to reach far beyond its previous limits to more small and medium-size companies throughout the country.

Advocacy -- In FY 2006, ITA completed an unsurpassed total of \$33.2 billion dollars of Advocacy cases successfully, due primarily to the completion of six airline purchase agreements at a value of \$5.6 billion and the total number of export successes in FY 2006 totaled 11,919.

Executive Direction and Administration: \$26.6 million 153 FTE

“ExAd” provides the administrative support services and policy and planning functions that are necessary for ITA to effectively operate and advance program goals. Services include policy formulation and review, information technology support services wherever ITA employees work, both nationally and world-wide; strategic planning and performance management; human resources services; and, financial management.

ITA’S NEAR TERM PRIORITIES

These are just a sampling of some of our recent achievements. With the time remaining, I would like to mention just a few initiatives that we plan to focus on during the next 18 months or so.

Free Trade Agreements – Free Trade Agreements (FTAs) are one of the U.S.’s most effective tools for obtaining increased market access and expanding trade. These comprehensive trade agreements address tariffs and non-tariff barriers to U.S. exports, and provide increased access to government procurement, investment and services opportunities. They promote the rule of law and a predictable business climate. FTAs encourage transparent and enforceable regulatory practices in intellectual property, labor and the environment.

To improve ITA’s ability to ensure that U.S. businesses can take full advantage of the FTAs, ITA is requesting an additional \$1.3 million and 8 FTE to provide for a robust monitoring regime for the new FTAs, meet an expected increase in compliance costs related to FTAs and new accessions to the World Trade Organization, and continue to reach out to U.S. exporters to ensure they have the information and tools to take advantage of commercial opportunities created by the FTAs. From enforcement to market access and trade promotion activities, all of ITA’s units will be engaged in this effort.

Enforcement – Our near term enforcement priorities include: disciplining subsidies in China, possibly via countervailing duty law, and utilizing the WTO dispute settlement system; renegotiating the U.S./Russian suspension agreement on uranium; implementing the softwood lumber agreement with Canada; and working with domestic steel manufacturers to curb steel trade-distorting government support and subsidies in the global steel industry.

Intellectual Property Rights -- Since the October 2004 announcement of the Strategy Targeting Organized Piracy (STOP!), the ITA has undertaken numerous activities to assist businesses in protecting intellectual property rights (IPR), both in the United States and abroad. ITA works on a case-by-case basis to develop strategies to overcome IPR-related trade barriers abroad. ITA continues to develop new tools and programs to educate SMEs about protecting and enforcing their IPR, including outreach events, a free online IPR training module and a program to promote protection of IPR at trade fairs. ITA has formed public-private partnerships to develop and promote the use of tools, such as the No Trade in Fakes Supply Chain guidelines, created by the U.S. Chamber of Commerce. ITA coordinates with our trade partners through bilateral and multilateral initiatives like the US-EU IPR working group, the Security and Prosperity Partnership with Canada and Mexico and similar initiatives to promote IPR and to educate businesses and consumers.

“Invest in America” Initiative – The Administration views foreign direct investment (FDI) as vital to continued economic growth, job creation, and building an ever-stronger America. The free flow of capital in open and competitive markets contributes directly to higher productivity, growth, and efficiency. To ensure the United States continues to be the best place in the world for FDI, the Department of Commerce’s International Trade Administration has launched an FDI initiative. This initiative will work to promote the United States as a destination for FDI as well as examine perceived impediments to foreign investment in the U.S. The Administration regards our nation’s security as its top priority and supports efforts to reform the Committee of Foreign Investment in the United States (CFIUS) process to address more effectively national security imperatives since 9/11. The Bush administration is firmly committed to keeping the U.S. economy open to international investment while, at the same time, protecting our national security.

Industry Sectors – Throughout the coming year, we will work with all U.S. industry sectors to help maintain their competitiveness. The following are just a few of the initiatives that we have planned.

- Travel and Tourism – Key sector indicators are largely positive, indicating that industry has recovered from the affects of 9/11 (receipts were \$107.4 billion in 2006 vs. \$103.1 billion in 2000). We are continuing to work with industry, as well as the State Department and DHS on further ways to facilitate the ease of travel to the U.S.
- Education Initiative – Last November we undertook an innovative approach to promote U.S higher education opportunities for students in China. Our goal was to increase enrollment of foreign students in U.S. colleges and universities – helping our education institutions recover from a post 9/11 downturn. The program reached over 180 million Chinese. We plan this year to develop a similar program for India.
- Energy – In his State of the Union address, the President emphasized the critical role American innovation must play to help reduce greenhouse gas emissions. ITA will do our part by promoting the use of nuclear power, alternative energy, and alternative fuels – especially in China and India. Next month, we will lead a “Clean Energy Technologies” trade mission to promote cutting-edge U.S. technologies in these fast growing markets.

50/50/50 Outreach -- Additionally, we have kicked off an outreach strategy that we have dubbed the “50/50/50” plan. Our goal is to reach out to all 50 governors, 50 key mayors, and 50 or more trade associations, encouraging them to work with us to lead trade missions.

CONCLUSION

Mr. Chairman and members of the Committee, the International Trade Administration is a vital partner for America’s exporters. The Administration’s FY 2008 budget request for the International Trade Administration reflects this Administration’s commitment to U.S. economic expansion and job growth through trade.

With the guidance and continued support of this committee, our FY 2008 budget request will provide for ongoing enforcement, market access and compliance, competitiveness and trade promotion efforts, and will provide for new investments so that we may adequately help U.S. workers and businesses take full advantage of our trade agreements.

This concludes my statement, Mr. Chairman. I want to thank you personally for your support of ITA, and for the opportunity to share with you today the achievements and ongoing efforts that we undertake every day on behalf of American firms and workers. I will be pleased to respond to any questions or concerns the Committee may have.