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THE CHILEAN FREE TRADE AGREEMENT: OPENING DOORS TO SOUTH AMERICAN MARKETS

HEARING

BEFORE THE

SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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HEARING ON THE CHILEAN FREE TRADE AGREEMENT: OPENING DOORS TO SOUTH AMERICAN MARKETS

THURSDAY, JUNE 12, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C.

The subcommittee met, pursuant to call, at 10:06 a.m. in Room 2360, Rayburn House Office Building, Hon. Patrick J. Toomey [chairman of the subcommittee] presiding.

Present: Representatives Toomey, Millender-McDonald, Chabot, Beauprez, Ballance

Chairman TOOMEY. Good morning, everyone. This hearing will come to order. Welcome to the hearing on the Chilean Free Trade Agreement: Opening Doors to South American Markets by the Small Business Subcommittee on Tax, Finance and Exports.

I am delighted to be able to discuss this important topic this morning and looking forward to the input from the witnesses on a trade agreement, that discussions of which began in December, 2000 in a serious way and just last Friday, on June 6, the United States Trade Representative, Robert Zoellick, and the Chilean Foreign Minister Soledad Alvear signed the agreement, clearing the way for what I hope will be a vote soon in this 108th Congress.

I would be the first to clearly acknowledge I am a big believer in free markets and expanding trade and I think it is critical that we reduce trade barriers all around the world, create a level playing field and open up foreign markets to American goods and services. This trade agreement is a major step in that direction.

I think it is worth nothing that last year after a tough fight, Congress passed the Trade Promotion Authority Act, which is essentially an agreement between the President and Congress on how market opening trade agreements will be conducted and how those agreements will be approved.

Trade Promotion Authority will really energize the efforts to remove the existing trade barriers, expand U.S. trade and provide a real boost to our economy, entrepreneurs and the expansion of jobs. It was under the Trade Promotion Authority that we were really able to wrap up this trade agreement and I think that is a very important development.

Again, this summer hopefully we will have a vote on this very important agreement. Trade between the United States and Chile is surprisingly large, despite Chile's relatively small population and

its geographic distance. This agreement nevertheless is long overdue.

Since 1997 the share of Chile's imports that have come from the United States has experienced a steady and dramatic decline. Back in 1997, U.S. goods made up about 24 percent of Chile's foreign purchases. By 2002, the American share of Chilean imports had fallen to less than 17 percent. So in other words, over the course of six years, the United States lost nearly one-third of its share of Chilean imports.

It is not a coincidence that this plunge in trade occurred as other nations were implementing their own free trade agreements with Chile, gaining market share and taking it away from the United States.

American companies currently operate at a significant competitive disadvantage with respect to competitors such as companies from Canada, Mexico and the European Union, all of whom have free trade agreements with Chile.

As an example, a U.S. made Caterpillar 140 horsepower motor grader, a popular piece of equipment, that sold in Chile, when it is sold in Chile, there are $13,000 worth of tariffs added to that sale. The same exact tractor made in Canada pay zero in tariffs. It is very obvious that there is a huge economic incentive to ship the jobs and the manufacturing to Canada, not in the United States where the product will have a competitive advantage and that is the kind of policy that doesn't make any sense for America, it doesn't make any sense for American jobs.

The National Association of Manufacturers estimates that the current lack of a free trade agreement with Chile costs U.S. exporters $800 million per year in sales and affects 10,000 U.S. jobs. This trade agreement will remedy these competitive disadvantages and give American companies and American workers a level playing field on which to compete with our competitors.

I think it is also worth nothing that this helps to promote a broader U.S. foreign policy goal that we have throughout the Americas. In addition to the merit it has in its own right in developing expanding trade between the United States and Chile, a U.S.-Chile free trade agreement is a critical first step toward the completion of a 34-nation free trade area of the Americas, which I think is a very, very important and worthwhile goal.

I think it is also vital to send the message to our trading partners that when countries stay on a path of market opening, economic reforms and establishing viable democracies, as Chile clearly has, that the United States is then prepared and in fact eager to improve mutual trade and economic relations. In that respect, you can't find a better trading partner than Chile.

That is why it has been nearly a decade, the last decade during which both democratic and republican administrations have made reaching this agreement a high priority. Chile's outstanding democratic and economic credentials largely explain the success of the Chilean economy and the reason that we seek to have even closer ties.

Chile has one of the highest standards of living in Latin America and the Caribbean. The trade investment regime is among the most open in Latin America. Strong budget discipline has yielded

one of the smallest budget deficits in the western hemisphere and Chile has had the second fastest growth in domestic product in Latin America over the last ten years. In short, Chile has an outstanding track record of accomplishment and it is an ideal candidate for expanding trade.

[Mr. Toomey's statement may be found in the appendix.]

Chairman TOOMEY. The first panel we have with us today I am very eager to hear from. Leading things off we have Mr. Christopher Padilla, Assistant U.S. Trade Representative for Intergovernmental Affairs and the Public Liaison for the Office of the United States Trade Representative. Mr. Padilla will provide us an overview of the Chilean free trade agreement and how it will help not only our nation's small businesses, but our economy as a whole.

Also with us today is the Honorable Manuel Rosales, Assistant Administrator of the Office of International Trade at the Small Business Administration. Mr. Rosales and his staff over at the SBA have done an outstanding job in laying the groundwork in preparation for this agreement.

In addition to his regular duties, Mr. Rosales has crafted working partnerships with his Chilean counterparts and has stayed ahead of the curve, thus being ready to assist American small businesses who either want to become involved or become more heavily involved in trade with Chile. I thank you both very much for joining us today and I welcome the comments of Mr. Padilla.

STATEMENT OF CHRISTOPHER A. PADILLA, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INTERGOVERNMENTAL AFFAIRS AND PUBLIC LIAISON, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, D.C.

Mr. PADILLA. Thank you, Mr. Chairman. Thank you very much for holding this hearing, for your interest in our trade policy and specifically for your interest in Chile.

I was honored to appear in a program with you and Administrator Rosales in Philadelphia. I think it was a couple of months ago when we were still working on wrapping up the U.S.-Chile free trade agreement and I am very pleased to be here today to talk about an agreement that we expect to be submitting to Congress for its consideration very shortly.

I would like to start this morning by talking briefly about a company from your home state, Mr. Chairman, of Pennsylvania. Gulden Ophthalmics, which is a small business, less than $1 million in revenues, based in Elkins Park, Pennsylvania. The president of the company, Tom Cockley, recently visited Santiago and his story is told in a publication put forward by the U.S. Chamber of Commerce about benefits to small business of the U.S.-Chile free trade agreement.

Mr. Cockley's company, which has been in existence since 1938, wants to expand its sales in Chile, particularly sales of ophthalmic products to hospitals, clinic, universities and medical centers. Mr. Cockley says that the current Chilean import duty of six percent has effectively given his competitors from Europe a competitive advantage, because Europe has a free trade agreement with Chile and until recently the United States did not.

He says, "If the United States passes the U.S.-Chile free trade agreement, there would be no import duty and we would be able to sell our products competitively. A reduction of this trade barrier would improve our company's growth and employment prospects". He also says, "If we do not export to Chile, then we do not export to all of South America".

I think the example of Gulden Ophthalmics is an excellent example of why it makes sound economic sense for the United States to have a free trade agreement with Chile. Over the past 15 years Chile has established a thriving democracy, a thriving economy, a free market society and an open economy built on trade.

A U.S.-Chile free trade agreement will help Chile to continue its impressive record of reform, growth and development and as you said, Mr. Chairman, it will also help spur progress toward even bigger and better things, such as a hemispheric wide free trade area of the Americas.

For small businesses in the United States, emerging markets like Chile provide excellent opportunities for fast growth in exports. In 1999, nearly 80 percent of all U.S. firms that exported to Chile were small or medium-sized businesses and they generated over $900 million on U.S. exports.

We believe that small business succeeds under free trade regimes. As both tariff and non-tariff barriers are reduced, opportunities for small businesses to foreign markets improves substantially. Most small businesses are based in the United States and are export businesses. They tend not to be foreign invested businesses. So tariffs and non-tariff barriers are significant obstacles to their growth.

Since the introduction of the NAFTA in 1994, small business exports to Canada and Mexico have increased at a substantially higher rate than small business exports to the rest of the world. In fact, Mexico is now the number two market for U.S. small business exports.

Small and medium-sized businesses benefit from things like the elimination of tariffs, but also important aspects of our free trade agreement, such as increased transparency and laws and regulations in foreign countries, trade and customs facilitation to make it easier for small businesses to get their products across borders and through often rigorous or difficult customs procedures, and protection of intellectual property rights.

Small businesses have important assets in their trademarks and their copyrights, in their intellectual property and they are often the first victims of piracy and theft in foreign countries, because pirates believe that small businesses have fewer assets or fewer resources to go after intellectual property piracy.

For all those reasons, free trade agreements are particularly important to small business and the free trade agreement that the President will soon submit to Congress has four distinguishing features that I would like to talk about today and bring to your attention.

First, this free trade agreement is comprehensive. Unlike free trade agreements that our competitors have negotiated with Chile, our free trade agreement covers all products and all services and

covers a number of other cutting edge areas, like intellectual property protection and trade facilitation.

Second, the free trade agreement with Chile promotes transparency and good governance, which is particularly important in Latin America and Chile has been a leader in this field.

Third, the free trade agreement is modern. It is up-to-date. It deals with things like piracy of digital products, such as movies or text or videos that might be transmitted over the Internet. These are new businesses that have come into existence since the last free trade agreement was submitted for Congressional consideration.

Finally, the U.S.-Chile free trade agreement uses an innovative approach to support and promote respect for environmental protection and worker rights, which of course was a difficult area that the Congress grappled with and crafted a bipartisan compromise in the Trade Promotion Authority Act.

Let me talk about each of these four areas briefly, if I might. First, the agreement is comprehensive. It covers all goods, all services and all government procurement. Second, the agreement promotes transparency. The U.S.-Chile FTA is the first agreement that will have specific, concrete obligations on things like publishing customs rules on the Internet, on allowing small U.S. businesses to request binding advance rulings from Chilean customs authorities or provisions which allow the rapid release of goods from customs.

Third, the agreement is modern. It provides state-of-the-art protection for digital products, like software, music, text and videos and as I said, small businesses whose critical asset is often their trademark or their copyright will benefit from stronger IPR protection.

Finally, the agreement uses an innovative approach on labor and environment. The FTA's encourage a high level of protection for labor and environment and they oblige signatories, like Chile to enforce their own domestic labor and environmental laws. This effective enforcement provision is subject to dispute settlement and is backed by an effective remedy including the innovative use of monetary fines.

To sum up, Mr. Chairman, as Ambassador Zoellick recently said in Miami last Friday when the agreement was signed, "The U.S.-Chile free trade agreement is a partnership for growth, a partnership in creating economic opportunity for the people of both countries".

With Congressional guidance and support, the Bush administration is pursuing and ambitious and comprehensive trade policy. The U.S.-Chile free trade agreement will be one of the first of many free trade agreements that we hope to submit for your consideration. We will continue to move forward bilaterally, regionally and globally and together we can show the world the power of free trade to strength democracy and promote prosperity. Thank you.

[Mr. Padilla's statement may be found in the appendix.]

Chairman TOOMEY. Thank you very much, Mr. Padilla. Mr. Rosales.

STATEMENT OF MANUEL ROSALES, ASSISTANT ADMINISTRATOR, OFFICE OF INTERNATIONAL TRADE, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Mr. ROSALES. Thank you. I would like to thank Chairman Toomey for inviting us to participate in this most important hearing.

SBA strongly supports the Bush and Lagos administrations' commitment to bilateral free trade agreement, which as you know was signed June 6. Chile already offers excellent market opportunities for U.S. small businesses. Seventy-nine percent of U.S. exporters to Chile are small businesses with close to 950 million in annual merchandise export sales.

U.S. small businesses export account for around 30 percent of all U.S. manufacturing exports. In Chile, this figure is just over 36 percent. Chile's preferential access to most markets in South America, low inflation, strong financial systems, low levels of corruption and open competitive economy also provides an excellent base for U.S. small business to expand into the Latin American marketplace.

According to the National Association of Manufacturers new updated figures, the absence of U.S.-Chile FTA costs U.S. exporters more than one billion a year in sales and costs the U.S. economy approximately 20,000 jobs. Since we know that the U.S. small businesses account for 36 percent of U.S. exports to Chile, we can assume that more than 360 million of the one billion plus is lost in sales to U.S. small businesses.

Reducing the cost of doing business overseas allows small businesses to overcome and become more global players and a growth at a much faster rate. Small businesses typically have limited access to investment capital and are disproportionately impacted by trade barriers.

Small businesses do not have parents or affiliates that multinational enterprises have to help get protect into the new markets. They do not have lawyers on call to get around bureaucratic red tape or protect against pitfalls of doing business internationally.

Last year, the SBA engaged in conversation with counterpart agencies in Chile to explore ways to cooperatively support and promote small business trade linkages between the United States and Chile. SBA believes this cooperation gives a head start for positioning U.S. and Chilean businesses to immediately and effectively take advantage of the opportunity that the FTA would provide.

We know that to support U.S. small businesses international marketplace, we need to be proactive and stay ahead of the curve, as opposed to waiting for things to happen and then be reacting.

With than in mind, on December 5, 2002 SBA signed an external cooperative memorandum with The Technical Cooperation Service of Chile, SERCOTEC and CORFO, the Chilean Economic Development Agency, to initiative institutional cooperation to promote and support the development of growth, stability and global competitiveness of small business and medium enterprises, SMEs, and promote trade opportunities for SMEs in each country.

SBA is currently working on a process of developing an action plan in effectively advancing this initiative. The primary focus of initial activities include sharing strategy for promoting small busi-

ness access to government contracting. SBA also plans to work the American Chamber of Commerce in Chile, the AMCHAM, to develop a tool kit for doing business between the United States and Chile and to coordinate the organization and coordination of small business trade, delegations to promote strategies, alliances between SMEs in Chile and the United States.

On a broader scale, as part of the cooperative memorandum, SBA is committed to working closely with the Chileans in formation of a cooperation and the coordination of the SME Congress of the Americas. The mission of this Congress is to create an atmospheric network of public and private sector small business service providers to promote the growth of free enterprise in the Americas to the development of small business in international trade.

S.B.A. will be hosting a steering committee during our 50th anniversary in September in Washington to launch its initiative and begin to develop a strategic plan to help ensure the effectiveness and sustainability of this process. SBA will be discussing plans for the first full Congress, tentatively scheduled to take place in Chile 2004 during the APIC's conferences.

S.B.A. believes in successful cooperation with Chile can play an important role in generating hemispheric support for a free trade area of the Americas. If we can show a tangible result in how U.S.-Chile offers increased opportunities for small business' growth, then together SBA can help build grassroots support for free trade through the hemisphere.

S.B.A. sees this cooperative agreement with Chile as the first step to strengthening the hemispheric united through small business. Chile has been the model of economic reform and liberalization for the developing markets. SBA views Chile as an ideal partner in helping ushering in a new era of regional prosperity to small business growth.

We believe that the free trade agreement will help make this vision a reality. Thank you, Mr. Chairman, for your time and I am happy to answer any questions you may have.

[Mr. Rosales's statement may be found in the appendix.]

Chairman TOOMEY. Thank you very much, Mr. Rosales. I appreciate your input as well. A couple of questions come to mind. The first one, Mr. Padilla maybe you could shed some light on. Exactly what does it mean to end up with a free trade agreement? We use that term frequently and maybe you could share with us, as a very practical matter for instance: Does a free trade agreement with another country mean that a Pennsylvania manufacturer can sell with no more obstacles in Chile than he would have in Massachusetts? Is it a complete absence of all tariffs? Is it a complete absence of all quotas or is it just movement in that direction? Maybe you could shed some light on that.

Mr. PADILLA. Well, Mr. Chairman, a free trade agreement especially the type of 21st century free trade agreement that this administration is negotiating, come about as close as we possibly can to making it as easy to sell in Chile as it would be for a Pennsylvania company to sell in Massachusetts.

There are a few things that are important in our free trade agreements that I want to emphasize. They are comprehensive. They cover every product. No product and no service is excluded.

That is a lot different than the kind of free trade agreements that our European friends negotiate, where they tend to leave out agriculture, for example.

The other thing about our free trade agreement, as I said they are quite state-of-the-art. They deal not only with tariffs and quotas, but they also deal with things like the protection of intellectual property, electronic commerce, protecting the right of investors in Chile, U.S. investors in Chile and that is why we are so proud of this agreement.

If you look at the U.S.-Chile agreement, it is nearly 900 pages long. I don't look forward to your job of reading through it when we submit it for your consideration, but it is designed to make it almost as easy to sell in Chile as in Massachusetts.

Chairman TOOMEY. My follow-up question to that: My understanding is that historically and in certainly recent years, the tariffs that Chile has imposed on American goods and services being sold there is higher than any tariffs in the other direction.

Mr. PADILLA. Indeed.

Chairman TOOMEY. So clearly I can see the appeal and how valuable and appealing and attractive this is to American businesses and job. What is in it for the Chileans? What do they perceive to be the advantage? They could have of course unilaterally lowered their tariffs. What is it that brings them to the table?

Mr. PADILLA. Well, the agreement is truly a win/win agreement. You are right in that Chile's average tariffs are higher than the United States, if you look at it across an average. But, there are some important areas where they would like increased access to our markets, particularly in the agriculture area.

Chile is very competitive because they are in the southern hemisphere. A lot of our fruits and vegetables off season come from Chile. In fact, the port of Philadelphia is one of the largest ports in the country for the import of Chilean grapes and other fresh fruits during the winter months. They also are very competitive in the wine area.

They will get access to our market under this agreement, although in some of our most sensitive agricultural products that access is phased in over a 12-year period so as to give our competitive producers time to adjust.

Chairman TOOMEY. Thank you. Mr. Rosales, are there any particular industries in which small business manufacturers or service providers are likely to have any more immediate or more rapid prospects for expanding exports as a result of this agreement?

Mr. ROSALES. Yes, sir. I would say the services industry. If you look at the total exports of small business abroad, roughly 35 percent are in the service industry and the high tech industry. So I see that is a great opportunities for small businesses in Chile.

Chairman TOOMEY. Do those industries face any particularly difficult hurdles now that are going to be diminished as a result of the free trade agreement?

Mr. ROSALES. Well, as Mr. Padilla indicated, the intellectual properties and piracy is one area that is a major concern. The other obviously is they don't have the multinational support that they would have from a major corporation, attorneys, consultants to help them get into those marketplaces. So obviously the lowering

of the barriers is very, very helpful for the small businesses to grow and flourish in the Chilean market.

Chairman TOOMEY. Terrific. Thank you very much. At this time I would be happy to recognize the gentleman from North Carolina, if he has any questions.

Mr. BALLANCE. If I could yield just now, since I came in a little bit late. Thank you.

Chairman TOOMEY. Certainly. Thank you. The gentleman from Colorado.

Mr. BEAUPREZ. Thank you, Mr. Chairman. I would like to pursue a little bit of this same line of thinking that you were doing. Let's get, if we can, even more specific since I have not visited Chile specifically. I have some appreciation for the kind of market there.

Give me, one or the other or both of you, a quick overview and talk very specifically also about how American, especially small business, yesterday we had a hearing and we had some businesses that were completely owner-operated, one employee but they were still exporting some iron works, for example this one gentleman. Is this a market that is going to be attractive to Internet advertising contact? Is it more of a face-to-face market? Is it a market that is in its infancies in some industries or much more sophisticated or all of the above? How are especially American small businesses going to prepare and maybe compete better and position themselves better?

Mr. PADILLA. I will lead off by saying that the Chilean market is a very sophisticated market. In fact, the original idea was to add Chile along with Mexico to the NAFTA agreement, as far back as 1994. Since then, the market has become even more attractive.

Chile is one of the most advanced and developed economies in South America. They have a very sophisticated Internet economy, for example, which is why our agreement includes e-commerce provisions to allow small businesses to sell their goods and services via Internet, which is particularly important because small businesses probably don't have a presence in Santiago, Chile. They may not even have a distributor. That is why we emphasized the e-commerce provisions in this agreement.

Mr. ROSALES. Coming from California and having dealt extensively with organizations like Chambers of Commerce, particularly Hispanic side, we see the opportunities in Chile for small businesses as tremendous. As Mr. Padilla has said, it is a very sophisticated society. We have already been doing trade with Chile. Thirty-six percent of small business exports are going to Chile.

We see the opportunities not only in reference to high tech area, but also to light manufacturing. I have had the opportunity to visit Chile twice. It is a very modern society, very open. With the Internet, you will see that the increase of small business participation around the world will even be higher.

Our experience through NAFTA, before NAFTA we had 60,000 exports. Now there is 220,000, of which 97 percent are small businesses. Just to Mexico and Canada SMEs, 95,000 of them are exporting to the tune of $40 billion a year in all products. So we anticipate that the opening up of the Chilean marketplace will be a tremendous boom to small businesses.

Mr. BEAUPREZ. If you know, I formerly had a little background in livestock, specifically dairy cattle and did some exporting of that, it is my understanding this is an extremely climatically a very diverse country and a very rich agricultural country, but I am not familiar with the quality or the extent of their livestock industry. Now not specifically just dairy cattle, but dairy, beef, chicken, poultry, hogs, the whole gamut. Is there opportunity for our agricultural industry that is really suffering?

Mr. PADILLA. Absolutely. In fact, about three-quarters of U.S. farm goods will be duty free into Chile within the first four years of implementation of the agreement. The agriculture sectors in the U.S. that I think will benefit particularly are beef, poultry, pork, to some extent grains mainly wheat and in fact, the cattlemen and the National Pork Producers and others were some of the first industries out with supportive statements when we concluded the agreement last fall.

One of the advantages is because Chile is in the southern hemisphere, the agriculture markets tend to be complimentary particularly in fresh fruits and vegetables. Most of the grapes that you eat in the wintertime probably already come from Chile and under this agreement they will come duty free and hopefully save money for U.S. consumers.

Mr. BEAUPREZ. Thank you, Mr. Chairman.

Chairman TOOMEY. Thank you. At this time, the gentleman from North Carolina.

Mr. BALLANCE. Mr. Chairman, I do want to follow up on the last question that was raised about farmers. My district is in North Carolina, and I was just looking and seeing that Governor Michael Easley is one of the supporters of the American Farm Bureau and then I note that there are some issues about labor. What is that problem?

Mr. PADILLA. We actually don't see any major problems on labor standards in Chile. As part of the negotiation of this agreement, in fact the Chilean government repealed a lot of the Panache era old labor laws, because they knew as a result of our Trade Promotion Authority bill that we were going to have to include provisions on effective enforcement of domestic labor laws, as well as environmental laws in this agreement.

I think this is an example, Congressman, of how we can have a constructive approach on labor. When these countries know that we are going to pursue effective enforcement of domestic labor laws, we are seeing that they are making positive changes up front. Chile did it. We are already seeing Guatemala now, with whom we are negotiating as part of the Central America agreement, seeking to change some of their labor laws as well, because they know they are going to come under scrutiny.

Mr. BALLANCE. Thank you. Thank you, Mr. Chairman.

Chairman TOOMEY. At this time the Chair will recognize the ranking member, the gentlelady from California.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman. Let me apologize first for having a speaking engagement at the U.S. Chamber of Commerce and so I am running through the traffic to get here, because of our fine and outstanding presenters. I thank you both so much for being here and certainly would like to

welcome the Honorable Manuel Rosales from California. He hails from our great state and we are just so proud of the work that you are doing.

We recognize that in 2000, the United States and Chile announced that they would negotiate a free trade agreement and after more than two years of this negotiation, a bilateral agreement was reached and recently signed by President Bush. So it is now up to Congress to approve this implementation legislation.

Mr. Rosales, in your testimony you mentioned that small businesses typically have limited access to investment capital and are disproportionately affected by trade barriers when they are trying to take part in the global market. That is absolutely the truth. In fact, my great Chairman is coming out to my district and we are going to talk about small businesses and international trade, because it is so important that we get into that market.

Can you tell this Committee what trade facilitation activities in the SBA is working on to help small businesses take advantage of the U.S.-Chile free trade agreement?

Mr. ROSALES. Yes, we can. Thank you for that question. When I was chairman of the California Hispanic Chamber of Commerce almost 12 years ago and we began the negotiations with NAFTA, it became very clear to me as a statewide small business association that we needed to be in the proactive mode to be able to have advantages that the multinationals were going to get immediately from these trade agreements.

So at the SBA we took that same philosophy. We looked at how can we begin to create the linkages between small business in the United States and small businesses in Chile and at the same time look at the multipliers in each country, the Chambers of Commerce, the trade associations, because we wanted to have our small businesses in line, ready to go when these agreements were signed.

So with that, we signed an MOU of understanding with both our counterpart agencies in Chile, SERCOTEC and CORFO, to begin the linkages and begin developing those relationships. We visited Chile. We participated as part of one of the deliverables on government contracting, being able to transfer some of our technology, some of our knowledge here in the Small Business Administration to the Chilean counterparts.

We see the opportunities as tremendous. Before NAFTA, as I indicated there was only 60,000 exporters in the United States. Now we have over 220,000. In California, we have seen the small businesses have done much more business with Mexico because of the trade barriers coming down. Small businesses are obviously more able to compete if there is transparency, lower tariffs, availability to be able to compete equally.

In Rhode Island, your natural state, sir, is one of the top exporting states in the country in the export to Canada and that happened during the NAFTA years. So we see small business as taking an opportunity to look at how we can help. Small Business Administration has lending programs, export financing capital and we also have trade promotion programs to assist our small businesses to get involved in the international arena.

We are participating as we speak on the CAFTA negotiations. We have one of our representatives who sit on the capacity build-

ing committee to be able to represent small businesses in such an important issue. We assist at USDR in the government contracting phase of the negotiations. It was a small step in the negotiation, but we think it was a very helpful step.

So we are doing, at the Small Business Administration, in the international arena as much as possible to create those linkages way before these agreements will take place so we are prepared and ready to take advantage of the opportunities.

Ms. MILLENDER-MCDONALD. You know a lot of small businesses are still rather nervous about going into global markets. They still think that they are not quite ready for that. How are we getting the word out and how can we remove that fear, because now that the world is much smaller than we once thought it is clear that we bring those small businesses into this global market? Are you doing technical assistance or what are some of the other things outside of the funding that you spoke about that you are doing?

Mr. ROSALES. Yes, ma'am. One of our strongest programs is called export training assistance program. That is delivered through the USEAC network in combination with XM Bank and the commercial service.

At the same time, we do have on our Web site FedMission online, which provides a self-certification by small businesses who are interested in doing business abroad in industry or country-related. In any activity that happens in those areas, we immediately notify them of the opportunities.

We are also looking at the opportunities of doing it more online, because most small businesses don't have the opportunity to dedicate the time. So we are looking at putting the e-tap online so we can have more access to small businesses 24 hours a day.

On top of that, we have been coordinating with the Chamber of Commerce to trade roots where we go out promoting the opportunities for small businesses. The ability for them to get involved and presenting them with success stories so they can see they can actually do the same things themselves.

But in the long run, I think small businesses understand that they are in the global marketplace and they are competing now. I will give you an example. Back in 1985 when I was an executive of a mutual fund company, we needed to present prospectuses and have them printed. So we went out looking for a local printer. They gave us a two-month turnaround. They told us, well you know our consultant Jay Walter Thompson said maybe we can do it faster. They recommended it to a company in Taiwan and they did it in 25 hours.

So they were competing then and we are competing now. So I think small businesses understand that they are in a world competitive environment and they are looking to see how they can get more involved. Our commerce department did a survey of 2,000 small businesses. Thirty percent said yes, we will be interested in exporting if somebody showed us how to do it and at the SBA we have those programs and we have the ability to show them how.

Ms. MILLENDER-MCDONALD. It is so great to see the name of Padilla and Rosales before us, because you represent the future in the global markets and small business. Thank you, Mr. Chairman.

Chairman TOOMEY. Thank you very much and to the two witnesses, I would like to thank you for being here today and for your very illuminating testimony, but most of all I want to congratulate you for the great work you did in helping to reach this agreement. This is going to be great progress for both of our countries and mostly for the workers of America. So congratulations. At this time, I would invite the second panel to approach the witness table.

Good morning, gentlemen. Starting our second panel this morning is Mr. Willard Workman, Senior Vice-President for International Affairs at the United States Chamber of Commerce. Mr. Workman is responsible for the Chamber's policy positions on international economic investment and trade issues confronting the U.S. business community and he will be examining, among other things the impact of the agreement on the Chamber's membership.

Also with us today is Mr. James Morrison, President of the Small Business Exporters Association, which is the international arm of the National Small Business United, a bipartisan association of 65,000 companies in all 50 states.

We also have with us two small business owners from my own home state of Pennsylvania. Mr. Arland Schantz. Welcome, Arland. Arland is a constituent and a friend and a seventh generation farmer in the Lehigh Valley. Mr. Schantz will examine the impact of this agreement on American farmers.

In addition, we have Mr. Larry Wesson, president and CEO of Aurora Instruments in Ambler, Pennsylvania. Mr. Wesson will be testifying on behalf of the National Association of Manufacturers. Mr. Wesson's company manufactures equipment for the telecommunications, cable televisions, military, aerospace and research industries. Welcome to all of you. Thank you very much for being here. At this point I will recognize Mr. Workman.

STATEMENT OF WILLARD A. WORKMAN, SENIOR VICE PRESIDENT FOR INTERNATIONAL AFFAIRS, U.S. CHAMBER OF COMMERCE, WASHINGTON, D.C.

Mr. WORKMAN. Thank you, Mr. Chairman. You have my statement and I submit it for the record. I will just try to very quickly summarize the points there and a few other points that occurred as I listened to the previous panel.

I represent the U.S. Chamber of Commerce. Most people think that we represent only large enterprises, but 96 percent of our membership are small business who employ 100 or fewer workers, 60 percent of our membership employ ten or fewer workers. So although we do represent the large companies, the driving power and quite frankly the strength of our organization is small business.

The issue of the Chile/U.S. free trade agreement is something that I personally have lived with for a long time, since I remember when it was initially proposed by President Bush, Sr., right after he signed the NAFTA agreement. Then after the NAFTA was passed by the Congress under President Clinton's tenure, President Clinton restated the desire to have Chile join the NAFTA arrangement. So this has been a long time, from my point of view, coming and I am glad to see that we are finally almost into the end zone on this.

The agreement, we have reviewed it. We have read the 900 pages that Mr. Padilla referred to. It is not scintillating reading I can assure you, but it is very, very important. It is a world-class agreement. We are pleased with it. We endorse it and we urge the Congress to pass it with all due speed.

A couple things about why are we interested in free trade agreements and particularly as they affect small business. Let me give you a statistic that I have cobbled together. In 1992, according to the Census Bureau there were 118,000 small business exporters and they accounted for about 11 percent by dollar value of all U.S. merchandise exports in 1992.

By 1997, that number had gone to 209,000 small business exporters and they accounted for about 30 percent by dollar value of all U.S. merchandise goods exports. I don't have statistics for the next 5-year tranche, which would be 2002. They are not available yet, but the indications are that we have probably seen yet another doubling. So we are looking at, at least, 400,000 small business exporters.

Within the small business community, trade, not just exporting, but importing, some investment, what have you, the full range of engagement on trade is one of the fastest growing areas for small business in all sectors. So that is a particular interest of ours.

I have a growing number of small business members that are calling me and asking me questions about things. So since we are a voluntary dues paying organization, I am trying to respond to my customers by this.

The last point I would make is to talk a little bit about why trade agreements in general are so important for small business and particularly in light of 9–11. There is a trend, a slight trend but a trend of companies, of multinationals both American and European and Asian and Latin American, of pursuing and invest in lieu of export strategy on how they access markets.

Now at that level, it washes out. A large company in order to access the German market, in the past they could export to it, but because there are necessarily delays now at ports of entry, because of increased security, to service the German market they will build a plant in Germany and service the market that way. The same thing with the German company who wants to sell into the U.S. market, instead of exporting into the market, they will build a plant in Alabama or North Carolina or wherever. So at that level there is a wash. To the consumer, it is almost an invisible transaction or change.

To the small businessmen, they don't have the wherewithal. It is not in their business interest to go invest and build a plant in every foreign market that they want to access. So that is why lowering the tariff and the non-tariff barriers to their products and their service exports is so important. For them it is not a question of efficiency, as it is for the multinational. For them it is a question of survival.

So I just wanted to give you some context about why at least our small business members have a particular interest in free trade agreements and why they work so hard and so long to urge the Congress to pass the old fast track Trade Promotion Authority that you did last year.

So with that I conclude my remarks and I thank you.

[Mr. Workman's statement may be found in the appendix.]

Chairman TOOMEY. Thank you, Mr. Workman. Mr. Morrison.

STATEMENT OF JAMES MORRISON, PRESIDENT, SMALL BUSINESS EXPORTERS ASSOCIATION, WASHINGTON, D.C.

Mr. MORRISON. Chairman Toomey, Representative Millender-McDonald and members of the Subcommittee, thank you for asking me to appear here today. I am James Morrison, the President of the Small Business Exporters Association.

S.B.E.A. has a strong interest in international trade policy and trade negotiations. We work on behalf of American small and medium-sized enterprises with the World Trade Organization in Geneva. I also serve as a member of the Advisory Committee on Trade Policy and Negotiation, the federal government senior trade advisory panel.

The trade agreement the Subcommittee is considering today comes at an important time. American SME exporters have increased dramatically in recent years, from 65,000 in 1987 to at least 225,000 today, perhaps 400,000 as we just heard.

So the willingness to export is there, but most small business exporters ship to only one country, typically Canada or Mexico. SMEs still account for only about 30 percent of the dollar value of U.S. exports.

So we need to extend the range of countries where smaller companies trade and to increase the value of their exports. Trade agreements are a vital part of this. Lowering the hassle factor of exporting to specific countries makes those countries more attractive export destinations and lowering exporting costs to those countries means that more American goods can sell there and more American companies can earn profits there and that can mean more American jobs.

So it is good that the Subcommittee is reviewing the Chilean free trade agreement. We are very satisfied with this agreement and we urge Congress to approve it, but before I get into the specifics of the agreement let me suggest a way of thinking about it.

S.M.E. exporters face both fixed and variable costs. An example of a fixed cost is a licensing fee. All businesses pay the same fee. An example of a variable cost is a tariff. The more you ship, the more you pay. If we want American SMEs to export more, it is obviously important to reduce variable costs like tariffs, but we also need to pay close attention to those fixed costs, because they can impose disproportionate burdens on SMEs.

Paying $10,000 in legal fees to export is a nuisance for a large company. It is a potential show-stopper for a small company. This disproportionate burden concept incidentally is what underlies the Regulatory Flexibility Act, which tells federal regulators how to deal with small business. The Reg Flex Act basically says, try to avoid federal rules that are especially burdensome to small business.

In exporting, these so-called non-tariff barriers generate such disproportionate costs for SMEs. Non-tariff barriers include foreign patent and trademark costs, physical presence requirements, paperwork requirements, performance bonds, licenses and other

issues. Sometimes these disproportionate costs are subtle, such as when a country requires a foreign company to be structured in a certain way to do business there.

Trade agreements can also help SMEs when they free up sectors of a country's economy where small businesses excel. Examples include e-commerce, professional services, some types of construction and various specific product lines, such as medical equipment and do-it-yourself supplies.

Looked at in this way, I think it is fair to say that the Chile agreement is a remarkable step forward. First of all, it will immediately eliminate Chilean tariffs on 85 percent or more of all American consumer and industrial goods. That levels the playing field for us with other countries that have established free trade deals with Chile.

Crucially for American SMEs, the Chile FTA also clears a way a range of non-tariff barriers, those disproportionate burdens that have impeded SMEs' access to Chile such as: Eliminating physical presence requirements that require companies to set up offices in Chile to trade there, making trading rules transparent so they are simple to understand, fair and stable. The Chile agreement sets very high standards in these areas. Simplifying customs procedures, a big plus for small exporters. The Chile agreement goes a long way down that road. Trade facilitation. As a general rule, American SMEs like to trade with foreign SMEs. So making more Chilean companies import ready helps our small exporters. The FTA goes in this direction.

Liberalizing services trade. This is a boon to many small American companies that sell their services abroad, like consultants, engineers and accountants. The Chile FTA enormously helped businesses like theirs by eliminating service sector quotas, monopolies, exclusive domestic supply agreements and required corporate structures, basing technical standards and licensing on objective and transparent criteria and eliminating requirements that in effect restrict imports.

Opening up e-commerce in Chile to American companies. Giving American companies a crack at Chilean government's own procurement by requiring open bidding on contracts worth $56,000 or more and prohibiting favoritism toward Chilean in such procurements.

These are among the reasons why SBEA believes this agreement is a very good deal for smaller American companies. We commend USTR for its growing awareness of SME needs and trade agreements, as shown by this agreement. We again salute them for recently creating the first director of small business affairs in the history of the agency and we thank Greg Walters for his diligent work in that job.

That concludes my remarks for today. I would be happy to accept questions.

[Mr. Morrison's statement may be found in the appendix.]

Chairman TOOMEY. Thank you very much, Mr. Morrison. At this time I am delighted to recognize Mr. Schantz.

STATEMENT OF ARLAND SCHANTZ, OWNER/OPERATOR, EVERGREEN FARM, ZIONSVILLE, PA

Mr. SCHANTZ. Thank you. Mr. Chairman, I would like to briefly summarize the previous handed in written testimony.

Chairman TOOMEY. If you could just bring the microphone a little bit closer to your mouth. Thank you.

Mr. SCHANTZ. Okay. Mr. Chairman, members of the Committee, I am Arland Schantz, owner of Evergreen Farm. I am a seventh generation farmer in Lehigh County, Pennsylvania where I operate a 150-acre Christmas tree, hay and grain farm.

I appreciate the opportunity to testify today on the free trade agreement with Chile and the impact that it will have on small farmers like me. One in three acres of U.S. agricultural production is destined for a foreign market. Farmers earn on an average 25 percent of their net farm income from export sales. However, many foreign markets remain closed to our exports. At the same time farm import competition has increased dramatically.

Today America's farmers are embarking on a new era, one in which the future will offer significantly more export opportunities to countries with whom the United States has signed free trade agreements. We must use these agreements to eliminate the many trade barriers on our exports.

The agreement with Chile broke through many of these barriers and should become the standard for future free trade deals in that regard. In specific, two areas formerly used by Chile to block U.S. agricultural exports have been resolved.

First, Chile operates a price band on imports of wheat, oilseeds, edible vegetable oils and sugar. Chile uses this price band to protect its producers from lower priced imports. This price band will be eliminated for U.S. agricultural imports when the agreement is fully implemented.

Secondly, Chile maintains several SPS barriers on U.S. agricultural imports without a scientific basis. These barriers block the export of U.S. fruits, beef, lamb and pork and dairy products. We export meats, poultry and dairy products to all corners of the globe. However, Chile failed to recognize our federal inspection system and denied access to most U.S. meat, poultry and dairy plants. In addition, Chile failed to recognize U.S. beef grading standards.

A parallel process was established to address these barriers. SPS measures that lack scientific merit should be fully eradicated before free trade deals are consummated. Failing to do this results in meaningless agreements. What good are zero tariffs when SPS measures block our exports?

As a result of parallel process, Chile agreed to recognize our beef grading standards and federal inspection system for U.S. dairy, pork, beef and lamb. Both countries have agreed to undertake a two-year progress to study U.S. poultry standards. We urge Congress to monitor this two-year study closely to ensure its success.

The agreement with Chile will open export doors for several U.S. commodities, including meats, dairy and wheat. I appreciate the opportunity to testify on the benefits of this agreement for U.S. farmers. Thank you.

[Mr. Schantz's statement may be found in the appendix.]

Chairman TOOMEY. Thank you, Mr. Schantz. Mr. Wesson.

STATEMENT OF LAURENCE N. WESSON, PRESIDENT AND CEO, AURORA INSTRUMENTS, INC., AMBLER, PA

Mr. WESSON. Thank you. Mr. Chairman and members of the Subcommittee, my name is Larry Wesson and I am president and CEO of Aurora Instruments, a small manufacturer of fiber optic test equipment located in Ambler in the great commonwealth of Pennsylvania.

I am pleased to have this opportunity to address the Subcommittee and support the proposed free trade agreement with Chile. I am also pleased to speak on behalf of the National Association of Manufacturers or NAM and its 14,000 members, particularly the 10,000 small and medium manufacturers like Aurora Instruments.

Aurora has been in business for 13 years and as you mentioned, we compete internationally in very exciting and challenging markets for telecommunications, cable television, military, aerospace and research. We manufacture fiber optic test equipment, primarily fusion splicers and related equipment.

As an example, a fusion splicer I should mention is a device that welds two optical fibers together. If you can see this, that is a coded fiber. At the tip it is stripped, but a machine has to line up two of those and weld them together automatically. It is a very difficult thing to do.

Aurora is also unique in being the only company which manufactures portable automatic fusion splicers in the United States. In fact, the only one in the western hemisphere, but we are a small company and we often feel like an American David against foreign Goliaths competing with us, particularly from Japan and Europe. Europe, as we know, now has a free trade agreement with Chile.

Yet with striving, we can sometimes win big and Aurora has been very serious about export issues and very active in pursuing ways and means of expanding our exports. We have been very successful in many countries and we have exported to over 30 countries worldwide and we have done very well, particularly in India, Australia, Mexico, Columbia and Chile.

As an example of Chile, back in 1974 we had 74 percent of the Chilean market for portable fusion splicers, a small company like ours and our price at the time was 5.3 percent higher than our competitors. We still had 57 percent of the market in 1998, but since then things have gone downhill steadily. Factors that have hurt us have been not just tariffs, but also the telecom crisis, the Asian currency crisis, the overvalued U.S. dollar, but also our Japanese competitors are very aggressive on pricing.

By the year 2000 and 2001, our effective prices were 20 percent higher than those of our competitors and our market share had fallen to 34 percent. By the year 2002, we sold nothing at all in Chile.

Over exactly the same period, our distributor in Chile has been importing ever increasing quantities from Europe. Their percentage of their own imports to Chile from Europe rose from 1.9 percent in 1995 to 64.7 percent in 2002. Overall, U.S. suppliers including Aurora have seen their share of our distributors' imports to Chile fall from 87 percent to 31 percent.

I want to emphasize that the proposed free trade agreement is not a panacea. It is not going to solve everything for U.S. exporters. Many other factors as I mentioned, such as the overvalued dollar and the worldwide telecom market depression have a great deal to do with our business and our market, but it is very clear to us that a few percentage points saved in duty makes a big difference.

As we see, when we are within a few points of our competitors, our technology and our service and our responsiveness can allow us to compete very strongly and win a major portion of the market.

As part of our strong commitment to exports, my partner and I have participated in three international trade missions with Governor Tom Ridge and the most recent one was in Chile and we were in Santiago when the free trade agreement process started in December, 2000. We were privileged to be present when officials of the Chilean government presented to our group on the merits of this free trade agreement and in the strongest possible terms, it was the hottest topic of conversation at that time.

I would like to close with one final reason, if you don't mind and perhaps ultimately the most important. In my mind free trade is a part of freedom and trade should be free because people should be free to keep and enjoy the fruits of their own labor and burdens like import duties takes some of that value from both sides of an honest relationship and voluntary transactions. Thank you. I look forward to your questions.

[Mr. Wesson's statement may be found in the appendix.]

Chairman TOOMEY. Thank you very much, Mr. Wesson and I appreciate the very principled statement you made at the end of your comments about one of the fundamental philosophical justifications for free trade. It is a manifestation of personal freedom.

You told a compelling story about the decline in the market share that you have had in Chile. Do you anticipate that with the adoption of this free trade agreement, will that be enough in and of itself to regain some presence in the Chilean market in your judgment?

Mr. WESSON. Yes. I think it would have an immediate effect. In fact, we are already hearing from our distributor that they see new opportunities. They want to revive the relationship and look at their pricing and be competitive with the Japanese imports. The value of the dollar is also very important and we have seen some progress in that. I think it is no coincidence that their revival of interest in importing our product comes at the same time as the enactment of the free trade agreement.

Chairman TOOMEY. Right. So despite all the other factors, many of which you alluded to that have contributed to the decline in your market share, this agreement in and of itself is likely to allow you to regain a foothold in Chile and begin the growth of yourself. That is terrific.

Mr. WESSON. Yes.

Chairman TOOMEY. This is for either Mr. Workman or Mr. Morrison or both of you. Many people observe that we have had a significant decline in the number of manufacturing jobs in particular in the United States and that the manufacturing sector of our economy has declined as a percentage of our total GDP and that has been true for a number of years now.

Many people attribute that decline to competition that comes from overseas, as a result of America's relatively free trading regime, the fact that we have a relatively open economy and some suggest that this is actually harmful to America because of this decline in manufacturing companies and manufacturing jobs. How do you respond to a charge such as that? Either or both of you.

Mr. WORKMAN. You are absolutely right. The manufacturing sector has been in stress and in a recession far longer than the rest of the economy. The notion that we are somehow exporting jobs, I take issue with. The investment will be made because there is a good return on the investment and so although you are putting money out in new plant and equipment someplace in country X, there is a return back to the United States to the parent company and that allows them to export to their subsidiaries.

If you look at the fabric of U.S. exports, a significant, perhaps a majority of it is intracompany transfers where the parent company in Waukegan, Illinois is exporting to the assembly plant in Lyon, France. So this notion that we are exporting jobs, I take some issue with.

The other point about that manufacturing is a percent of GDP has declined is also absolutely true, but someone once said, I forget who about statistics and damn statistics, if you look at the GDP and compare it with the end of World War II, when manufacturing accounted for something like 60 percent of U.S. GDP, our U.S. GDP is 11 or 12 times larger now than it was back in 1945, 1950.

Just comparing those numbers in constant dollars with 1945, even though we have fewer people working, i.e. we are more productive, we are more efficient, even though as a percent of the larger economy it is lower, the output is about three or four times what it was in 1950. So this kind of angst about we are losing our manufacturing base is something that we need to pay attention to for sure, but I don't think it is time to ring the alarm bells quite yet.

Chairman TOOMEY. Mr. Morrison, did you want to add anything to that?

Mr. MORRISON. I guess I would say two things. First of all, when we have agreements with other countries it is always important to police the agreements and make sure that it safeguards any agreements are implemented and observed by everybody and there are instances in which that doesn't happen and those have been pointed out from time-to-time and they do deserve attention.

The other thing I would say is that you know the best defense is a good offense. A lot of times I hear people complaining about imports and business. I say well how are you exporting? What are you doing to export? There isn't much of an answer.

Ninety-six percent of the world's consumers live outside of the United States. It seems to me that any entrepreneur that doesn't have a plan for dealing with most of the world's population can't really call themselves an entrepreneur. I think if companies focus more on export markets, on selling abroad, the issue of I being I will hustle a little bit here becomes less relevant.

I had a member talk to me the other day about a printing press that he wanted to sell that got out bid by an Italian company and I said, well it can't be labor cost differential because there is not much in Italy. In fact, it may be more there. What it boiled down

to was that they worked harder and they out hustled him for the contract.

I think American companies have to realize that we are in a global trade situation and that most of the world's consumers are outside of this country and we have to focus on exporting.

Chairman TOOMEY. Thank you very much. At this time I will recognize the gentlelady from California.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman. Mr. Workman I suppose you say you take issue at the sayings that jobs are being exported out of the country. Perhaps that may not be a good assessment, but we are losing jobs to foreign countries by virtue of those jobs going over to those countries and the workers over there are getting the jobs that we once had. This is why the Chairman of the Full Committee continues to have hearings on our assessment of our manufacturing base.

You spoke of small business now we have exporting over 400,000 as opposed to Mr. Morrison saying that it was once 65,000. What sizes are these small businesses that we have that are 400,000 now that are part of this global market and what is the bottom line net profit for them? Do you have any——.

Mr. MORRISON. Well, the Census Bureau that did the survey in 1992 and 1997, they used as their measure as to what is a small business a 500 workers or less. So that is what the 118,000 in 1992 and the 209,000 in 1997 and as I said, we don't have the figures yet for 2002, because they do these in five-year segments, but the estimates are that it is going to be over 400,000. We have been seeing a trend where they double every five years in terms of numbers involved. That is the quote definition that Census used to define a small business.

On the issue of exporting jobs, I want to reemphasize a point that my colleague made earlier when we talk about a level playing field. There is a way, a legal, internationally recognized way to level the playing field in the U.S. market and that is called the anti-dumping countervailing duty laws.

The Chamber has long been an advocate for very strong, very rigorously enforced anti-dumping countervailing duty, where you impose a duty on a good that is being either subsidized for sale into the U.S. market or is being dumped so below market price in order to get market share in the U.S. market.

In our mind you can't be an advocate for open free and fair trade and just focus on the export side, unless you look at having rigorous enforcement of the laws to protect American companies here in the U.S. market. So that is one of the chapters in the Chile agreement that at the chamber we pay very much attention to.

Now I can't get into discussions about whether we should protect steel or——.

Ms. MILLENDER-MCDONALD. That was my next question. You must have been reading my mind and that is rather dangerous when you do that.

Mr. MORRISON. Because as you might imagine, all the steel companies or steel producers are members of the Chamber and all the users are members of the Chamber.

Ms. MILLENDER-MCDONALD. I understand.

Mr. MORRISON. So we are aggressively neutral on that particular sector.

Ms. MILLENDER-MCDONALD. Delicate balance there. That is true. In fact, a lot of the car manufacturers in my district are wondering if the President is going to repeal the Section 201 to allow now for the importing of steel back into the country and we are hoping that kind of stays to some degree.

Dr. Morrison and I know with a Ph.D. I will call you Dr. Morrison, with the devalued dollar, how can we see the effects of what we perceive as growing small businesses that are in this global market those numbers be perhaps decreased, because you have the devalued dollar?

Also, with the European Union, I think Mr. Wesson talked about Europe has a free trade agreement with Chile, but you know there are a lot of subsidies that go along with the European anything. They have a lot of subsidies that the EU gives to them. With our devalued dollar, do we see a decrease in these small businesses going more global or are we going to continue to see the increase of these small businesses?

Mr. MORRISON. I think the dollar is sort of like steel, it cuts both ways. If you use imported products as an input into your process at some level, then even if you are an exporter your prices are probably going to go up. If you are a pure exporter, basing all of the production on domestic factors, the cost of your exports will go down. A lot of my members are pretty happy about the dollar right now. They are selling in markets where they couldn't get into for the last couple of years. There is differences of opinion on that, depending on how a particular business is structured.

Ms. MILLENDER-MCDONALD. And the commodity that you have I suppose, too.

Mr. MORRISON. Yes. I think that between the dollar and agreements like this, of which there are quite a few in the pipeline, the prospects are pretty bright for small business exporters.

Ms. MILLENDER-MCDONALD. That is encouraging. It seems like my time goes so quickly. I wanted to ask Mr. Schantz something.

Chairman TOOMEY. I would be happy to yield additional time to the gentlelady from California.

Ms. MILLENDER-MCDONALD. Thank you so much. Mr. Schantz is it?

Mr. SCHANTZ. Schantz.

Ms. MILLENDER-MCDONALD. Yes. Thank you. How do you pronounce your name again?

Mr. SCHANTZ. Schantz.

Ms. MILLENDER-MCDONALD. Schantz. Thank you. You were saying that and in looking at your statement and it is good to know you have Christmas trees, I will know where to come to get a Christmas tree, you are saying foreign import competition has increased drastically. The United States has one of the most open agricultural markets in the world and we really do, but then as we go down to your statement you say, yet they experience limited opportunities to export abroad. Why is that and when will we get to this more balanced competition when it comes to agriculture? Agriculture is number one in the state of California. So we have had mucho problems with the ability to export.

Mr. SCHANTZ. Well, agriculture is the top in Pennsylvania also. One of those various problems do arise which the Chilean free trade agreement is solving is the non-tariff type barriers that have been a problem in exports.

I being in production agriculture, do not know maybe some of the real specifics of it, but I know so often different things come up like the price bonding, like the licensing requirements, things like that, the sanitary type requirements that are thrown into an agreement that even though the tariffs have been reduced, these other items sort of limit the amount of product that can flow out of the country.

Ms. MILLENDER-MCDONALD. So the Chile agreement will help us in expanding opportunities now in the agriculture industry?

Mr. SCHANTZ. Yes, in the certain sectors that they are in need of. I mean it will be of benefit yes, to agriculture. But of course certain products it will be a benefit more than others.

Ms. MILLENDER-MCDONALD. I guess that is predicated on all commodities, as to whether one is better than the other. Mr. Wesson, with the European Union having free trade with Chile and now that we are entering into this, do you think with all of their subsidies it will hurt or hinder us as we move into the Chile agreement?

Mr. WESSON. That is hard to say. I have seen evidence of European subsidies in some cases. I can't put my finger on it in Chile or South America. They are not a significant factor. Again, the value of the dollar and the tariffs and VAT seem to have more effect. I have heard that some countries in Europe are trying to adhere to international standards on subsidies with mixed success. The more the better. They have posed a problem for us in other countries, like India.

Ms. MILLENDER-MCDONALD. I know.

Mr. WESSON. It has been a big deal in India. But as to an effect in Chile, I can't say.

Ms. MILLENDER-MCDONALD. Just one more question to all of you and I would like for each of you to answer if you can. It has been stated that the Chilean agreement will be used as a model for future trade agreements, especially those in Central and South America. Do you believe this is a wise idea, recognizing that certain areas especially those in Central America, have both weak and poorly enforced laws? That is a grab bag.

Mr. WORKMAN. I think that is a nice sound bite, but I used to be a trade negotiator and the reality is each one is unique. That is also why although some people say why don't we just do ten trade agreements and then send them all up to the Congress at the same time, that is why the Congress has always insisted in viewing them one agreement at a time. They have to rest on their individual merits.

I think the larger issue here and individual bilateral free trade agreements are important, we should go ahead and do them. We haven't been doing them for eight years. But, the real bang for the buck in the regional agreements and the WTO, DOHA round of negotiations, if we get an agreement in DOHA that is with 146 countries. So, it covers almost 80 percent of our trade.

That is where I think in terms of priority that is where the administration should be focused and things are not going well at

DOHA. They haven't met one of the deadlines that they set for themselves. They have this mid-term ministerial coming up in Cancun in September, a nice place to visit but I don't know what they are going to put in the communique.

That is where the issue of agriculture. I also own the family farm in the great state of Delaware, which some claim is a suburb of Philadelphia but we take issue with that, and I will tell you that what happened in the Uruguay round was that we didn't reach a conclusion, particularly with the Europeans on agriculture. Those negotiations and this is not well known, have actually continued since 1994. We still haven't reached a conclusion with the Europeans.

They are now extending it to the ten new members of the European Union. So this is a problem. That is a major problem. If you are going to continue to do as a concept trade negotiations as what they call a single undertaking, i.e. we deal with industrial goods and agriculture, then we are going to have to get the Europeans to come to grips with their agriculture policy.

For friends like my colleague from Pennsylvania, it absolutely forces American farmers out of third country markets. The issue is not access to the European Union market, but they are subsidizing their exports to the rest of the world. So that is a big issue and it is a tough issue. I wish the administration well. We will do all we can to support them on that.

Mr. MORRISON. I just would add to that, that if I understand the administration's negotiating strategy and I am sure that Mr. Padilla or Mr. Workman would be better to speak to this than me, but it is competitive liberalization and the reason that they will start with a country like Singapore or a country like Chile is that they can establish the baseline that they are looking for in the other agreements.

Now for the other countries to get to that baseline, like some of the Central American countries, is going to take a lot of heavy lifting and I think that is part of the idea is to encourage them to do a lot more than they have done.

Mr. Padilla mentioned the Guatemalans taking another look at their labor laws. I think that is the idea is to try to force the other countries up to the level that has been set by the Chile deal.

As far as the Europeans are concerned, just to go back to your other point, I mean where we encounter them most aggressively is in the export finance area, less in the subsidiary area, but they play a lot of games with their export financing and that is the back door way of subsidizing their exports.

Ms. MILLENDER-MCDONALD. Mr. Chairman, thank you so much. I do have a statement for the record.

Chairman TOOMEY. Without objection it will be submitted to the record.

[Ms. Millender-McDonald's statement may be found in the appendix.]

Chairman TOOMEY. I would like to thank all the witnesses for their very helpful testimony. Thank you for being here and the hearing is adjourned.

[Whereupon, at 1:26 p.m., the Subcommittee was adjourned.]

Chairman Toomey

Subcommittee on Tax, Finance, & Exports
Opening Statement on the Chilean Free Trade Agreement
June 12, 2003

Introduction

- Good morning. Thank you all for being here today as we examine the Chilean Free Trade Agreement.

- Talks on a free trade agreement between the United States and Chile began in December of 2000.

- Just last Friday, June 6, 2003, United States Trade Representative Robert Zoellick and Chilean Foreign Minister Soledad Alevar signed this historic agreement, clearing the way for a possible vote on trade implementing legislation in the 108th Congress.

Trade

- I am a passionate believer in free markets and free trade.

  - It is vital that we reduce trade barriers and level the international playing field – opening up foreign markets to American goods.

- Last year, after a tough fight, Congress passed the Trade Promotion Authority Act which is essentially an agreement between the President and Congress on how market-opening trade negotiations will be conducted and agreements approved.

- Trade Promotion Authority will energize efforts to remove artificial trade barriers, expand U.S. trade, and provide a real boost to entrepreneurs, our economy, and job creation.

- Under TPA, the President involves Congress in trade negotiations from the start; Congress in exchange, agrees to vote yes or no on any resulting agreement in its entirety, without amendments.

- The large number of countries that have lined up seeking to enter free trade negotiations with our country demonstrates the success and need for Trade Promotion Authority.

U.S. Chile Free Trade Agreement

- One of the first trade agreements Congress will have the opportunity to vote on later this year (summer), because of Trade Promotion Authority, is the U.S. Chile Free Trade Agreement.

    - U.S.-Chilean trade is already surprisingly large, despite Chile's small population (15 million) and geographic distance.

This Trade Agreement is Long Overdue

- Since 1997, the share of Chile's imports that have come from the United States has experienced a steady, dramatic decline.

    - Whereas U.S. goods made up 24 percent of Chile's foreign purchases in 1997, by 2002 the U.S. share of Chilean imports had fallen to less than 17 percent.

    - In other words, over the last six years the United States lost nearly one-third of its share of Chile's import market.

- Not coincidentally, the plunge occurred as other nations were implementing their own free trade agreements (FTA's) with Chile and gaining market share there.

    - U.S. companies currently operate at a significant competitive disadvantage in Chile, because competitors such as Canada, Mexico, and the European Union all have free-trade agreements with Chile.

    - For example, a U.S. made Caterpillar 140 Horsepower Motor Grader sold in Chile pays $13,090 in tariffs.

    - But the same tractor made in Canada pay ZERO tariffs.

- The National Association of Manufactures (NAM) estimates that the current lack of a U.S. Free Trade Agreement with Chile costs U.S. exporters $800 million per year in sales, affecting 10,000 U.S. jobs.

- The U.S. – Chile FTA will remedy these competitive disadvantages and levels the playing field for U.S. products and farm goods.

Promotes broader U.S. foreign policy goals in the Americas

- Besides deepening U.S.-Chilean economic relations, the U.S.-Chile agreement is a critical stepping-stone toward the completion of the 34-nation Free Trade Area of the Americas.

- It sends a vital message that if you stay on the path of market opening, economic reform, and democracy (as Chile has), the United States is prepared to improve mutual trade and economic relations.

You Can't Find a Better Trading Partner

- For nearly a decade, completing a free trade agreement with Chile has been a publicly stated top priority of both Republican and Democratic Administrations.

- Chile's outstanding democratic and economic credentials largely explain the long-standing bipartisan enthusiasm for deepening our economic relations with this medium-sized South American country. Those credentials include:

  - One of the highest standards of living in Latin America and the Caribbean.

  - A trade investment regime that is among the most open in Latin America.

  - Strong Budget Discipline that has yielded one of the smallest budget deficits in the Western Hemisphere; and,

  - The second fastest growing Gross Domestic Product in Latin America from 1992-2001.

- In short, Chile has an outstanding track record of accomplishment that makes it an ideal trading partner.

Witnesses

FIRST PANEL

- Leading things off we have Mr. Christopher Padilla, Assistant U.S. Trade Representative for Intergovernmental Affairs and Public Liaison for the Office of the United States Trade Representative.

- Mr. Padilla will provide us an overview of the Chilean Free Trade Agreement and how it will help not only our Nation's small businesses, but our economy as a whole.

- Also with us today is the Honorable Manuel Rosales, Assistant Administrator of the Office of International Trade at the Small Business Administration.

- Mr. Rosales and his staff over at the SBA have done an outstanding job in laying the groundwork in preparation for this agreement.

- In addition to his regular duties, Mr. Rosales has crafted working partnerships with his Chilean counterparts and has stayed ahead of the curve, thus, being ready to assist American small businesses who either want to become involved or more heavily involved in trade with Chile.

SECOND PANEL

- Starting our second panel this morning is Mr. Willard Workman, Senior Vice President for International Affairs at the United States Chamber of Commerce.

- Mr. Workman is responsible for the Chamber's policy positions on international economic, investment and trade issues confronting the U.S. business community, and will be examining,

among other things, the impact of the agreement on the Chamber's membership.

- Also with us today is Mr. James Morrison, President of the Small Business Exporters Association, which is the International Arm of National Small Business United, a bipartisan association of 65,000 companies in all 50 states.

- We also have with us two small business owners from my home state of Pennsylvania.

- Mr. Arland Schantz, is a seventh generation farmer in the Lehigh Valley. Mr. Schantz will examine the impact of the agreement on American Farmers.

- Additionally, we have Mr. Larry Wesson, President and CEO of Aurora Instruments in Ambler Pennsylvania. Mr. Wesson will be testifying on behalf of the National Association of Manufacturers.

- Mr. Wesson's company manufactures equipment for the telecommunications, cable television, military, aerospace and research industries.

STATEMENT
of the
The Honorable Juanita Millender-McDonald
Ranking Member, Subcommittee on Tax, Finance and Exports
House Committee on Small Business
June 11, 2003

Thank you, Mr. Chairman.

Today, our international neighbors are closer than ever -- and the world is fast becoming a single global community. Nowhere is this more evident than in the international marketplace.

Only a decade ago small businesses that engaged in international trade were an anomaly, but now they are the norm. In fact, small businesses dominate international commerce – with 97 percent of all U.S. exporters small businesses.

This growth is due, in part, to the ability of small businesses to take advantage of trade agreements. For example, since the introduction of NAFTA in 1994, small and medium-sized firms have been responsible for nearly one-third of all exports to Canada and Mexico.

Given the dependence of this nation's small businesses on the global marketplace, it is crucial to have trade agreements that remove barriers and ensure fair competition with foreign companies.

In 2000, the U.S. and Chile announced they would negotiate a free trade agreement. After more than two years of negotiations, a bilateral agreement was reached and recently signed by President Bush. It is now up to Congress to approve its implementing legislation.

Through this agreement, U.S. businesses will have increased access to goods and services within the Chilean market. Furthermore, without the burden of tariffs, small and medium-sized enterprises will be able to sell their products and services in Chile at lower prices -- enabling them to be more competitive in this foreign market.

If the U.S. – Chile free trade agreement is approved by Congress, 85 percent of all consumer and industrial goods would immediately be traded duty-free between the two countries. This agreement expands markets for American farmers by eliminating 75 percent of tariffs on farm goods within 4 years.

By cutting tariffs, the U.S.-Chile Free Trade Agreement will foster new opportunities for U.S. workers and manufacturers. Many small businesses operate on limited budgets, and tariffs often prohibit their ability to participate in the global economy. Accordingly, small enterprises will reap substantial benefits from duty-free access to industrial goods, including heavy machinery and equipment, computers and IT products, medical equipment, wood and paper products, and other manufacturing items.

Clearly, the U.S. – Chile free trade agreement has enormous potential for the growth of many U.S. companies. However, as is the case with all trade agreements, standards must be met to ensure the full and fair participation of small businesses.

First, trade facilitation must be provided so small businesses will fully understand the international policies and regulations, as well as the benefits of entering this new economy. Toward this end, last December the SBA joined with the Technical Cooperation Service of Chile, and the Chilean Economic Development Agency to promote linkages between Chilean and American small enterprise. This international collaboration will help small businesses understand how they will benefit from the U.S. – Chile free trade agreement.

Second, the trade agreement must include goods and services provided by small businesses. For instance, many of the agriculture goods that will no longer be subject to tariffs under this US-Chile agreement are the products of small farmers.

Lastly, as is the case with this agreement, the host country must not require the physical presence of the business in-country, since many small firms do not have the resources to open international locations or offices.

This will be the first U.S. free trade agreement with a Latin American country. It will serve as a model for all future trade agreement in this region. Its successes will be replicated -- and therefore, it is imperative that we get this one right for small businesses.

And it seems that we are on track. The U.S. – Chile trade agreement presents American businesses with new opportunities by eliminating tariffs, quotas and other trade barriers. It especially holds great promise for those small businesses that export to Chile, giving them a more level playing field and allowing them to reap the benefits of the global marketplace.

Today's hearing is an opportunity to delve into provisions of this agreement that impact small businesses -- and ensure that the steps we take today will serve the small businesses community well past this trade agreement, this Congress, and, hopefully even the next generation. I look forward to hearing more about these issues from our witnesses.

Thank you.

U.S.-CHILE FREE TRADE AGREEMENT
STATEMENT TO THE U.S. HOUSE OF REPRESENTATIVES

Statement of Christopher A. Padilla
Assistant U.S. Trade Representative for Intergovernmental Affairs and Public Liaison
before the
House Small Business Committee
Subcommittee on Tax, Finance, and Exports
June 12, 2003

Mr. Chairman, Ranking Member Millender-McDonald, and Members of the Subcommittee:

I am honored to appear before you today to testify on the U.S.-Chile Free Trade Agreement (FTA), which was signed just last week in Miami in an historic ceremony with Ambassador Zoellick and his Chilean counterpart Soledad Alvear. I also want to thank each of you and your staffs for the suggestions and support you have provided during the negotiations of the agreement.

Sound Economic Sense for the United States

I welcome the opportunity to discuss the U.S.-Chile FTA and to describe the benefits it will offer American businesses and consumers, *especially American small businesses*. The agreement, the result of a long-term bipartisan effort and an open, transparent negotiating process, makes sound economic sense for the United States and Chile and represents a win-win, state-of-the-art trade agreement for a modern economy.

It makes sound economic sense for the United States to have a free trade agreement with Chile. Although Chile was only our 36th largest trading partner in goods in 2002 (with $2.6 billion in exports and $3.8 billion in imports), Chile has one of the fastest growing economies in the world. Its sound economic policies are reflected in its investment grade capital market ratings, unique in South America. Over the past 15-20 years, Chile has established a thriving democracy, a thriving economy, a free market society and an open economy built on trade. A U.S.-Chile FTA will help Chile continue its impressive record of growth and development. It will help spur progress in the Free Trade Area of the Americas, and will send a positive message throughout the world, particularly in the Western Hemisphere, that we will work in partnership with those who are committed to free markets.

Moreover, a U.S.-Chile FTA will help U.S. manufacturers, suppliers, farmers, workers, consumers and investors achieve a level playing field. Chile already has FTAs with Mexico, Canada, Mercosur, and -- since February -- the EU. As a result, its trade with these economies is growing while American companies are being disadvantaged. The National Association of Manufacturers estimates the lack of a U.S.-Chile FTA causes U.S. companies to lose at least $1 billion in exports annually. The United States needs an FTA with Chile to ensure that we enjoy market access, treatment, prices and protection at

least as good as our competitors. Consumers will benefit from lower prices and more choices.

Improving Small Businesses' Access to Global Markets

For US small businesses emerging markets like Chile provide excellent opportunities for fast growth in exports. In 1999, 79 percent of all U.S. firms that exported to Chile were small businesses, generating over nine hundred million dollars in exports. Small businesses succeed under free trade regimes. As both tariff and non-tariff barriers to trade are eliminated, access for US small business exports to foreign markets improves substantially. For example, since the introduction of the North American Free Trade Agreement (NAFTA) in 1994, small business exports to Canada and Mexico have increased at a greater rate than to the rest of the worlds markets. The increase in US small business exports under NAFTA has risen so greatly that Mexico is now the US's second largest small business export market. In fact Canada and Mexico are now the two top export markets for US small businesses accounting for nearly one-third of all US small business exports.

Small and medium-sized enterprises will benefit from the tariff-eliminating provisions of the U.S.-Chile FTA. In recent years, U.S. companies have faced competition from firms in Canada and Mexico who already enjoy the benefits of these countries' free trade agreements with Chile. Additionally US small businesses will substantially benefit for the progressive agreements on transparency in law, customs facilitation and intellectual property rights protection.

Result of a Long-term Bipartisan Effort

The U.S.-Chile FTA is truly a bipartisan effort. Negotiations were launched under the Clinton Administration in December 2000. After fourteen rounds, negotiations were concluded under the Bush Administration in December 2002.

In fact, discussions about a bilateral free trade agreement have been going on much longer. As Ambassador Zoellick stated in his congressional notification last fall, "the origins of an agreement with Chile date back to the Administration of President George H.W. Bush, when the first discussions were held regarding a possible Chile FTA." In the mid-90's, the North American Free Trade Agreement (NAFTA) countries (the United States, Canada and Mexico) invited Chile to dock into the NAFTA. However, with the subsequent lapse of what was then known as "fast–track authority", docking didn't appear feasible. The United States and Chile instead initiated a Trade and Investment Framework Agreement (TIFA) to facilitate bilateral trade and investment liberalization and pave the way for a future FTA.

As a footnote, discussions about a U.S.-Chile bilateral trade agreement have been going on much longer than a decade. Chilean historians inform us that these discussions began in the 1800's when Chilean Ambassador Pangea was sent as a special emissary to the United States to propose a bilateral trade agreement to President Jackson. Unfortunately, President Jackson was not persuaded. Ambassador Pangea may have been a bit ahead of

his time, but I think you all would agree the FTA with Chile has been in the works for a long time – and has truly enjoyed bipartisan support.

Result of an Open, Transparent Process

The process of developing U.S. proposals and concluding the U.S.-Chile FTA was open and transparent. Even before Trade Promotion Authority was granted, the Office of the U.S. Trade Representative (USTR) held public briefings and consulted frequently with Congressional staff, private sector advisors (including small business advisors, such as Industry Sector Advisory Committee 14, the small and minority business advisory committee), and civil society groups. We continued this process after the Trade Act of 2002 was enacted in August, meeting with the Congressional Oversight Group, members and staff from interested Committees, and advisory groups, to develop positions and provide regular updates on results of negotiating rounds. We used technology to facilitate access to texts, providing draft texts to cleared advisors via a secure website in early January, and after the legal review, made the text available to the public on USTR's regular website on April 3. Open, transparent, consultative processes throughout the negotiations resulted in a greatly improved agreement.

Summary - A Win-Win Agreement

The U.S.-Chile FTA is a win-win, state-of-the-art trade agreement for a modern economy. USTR's website (www.ustr.gov) has a nine-page summary of the agreement as well as the English version of the texts. I will highlight the most salient points.

Four features distinguish the U.S.-Chile FTA from the other 150 or so FTAs that other countries and the EU have concluded:

1) It is comprehensive.
2) It promotes transparency.
3) It is modern.
4) It uses an innovative approach that supports and promotes respect for environmental protection and worker rights.

1. Comprehensive

We challenged ourselves to be as open as possible, across the board.

Goods. Chile currently has a six percent flat tariff on goods, except for products subject to its price bands (wheat, wheat flour, vegetable oil and sugar). Under the U.S.-Chile FTA, **all goods will be duty-free and quota-free at the end of the transition periods** (10 years maximum for industrial goods and 12 years for agricultural goods). There is generous immediate, duty-free access - more than 87 percent of bilateral trade in goods. Special phase-outs are allowed within these timeframes for goods with sensitivities.

Our key concern was to level the playing field to ensure that U.S. access to Chile would be as good as that of the EU or Canada, both of which have FTAs with Chile. Chile's

commitment to eliminate its agricultural price bands, which it had retained in previous trade agreements, was an essential component of our decision to liberalize all trade.

Among the key features, access for beef in both countries will be completely liberalized over four years. U.S. beef exporters will be permitted to use U.S. grading standards when they market beef in Chile. Chile is finalizing the administrative regulations necessary to recognize the U.S. meat inspection system – to the benefit of U.S. beef and pork exporters. Tariffs on U.S. and Chilean wines will first be equalized at low U.S. rates and then eliminated. Chile also agreed to eliminate a 50 percent surcharge on used goods (important for capital goods exporters), to end duty drawback and duty deferral programs after a transition and to eliminate its 85 percent "auto luxury tax" in four years.

In addition to longer phase-out periods on sensitive products, the Trade Remedies chapter provides for temporary safeguards to be imposed when increased imports constitute a substantial cause of serious injury or threat of serious injury to a domestic industry. Special safeguards are also provided for certain textile and agricultural products.

Services. Today 80% of Americans work for service companies, and about two-thirds of our GDP is in services. As a matter of fact about one-third of all US small business exporters are in service related fields. We improved upon the approach used in the WTO and used a "negative list" approach for negotiating market access rights so that all services are included with very few exceptions. There are broad commitments on both sides.

Government Procurement. This is the first FTA to explicitly recognize that build-operate-transfer contracts are government procurement. The Government Procurement provisions cover purchases of most Chilean government infrastructure and resource projects, including ports and airports, as well as central government entities and more than 350 municipalities.

2. Promotes Transparency

Transparency provisions both in the Transparency chapter and throughout the agreement promote open, impartial procedures and underscore Chile's commitment to the rules-based global trading system. General provisions ensure open, transparent, regulatory procedures by requiring advance notice, comment periods and publication of all regulations.

Of special interest to small business are the provisions that streamline customs procedures and simplify rules of origin. These provisions will facilitate taking advantage of the new trade openings. The U.S.-Chile FTA and the U.S.-Singapore FTA will be the first FTAs anywhere in world to have specific, concrete obligations to enhance transparency and efficiency of customs procedures. All customs laws, regulations and guidelines are required to be published on the Internet. The private sector may request binding advance rulings on customs matters. Additional provisions allow rapid release of goods, including expedited treatment for express delivery shipments.

The rules of origin in the agreement are straightforward and simplified. Based on our experience with NAFTA, we were able to minimize the use of complicated regional content value calculations.

The Services chapter provides additional procedural requirements regarding transparency in development and application of regulations, including the requirement to establish a mechanism for responding to questions on regulatory issues. These advancements are particularly crucial for the services sector since many sectors are regulated and transparency is needed to guarantee that market access improvements can be fully exploited.

The Government Procurement chapter requires open and transparent qualification and tendering procedures, with only limited restrictions. It also requires Chile to establish an impartial authority to hear supplier complaints about the implementation of the government procurement obligations. Importantly, it specifically requires that any bribery in government procurement be considered a criminal offense in U.S. and Chilean laws, furthering hemispheric anti-corruption goals.

Dispute Settlement provisions provide for open public hearings, the opportunity for interested third paries to submit views, and public release of submissions, objectives that the United States has long sought in the WTO. Similar transparency provisions apply to investor-state disputes.

3. Modern

The agreement is modern in its approach to technology and business practices, encompassing strengthened protection for intellectual property rights and investment, and new provisions on telecommunications, electronic commerce, express delivery and temporary entry.

Intellectual Property Rights (IPR). The agreement provides state-of the art protection for digital products such as U.S. software, music, text and videos. IPR protection for patents, trademarks and trade secrets exceeds that in prior agreements and obligates Chile to provide protection at a level that reflects U.S. standards. This is especially important to US small businesses. It works toward insuring that small businesses, who tend to be on the technological cutting edge, will have a satisfactory recourse if their intellectual property is pirated. Additionally, it provides US businesses, especially small businesses, with the knowledge that the Chilean government will protect their rights at the same level that the US government protects them domestically.

Investment. The agreement provides important protections for U.S. investors in Chile. The agreement ensures that U.S. investors will enjoy national treatment and MFN treatment in Chile in almost all circumstances. The investment provisions draw from U.S. legal principles and practices, including due process and transparency. All forms of investment are protected under the agreement, such as enterprises, debt, concessions, contracts and intellectual property. Standards are established for expropriation and compensation for expropriation, and for fair and equitable treatment. Performance requirements are prohibited, except in certain limited circumstances. Free transfer of

funds is protected. The agreement also makes international arbitration available for certain claims by investors. Expedited procedures will help deter and eliminate frivolous claims, and provide for efficient selection of arbitrators and prompt resolution of claims. The agreement also contemplates the establishment of an appellate mechanism to review awards under the Investment Chapter, permitting the Parties to establish a bilateral appellate mechanism or to establish a future multilateral appellate mechanism. Under special dispute settlement provisions, however, Chile shall not incur liability if Chilean authorities exercise, for a limited period, narrow flexibility to restrict certain capital flows that Chile considers potentially destabilizing.

Telecommunications. The telecommunications chapter improves on Chile's WTO obligations. It ensures non-discriminatory access to, and use of, Chile's public telecommunications network, coupled with sound regulatory measures to prevent abuses by the dominant incumbent service supplier. In addition, the agreement includes a commitment from Chile to allow market entry for basic telecommunications services. This market access to Chile's telecommunications sector is essential for the continued development of innovative and new service offerings.

The agreement will require a greater level of transparency in dealing with major suppliers of public telecommunication services, transparent regulatory processes, and strong regulatory enforcement powers. It also provides flexibility to account for changes that may occur through new legislation or new regulatory decisions. Foreign companies operating in the U.S. telecommunications sector enjoy a high degree of market access and transparency. With this agreement, U.S. telecommunication service suppliers will enjoy similar access, openness and transparency in Chile.

Electronic Commerce. The E-Commerce chapter is a breakthrough in achieving certainty and predictability for market access of products such as computer programs, video images, sound recordings and other digitally encoded products. The commitments provide that digital products that are imported or exported through electronic means will not be subject to customs duties. Furthermore, each side will determine customs valuation on the basis of the carrier medium, e.g., optical media or tape, rather than content. Both the United States and Chile commit to non-discriminatory treatment of digital products. Electronic commerce is an area of trade that has been, for the most part, free of many traditional trade barriers (duties, discrimination, protectionism). The U.S.-Chile FTA binds the current level of openness for trade in this area by reaching an agreement that prevents such barriers from being imposed in the future.

Services. In addition to obtaining increased market access for U.S. banks, insurance companies, telecommunications companies, and securities firms, the FTA for the first time recognizes "express delivery" as a distinct industry. Express delivery service commitments are based on an expansive definition of the integrated nature of services. Express delivery services obtain expedited customs clearance. Special provisions will deter postal carriers from cross-subsidizing competing services.

Temporary Entry. The Temporary Entry chapter facilitates the movement of businesspersons engaged in the trade of goods and services, and the conduct of investment activities. It establishes transparent criteria and procedures for entry of

businesspersons in four categories: business visitors, intra-company transferees, traders and investors, and professionals. The first three categories will be implemented using our current system. Unlike the NAFTA, which includes a list of individual professions, the FTA employs a general definition based on educational achievement. This general definition will be able to accommodate changes to the workforce that take place over time. Based on Congressional consultations, we set an annual numerical limit of 1,400 new Chilean professionals. Finally, the chapter preserves the ability of the Congress and regulators to legislate and develop new procedures in the area of temporary entry subsequent to the entry into force of the agreement.

4. Innovative Approach to Labor and Environment

Both the U.S.-Chile and U.S.-Singapore FTAs took into account Congressional guidance and built upon the Jordan Agreement by including in the agreements mechanisms for consultation, dialogue, and public participation. These FTAs encourage high levels of environmental and labor protection, and obligate the signatories to enforce their domestic labor and environmental laws. This "effective enforcement provision" is subject to dispute settlement and backed by effective remedies, including an innovative use of monetary assessments, that are designed to encourage compliance. If a defending party fails to pay the monetary assessment, the complaining party may take other appropriate steps to collect the assessment, which may include suspending tariff benefits. The Chile FTA includes special rosters of experts for settlement of Labor, Environment, and Financial Services disputes. Our FTAs with Chile and Singapore also provide for bilateral cooperation programs to promote worker rights and environmental protection.

Promotes Growth and Poverty Reduction

As Ambassador Zoellick said, "The U.S.-Chile FTA is a partnership for growth, a partnership in creating economic opportunity for the people of both countries." Chile has opened its markets and welcomed competition. As a result, it is one of the freest economies in Latin America.

The result of Chile's openness has been the best growth record in Latin America, averaging over 6 percent per year through the 1990's. This growth enabled Chile to cut its poverty rate in half, from 45 percent in 1987 to 22 percent in 1998. The U.S.-Chile FTA will help Chile sustain this growth and will send a strong signal to the hemisphere that the United States wants to work in partnership to promote mutual economic growth.

Provides Momentum for Hemispheric Trade Liberalization

Conclusion of the Chile FTA has provided momentum to other hemispheric and global trade liberalization efforts by breaking ground on new issues and demonstrating what a 21st century trade agreement should be. We continue to move forward with the centerpiece of our hemispheric integration strategy, the Free Trade Area of the Americas (FTAA). We maintain our strong commitment to the negotiation of a comprehensive and robust FTAA by January of 2005. We already have followed up on our success with Chile by launching historic negotiations toward a free trade agreement (the so-called

CAFTA) between the United States and the nations of the Central America economic integration system: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

The U.S.-Chile FTA and the CAFTA will serve as building blocks for the FTAA. They will give both sides greater access to others' markets at an earlier date than is possible under the FTAA. At the same time, these bilateral FTAs strengthen ties and integration, demonstrating the additional benefits available through the FTAA.

Together with other more developed countries in the hemisphere, such as Canada, Mexico, Brazil and Chile, we continue to work on the hemispheric cooperation program. The program will help all nations in the hemisphere benefit from the FTAA, by providing appropriate technical assistance and trade capacity building to FTAA nations requiring assistance.

With Congressional guidance and support, this Administration is pursuing an ambitious and comprehensive trade policy. We will continue to move forward bilaterally, regionally and globally. Together, we can show the world the power of free trade to strengthen democracy and promote prosperity.

Testimony of

Manuel Rosales, Associate Administrator

Office of International Trade

U.S. Small Business Administration

Before the

Subcommittee on Tax, Finance and Exports

U.S. House of Representatives

June 12, 2003

I'D LIKE TO THANK CHAIRMAN TOOMEY FOR INVITING US TO PARTICIPATE IN THIS IMPORTANT HEARING. SBA STRONGLY SUPPORTS THE BUSH AND LAGOS ADMINISTRATIONS' COMMITMENT TO A BILATERAL FREE TRADE AGREEMENT, WHICH, AS YOU KNOW, WAS SIGNED JUNE 6. CHILE ALREADY OFFERS EXCELLENT MARKET OPPORTUNITIES FOR U.S. SMALL BUSINESSES. 79 PERCENT OF U.S. EXPORTERS TO CHILE ARE SMALL BUSINESSES, WITH CLOSE TO $950 MILLION IN ANNUAL MERCHANDISE EXPORT SALES. U.S. SMALL BUSINESS EXPORTS ACCOUNT FOR AROUND 30 PERCENT OF ALL U.S. MERCHANDISE EXPORTS. IN CHILE, THIS FIGURE IS JUST OVER 36 PERCENT. CHILE'S PREFERENTIAL ACCESS TO MOST MARKETS IN SOUTH AMERICA, LOW INFLATION, STRONG FINANCIAL SYSTEM, LOW LEVELS OF CORRUPTION, AND OPEN COMPETITIVE ECONOMY ALSO PROVIDE AN

EXCELLENT BASE FOR U.S. SMALL BUSINESSES TO EXPAND INTO LATIN AMERICAN MARKETS.

ACCORDING TO THE NATIONAL ASSOCIATION OF MANUFACTURERS (NAM), THE ABSENCE OF A U.S.-CHILE FTA COSTS U.S. EXPORTERS MORE THAN $1 BILLION PER YEAR IN SALES, AND COSTS THE U.S. ECONOMY APRROXIMATELY 20,000 JOBS. SINCE WE KNOW THAT U.S. SMALL BUSINESSES ACCOUNT FOR 36 PERCENT OF U.S. EXPORTS TO CHILE, WE CAN ASSUME THAT MORE THAN $360 MILLION, OF THE $1 BILLION PLUS, IS LOST SALES TO U.S. SMALL BUSINESSES.
REDUCING THE COST OF DOING BUSINESS OVERSEAS ALLOWS SMALL BUSINESSES TO BECOME GLOBAL PLAYERS AND GROW AT A MUCH FASTER RATE. SMALL BUSINESSES TYPICALLY HAVE LIMITED ACCESS TO INVESTMENT CAPITAL AND ARE DISPROPORTIONATELY IMPACTED BY TRADE BARRIERS. SMALL BUSINESSES DO NOT HAVE PARENTS OR AFFILIATES THAT MULTINATIONAL ENTERPRISES HAVE TO HELP GET PRODUCTS INTO NEW MARKETS. THEY DO NOT HAVE LAWYERS ON CALL TO GET AROUND BUREAUCRATIC RED TAPE OR PROTECT AGAINST PITFALLS OF DOING BUSINESS INTERNATIONALLY.

LAST YEAR SBA ENGAGED IN CONVERSATIONS WITH COUNTERPART AGENCIES IN CHILE TO EXPLORE WAYS TO COOPERATIVELY SUPPORT AND PROMOTE SMALL BUSINESS TRADE LINKAGES BETWEEN THE U.S. AND CHILE. SBA BELIEVES THIS COOPERATION GIVES US A HEAD-START FOR POSITIONING U.S. AND CHILEAN SMALL BUSINESSES TO

IMMEDIATELY AND EFFECTIVELY TAKE ADVANTAGE OF THE OPPORTUNITIES THAT FTA WOULD PROVIDE. WE KNOW THAT TO BEST SUPPORT U.S. SMALL BUSINESS IN THE INTERNATIONAL MARKETPLACE WE NEED TO BE PROACTIVE AND STAY AHEAD OF THE CURVE, AS OPPOSED TO WAITING FOR THINGS TO HAPPEN, THEN REACTING.

WITH THAT IN MIND, ON DECEMBER 5, 2002, SBA SIGNED AN EXTERNAL COOPERATIVE MEMORANDUM WITH THE TECHNICAL COOPERATION SERVICE OF CHILE (SERCOTEC), AND CORFO, THE CHILEAN ECONOMIC DEVELOPMENT AGENCY, TO INITIATE INSTITUTIONAL COOPERATION TO PROMOTE AND SUPPORT THE DEVELOPMENT, GROWTH, STABILITY AND GLOBAL COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES (SMES), AND PROMOTE TRADE OPPORTUNITIES FOR SMES IN EACH COUNTRY.

SBA IS CURRENTLY IN THE PROCESS OF DEVELOPING AN ACTION PLAN TO EFFECTIVELY ADVANCE THIS INITIATIVE. THE PRIMARY FOCUS OF INITIAL ACTIVITY INCLUDES SHARING STRATEGIES FOR PROMOTING SMALL BUSINESS ACCESS TO GOVERNMENT CONTRACTING. SBA ALSO PLANS TO WORK WITH THE AMERICAN CHAMBER OF COMMERCE IN CHILE (AMCHAM) TO DEVELOP A TOOL KIT FOR "DOING BUSINESS" BETWEEN THE U.S. AND CHILE, AND TO COOPERATE IN THE ORGANIZATION AND COORDINATION OF SMALL BUSINESS TRADE DELEGATIONS TO PROMOTE STRATEGIC BUSINESS ALLIANCES BETWEEN SMES IN CHILE AND THE UNITED STATES.

ON A BROADER SCALE, AS PART OF THE COOPERATIVE MEMORANDUM, SBA IS COMMITTED TO WORKING CLOSELY WITH THE CHILEANS IN THE FORMATION AND COORDINATION OF AN SME CONGRESS OF THE AMERICAS. THE MISSION OF THIS SME CONGRESS IS TO CREATE A HEMISPHERIC NETWORK OF PUBLIC AND PRIVATE SECTOR SMALL BUSINESS SERVICE PROVIDERS TO PROMOTE THE GROWTH OF FREE ENTERPRISE IN THE AMERICAS THROUGH THE DEVELOPMENT OF SMALL BUSINESS AND INTERNATIONAL TRADE.

SBA WILL BE HOSTING A STEERING COMMITTEE MEETING IN SEPTEMBER IN WASHINGTON TO LAUNCH THIS INITIATIVE AND BEGIN THE DEVELOPMENT OF A STRATEGIC PLAN TO HELP ENSURE THE EFFECTIVENESS AND SUSTAINABILITY OF THE PROCESS. SBA WILL ALSO BE DISCUSSING PLANS FOR THE FIRST FULL CONGRESS, TENTATIVELY SCHEDULED TO TAKE PLACE IN CHILE IN 2004.

SBA BELIEVES ITS SUCCESSFUL COOPERATION WITH CHILE CAN PLAY AN IMPORTANT ROLE IN GENERATING HEMISPHERIC SUPPORT FOR A FREE TRADE AREA OF THE AMERICAS. IF WE CAN SHOW TANGIBLE RESULTS OF HOW U.S.-CHILE FTA OFFERS INCREASED OPPORTUNITIES FOR SMALL BUSINESSES GROWTH, THEN TOGETHER SBA CAN HELP BUILD GRASSROOTS SUPPORT FOR FREE TRADE THROUGHOUT THE HEMISPHERE.

SBA SEES THE COOPERATIVE AGREEMENT WITH CHILE AS THE FIRST STEP TO STRENGTHENING A HEMISPHERE UNITED THROUGH SMALL BUSINESS. CHILE HAS BEEN THE MODEL OF ECONOMIC REFORM AND LIBERALIZATION FOR THE DEVELOPING MARKETS. SBA VIEWS CHILE AS AN IDEAL PARTNER IN HELPING TO USHER IN A NEW ERA OF REGIONAL PROSPERITY THROUGH SMALL BUSINESS GROWTH. WE BELIEVE THAT THIS FREE TRADE AGREEMENT WILL HELP MAKE THIS VISION A REALITY.

THANK YOU MR. CHAIRMAN, FOR YOUR TIME. I AM HAPPY TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

U.S. Chamber of Commerce

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Statement of Willard A. Workman
Senior Vice President, International
U.S. Chamber of Commerce

Testimony before the Subcommittee on Tax, Finance and Exports
of the
House Committee on Small Business
on
"The Chilean Free Trade Agreement: Opening Doors to South American Markets"

June 12, 2003

Mr. Chairman, thank you for inviting me to appear before this panel today. I am Willard Workman, Senior Vice President for International Affairs at the U.S. Chamber of Commerce, which is the largest business federation in the world. Representing nearly three million companies of every size, sector, and region, the Chamber has supported the business community in the United States for nearly a century.

Small businesses not only make up the majority of the membership of the U.S. Chamber of Commerce, but are also a critical engine for economic growth in communities throughout the United States. As such, we are active and ardent proponents of enhanced trade opportunities for this nation's small businesses.

As part of that mission, the U.S. Chamber of Commerce works with regional affiliates such as the Association of American Chambers of Commerce in Latin America (AACCLA) and the Chilean-American Chamber of Commerce (AmCham Chile) to promote greater opportunities for small businesses in Latin America and Chile. In our view, the U.S.-Chile Free Trade Agreement is a landmark agreement that, as part of a comprehensive agenda of worldwide trade liberalization, will help slash trade barriers for U.S. exports, enhance protections for U.S. investment, and strengthen the competitiveness of American companies — both big and small — throughout the world. We believe it is an agreement worthy of your support.

The Bracing Tonic of TPA

America's international trade in goods and services accounts for nearly a quarter of our country's GDP. As such, it is difficult to exaggerate the importance of the victory obtained last summer when the Congress renewed Presidential Trade Promotion Authority (TPA). When President George W. Bush signed the Trade Act of 2002 into law on August 6, it was a watershed for international commerce. As we predicted, this action by the Congress has helped reinvigorate the international trade agenda and has given a much-needed shot in the arm to American businesses big and small, and by extension workers and consumers struggling in a worldwide economic slowdown.

When TPA lapsed in 1994, the U.S. was compelled to sit on the sidelines while other countries negotiated numerous preferential trade agreements that put American companies at a competitive disadvantage. Last year, during our aggressive advocacy campaign for approval of TPA, I believe many members of Congress grew tired of hearing that the U.S. is party to just three of the roughly 150 free trade agreements in force today.

The passage of TPA allowed the United States finally to complete negotiations for a bilateral free trade agreement with Chile in December. Along with the Singapore agreement that followed in January, these are the first significant free trade agreements negotiated by the United States since the NAFTA.

The Chile agreement shows that the international trade agenda is moving forward again. The fact that no products were excluded from the agreement's market access commitments shows that the United States can and does practice what it preaches on free trade. The U.S.-Chile Free Trade Agreement raises the bar for rules and disciplines covering a host of economic sectors from services and government procurement to e-commerce and intellectual property. It also raises the bar for future trade agreements, including the Free Trade Area of the Americas (FTAA).

Maintaining Competitiveness

One factor adding urgency to our request for quick Congressional action on the agreement with Chile is the heightened competition U.S. companies — and small businesses in particular — face in the Chilean marketplace. In this sense, Chile is an example of how the world refuses to stand still, and how American business will lose its competitiveness without an ambitious program of trade expansion.

Chile is one of Latin America's most open and fastest-growing economies. The country's legal system and commercial environment are widely regarded as the most stable and transparent in the region. And Chile offers many opportunities to U.S. small businesses. Passing and implementing the U.S.-Chile Free Trade Agreement is the right way to support our small businesses by enhancing those opportunities.

Let me illustrate. Many of you know that Chile's free trade agreement with the European Union came into force on February 1. On that day, tariffs on nearly 92% of Chilean imports from the EU were eliminated. Consequently, it is not surprising to note that Chilean imports from the EU expanded by 30% in the year ending in February 2003, whereas Chilean imports from the United States grew by less than 6%. Chilean imports from Germany grew by 47% and those from France grew by 41% in the same period.

The reason is simple: While U.S. exporters wait for a free trade agreement, our exports to Chile continue to face tariffs that begin at 6% and, for some products, range much higher. The direct result is that European companies are seeing their sales in Chile rise five times as quickly as those of U.S. firms. With a U.S.-Chile Free Trade Agreement, we could level the playing field for small businesses in communities throughout the United States.

Gauging the Benefits

How might the U.S.-Chile Free Trade agreement benefit small business in the United States? There is a strong economic argument to be made for free trade agreements. As U.S. Trade Representative Robert Zoellick has pointed out, the combined effects of the North American Free Trade Agreement (NAFTA) and the Uruguay Round trade agreement that created the World Trade Organization (WTO) have increased U.S. national income by $40 billion to $60 billion a year. Thanks to the lower prices that these agreements have generated for such imported items as clothing, the average American family of four has gained between $1,000 to $1,300 from these two pacts — an impressive tax cut, indeed.

From a business perspective, the following are a few examples of specific market-opening measures in the U.S.-Chile Free Trade Agreement, provided here to give some insight on how U.S. companies stand to benefit:

Manufactures and Other Goods. The agreement with Chile will eliminate tariffs on more than 90% of all U.S. goods immediately, with the remainder to be phased out in a fairly rapid fashion. Today, most U.S. exports to Chile face a tariff of 6%, which can constitute a significant barrier indeed, but tariffs are substantially higher on some sectors.

For instance, Chile continues to impose a luxury tax of 85% on vehicles imported from the United States valued at more than $15,000 — a significant barrier to U.S. exports that the free trade agreement will eliminate. This will benefit not only our nation's automakers, but also hundreds of thousands of American small businesses that supply parts and services to those automakers.

Services. Services accounts for over 80% of GDP and employment in the United States. The services chapter of the U.S.-Chile Free Trade Agreement provides enhanced market access for U.S. firms across different service sectors using a "negative list" approach (full market access for all service providers except those in sectors specifically named). U.S. service suppliers will also be assured fair and non-discriminatory treatment in Chile. Banks, insurers, hospitality industry and express delivery providers are among the sectors that will benefit from new opportunities if the Chile agreement is approved and implemented.

One small business that would benefit from the agreement is Miami-based Global Caribbean, Inc., a family-owned hospitality amenities business established in 1990, which despite initial success in the country, is now concerned about increased competition from countries that already enjoy free trade agreements with Chile. Global Caribbean Vice President Stacy Soucy told us that "a free trade agreement would allow us to export more with less restrictions, increase the potential for more clients, offer more opportunities to our employees, and generate more money to reinvest in our community."

Electronic Commerce. The landmark E-Commerce chapter of the U.S.-Chile agreement will help ensure the free flow of electronic commerce, champion the applicability of WTO rules to electronic commerce, and promote the development of trade in goods and services by electronic means. Provisions in this chapter guarantee non-discrimination against products delivered electronically and preclude customs duties from being applied on digital products delivered electronically (video and software downloads). For hard media products (DVD and CD), custom duties will be based on the value of the carrier medium (e.g., the disc) rather than on the projected revenues from the sale of content-based products.

Intellectual Property Rights. The agreement with Chile provides important new protections for copyrights, patents, trademarks and trade secrets, going well beyond protections offered in earlier free trade agreements. In the case of Chile, the agreement criminalizes end-user piracy and provides strong deterrence against piracy and counterfeiting. The agreement also mandates both statutory and actual damages under Chilean law for violations of established norms for the protection of intellectual property. Denver software manufacturer JD Edwards is one U.S. small business that would positively benefit from immediate implementation of this and other provisions in the U.S.-Chile Free Trade Agreement. According to JD Edwards' Roberto Steeger, "Our products compete head-to-head with countries enjoying free trade agreements with Chile. Reducing trade barriers will have two positive effects: We can be more competitive in quoting prices and can reduce risk exposures with appropriate agreements."

Provisions on Labor and the Environment. The longstanding policy of the U.S. Chamber is that trade agreements should not hold out trade sanctions as a remedy in response to labor and environmental disputes. Our interpretation of the enforcement mechanism of the labor and environmental provisions of the Chile free trade agreement is that monetary compensation is the remedy of first choice and that trade sanctions would be employed only as a last resort.

What the Chamber is Doing

The U.S. Chamber is helping to lead the charge in the effort to win approval of the U.S.-Chile Free Trade Agreement. In concert with our partners in the U.S.-Chile Free Trade Coalition, the Chamber has met face-to-face with over 120 members of Congress since January to make the case for approval of the agreement. We have also met with members of Congress in their districts throughout the country as part of our ongoing "TradeRoots" program to educate business people and workers about the benefits of open trade. We have found extremely broad support for the agreement both in the Congress and in the business community.

As part of this "TradeRoots" effort, the Chamber published a "Faces of Trade" book to highlight small businesses in the United States that are already benefiting from trade with Chile — and that stand to benefit even more from *free* trade with these two markets. We are making copies of this book available to members of the Subcommittee as well as to press here today. I invite you to review these success stories and see the face of American trade today. It isn't just about multinationals, which can usually find a way to access foreign markets, even where tariffs are high. It's about hundreds of thousands of small companies that are accessing international markets — and that are meeting their payroll, generating jobs, and growing the American economy.

We've generated a wealth of information about the potential benefits of the U.S.-Chile Free Trade Agreement and our efforts to make it a reality. In the interest of brevity, I would simply urge you to contact the Chamber if you need more information. A good place to start is our website: www.uschamber.com. Another good place for information on the Chamber's broader coalition efforts is the US-Chile Free Trade Coalition website at www.uschilecoalition.com

Conclusion

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as the one with Chile will be critical. In the end, U.S. small business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. All we are asking for is the chance to get in the game.

Mr. Chairman, we appreciate your leadership in reviving the U.S. international trade agenda, and we ask you to move expeditiously to bring the U.S.-Chile Free Trade Agreement to a vote in the Congress.

Thank you.

Statement of

James Morrison

President

Small Business Exporters Association

"The Chilean Free Trade Agreement: Opening Doors to South American Markets"

before the

SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

Washington, DC

12 June 2003

Chairman Toomey, Representative Millender-McDonald, members of the Subcommittee, thank you for asking me to appear here today. I am James Morrison, President of the Small Business Exporters Association. SBEA is the largest and oldest nonprofit organization dedicated exclusively to America's small and mid-sized exporting companies. We are also the international trade arm of National Small Business United, a bipartisan association of 65,000 companies in all 50 states. Founded in 1937, NSBU is the nation's oldest small business advocacy organization.

SBEA has a strong interest in international trade policy and trade negotiations. We work on behalf of American small and medium-size enterprises (SME's) with the World Trade Organization in Geneva. I am privileged to serve as a member of the Advisory Committee on Trade Policy and Negotiation, the federal government's senior trade advisory panel under the Trade Policy Act of 1974, although the views I express here are those of my association, and not necessarily those of ACTPN.

By way of background, the number of American SME's that export has increased dramatically in recent years. In 1987, 65,000 smaller American companies exported. By 2002, that number had grown to more than 225,000. So the willingness to export is there.

Unfortunately, most small business exporters ship to only one country, typically Canada or Mexico. And the dollar value of SME exports is still around 30% of all US exports. So much more needs to be done -- to extend the *range of countries* where smaller companies trade and to increase the *value* of their exports.

Trade agreements are a vital part of the effort to increase both the country range and the value of small business exports. Lowering the "hassle factor" of exporting to specific countries helps to increase the attractiveness of those countries to smaller companies. And when trade agreements succeed in lowering exporting costs, they broaden the range of export profitability for American companies and American products.

SBEA thanks the Subcommittee for taking the time to consider the Chilean Free Trade Agreement. Now that the President has sent the agreement to Congress, it is important to have an informed discussion about it. And it is especially important, we believe, to consider the impact of the proposed agreement on American small businesses.

We are very satisfied with the Chile agreement for a number of reasons, and we urge Congress to approve it.

But before I get into the specifics of the agreement, let me tell you a bit about how SBEA approaches trade negotiations in general.

As we see it, SME's that want to get into international trade face both fixed and variable costs. An example of a fixed cost would be a licensing fee. All businesses

pay the same fee. An example of a variable cost would be a tariff. The more you ship, the more you pay.

If we want American SME's to export more, it's obviously important to reduce variable costs like tariffs. But we also need to pay close attention to fixed or "inflexible" costs because those costs can impose ***disproportionate*** burdens on SME's. When it costs $10,000 in legal fees to comply with a trading rule, that's a nuisance for a large company. It's a potential show-stopper for a small company.

This "disproportionate burden" concept is probably familiar to the Subcommittee because it is the same one that underlies the Regulatory Flexibility Act. The Reg Flex Act basically says: "Try to avoid federal rules that make it especially hard for small businesses to compete".

A lot of what are called "non-tariff barriers" can generate such disproportionate costs. Non-tariff barriers include such items as foreign patent and trademark costs, "physical presence" requirements, paperwork requirements, performance bonds and licenses. Sometimes these disproportionate costs are subtle, such as when a country requires foreign companies to be structured in a certain way to do business there.

In addition, SME's can be helped when trade agreements free up sectors of the trading partner's economy where American SME's can be expected to excel. Examples include e-commerce, professional services, some types of construction, and various specific product lines such as medical equipment and do-it-yourself (DIY) supplies.

Looked at in this way, I think it is fair to say that the Chile agreement is a remarkable step forward. First of all, it will immediately eliminate Chilean tariffs on 85% or more of all American consumer and industrial goods.

That's important not only because it makes American goods and services more affordable, but because it levels the playing field with a group of countries that have established free trade deals with Chile over the past few years.

I've attached two charts to my testimony that show the effects of these deals.

It's pretty simple: we're losing business! We're losing substantial market share to Canada, Mexico, Korea and the European Union. All of them have FTA's with Chile.

Note that we're holding our own in nearby countries like Argentina and Brazil, which until now have not had such FTA's.

Just as importantly for American SME's, the Chile FTA clears away a range of non-tariff barriers that have impeded their access to Chile.

Let me mention some specifically:

- ***"physical presence" requirements***. American companies will not be required to maintain a physical presence in Chile to trade there.

- ***"transparency of rules".*** The easier it is to understand and comply with a country's rules without hiring lawyers, the cheaper it is to get into that market. The more certainty there is about rules, the more American companies will accept the risks of exporting. The Chile FTA truly sets a high standard for transparency. And not only for existing rules. Chile pledges that it will only create new rules after notice to the public, opportunities for American companies to comment, written responses to all issues raised by American companies, and written justifications for all new rules.

- ***"customs simplification".*** The simpler the better for American small exporters, and this FTA goes a long way down that road.

- ***"trade facilitation".*** As a general rule, American SME's like to trade with foreign SME's. So making more Chilean companies more "import ready" helps our smaller exporters. The FTA moves us in this direction.

- ***"liberalization of services trade".*** SME's are a prominent part of the American service sector, which continues to deliver trade surpluses for our country around the world. The Chilean FTA enormously helps American service exporters by eliminating all service sector quotas, monopolies, exclusive domestic suppliers, as well as required corporate structures for service companies. Detailed agreements in areas like investment and financial services will help facilitate trade, too, although the effect for SME's will be more indirect in these areas.

- ***"technical standards and licensing".*** Chile agrees to base such standards and licenses on objective and transparent criteria, and to eliminate those requirements that in effect restrict imports.

- ***"e-commerce".*** The FTA effectively opens up the Chilean market for e-commerce marketers from the US, a boon for many smaller companies.

- ***"government procurement".*** The agreement allows American companies to bid on Chilean government contracts worth $56,000 or more, and prohibits favoritism toward Chilean companies on such procurements.

These are path-breaking precedents for SME's in trade agreements. They are among the reasons why SBEA believes this agreement is a very good deal for smaller American companies.

We commend the Office of the United States Trade Representative for its growing awareness of SME needs in trade agreements, as exemplified in this agreement and the Singapore FTA.

We again salute the current USTR for creating the first "Director of Small Business Affairs" in the history of the agency.

And we thank Greg Walters for his diligent work in that job.

That concludes my remarks for today. I would be happy to accept any questions the Subcommittee may have.

TESTIMONY
OF
MR. ARLAND SCHANTZ
OWNER/OPERATOR
EVERGREEN FARM
BEFORE THE
SMALL BUSINESS COMMITTEE'S
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
ON THE
U.S.-CHILE FREE TRADE AGREEMENT

June 12, 2003

Mr. Chairman, members of the Committee, I am Arland Schantz, owner of Evergreen Farm. I am a seventh generation farmer in Lehigh County, Pennsylvania where I operate a 150-acre Christmas tree, hay and grain farm.

I appreciate the opportunity to testify today on the recently signed free trade agreement with Chile and the impact that this agreement will have on small farmers like me.

For several generations, American farmers raised crops primarily for domestic consumption. In recent times, meaningful exports opportunities have materialized for our commodities due to the conclusion of the Uruguay Round negotiations, and importantly, the implementation of the North American Free Trade Agreement. Today, one in three acres of production is destined for a foreign market and farmers earn, on average, 25% of their net farm income from export sales. However, many foreign markets remain relatively closed to our exports due to high tariffs and numerous non-tariff barriers.

At the same time, foreign import competition has increased dramatically. The United States has one of the most open agricultural markets in the world. Whereas the average agricultural import tariff globally exceeds 60%, the average tariff imposed on agricultural imports to the United States is 12%. U.S. farmers must compete head-on at home with their foreign competitors, yet they experience limited opportunities to export abroad.

Today, America's farmers are embarking on a new era, one in which the future will offer significantly more export opportunities to countries with whom the United States has signed a free trade agreement. We must use these agreements to eliminate the many trade barriers that often confront our exports, including prohibitive tariffs, and non-tariff barriers like discriminatory licensing arrangements and sanitary and phytosanitary barriers that lack scientific merit. The U.S. Congress should not ratify a free trade agreement with another country if the agreement does not fully eliminate these unjustifiable barriers on all agricultural products.

The agreement just forged with Chile has broken through many of these barriers and should become the standard for future free trade deals, in that regard. Specifically, two

areas formerly used by Chile to block U.S. agricultural exports to its market have been resolved in the terms of the new agreement.

First, Chile operates a price band on imports of wheat, oilseeds, edible vegetable oils and sugar. Chile establishes upper and lower thresholds for imports based on international prices and sets a reference price for specific product imports. A duty increase is triggered when the import price lies below the lower threshold of the band. In essence, Chile uses the price band to protect its producers from lower priced imports. Chile's price band was recently ruled illegal by a World Trade Organization dispute settlement panel.

This price band will be eliminated for U.S. agricultural imports in 12 years, the final implementation year of the U.S.-Chile FTA. Elimination of the price band was a critical component of the recently signed U.S.-Chile FTA. If Chile grants more favorable access to another trade partner in the interim, the United States will also benefit from that preferential access.

Secondly, Chile maintained several sanitary and phytosanitary barriers on U.S. agricultural imports without a scientific basis, which rendered exportation impossible. Chile's SPS barriers blocked the export of many U.S. fruits, beef, lamb and pork, as well as dairy products.

The United States exports meats, poultry and dairy products to all corners of the globe. Our producers, packers and processors have achieved world-class standards for food safety and meat and dairy inspections. However, Chile failed to recognize our federal inspection system and therefore denied access to most U.S. meat, poultry and dairy plants.

Additionally, Chile failed to recognize U.S. beef grading standards. This technical barrier to trade stymied our exporters and provided a second layer of protection to Chile's cattle ranchers and beef industry.

Significant progress was made during the negotiations with Chile to break down the walls of these SPS barriers and open the Chilean market to U.S. agricultural producers. In fact, a parallel process was established concurrent to the negotiations to address the many Chilean SPS measures at the insistence of U.S. agricultural organizations. It should always be the case that SPS measures that lack scientific merit and discriminatory import practices are fully eradicated, in a separate but parallel process, before free trade deals are consummated. Failing to do this will result in meaningless agreements. What good are zero tariffs when SPS measures prevent the exportation of our commodities?

As a result of the parallel process, Chile agreed to recognize our beef grading standards and federal inspection system for U.S. dairy, pork, beef and lamb. For poultry however, additional time is needed to fully document the scientific process involved in granting export approval to U.S. poultry exports, and conversely Chilean poultry exports to the United States. U.S. agricultural organizations are generally pleased that both countries have agreed to undertake a two-year process to conclude this important step. We urge

Congress to monitor this two-year study closely with the administration to ensure its success for possible future export approval for U.S. poultry products to Chile.

Upholding this standard of eradicating both tariff and non-tariff barriers to our agricultural exports will become increasingly difficult with future agreements, including several of the many free trade deals that are now under negotiation.

As you know, the notion of forging a free trade agreement with Chile was several years in the making. During these years, U.S. officials worked diligently with Chile to eliminate sanitary and phytosanitary measures that lacked a scientific basis and unjustifiably blocked the export of U.S. wheat and certain fruits to its market. When the FTA negotiations began in earnest with Chile, a significant number of these SPS issues had already been fully resolved, thereby resulting in a smaller pool of remaining barriers to be addressed.

This will not necessarily be the case with the new FTAs now on the docket for conclusion. Many of these countries, particularly Australia, maintain unjustifiable sanitary and phytosanitary barriers to U.S. agricultural exports. Others, including several of the Central American countries, block our shipments with discriminatory licensing procedures, for example. Significant time will be required to document the science underlying the safety of our exports and fully eradicate these highly technical and complex barriers to trade.

As you know, the United States plans to conclude negotiations with Australia and the five Central American nations, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua by the end of this year. The time needed to complete the necessary steps to fully lift these unjustifiable barriers to trade will be in short supply. We urge Congress to monitor these negotiations closely, and all other free trade talks, to ensure that our exports are not blocked by discriminatory and protectionist measures.

The U.S.-Chile FTA will open doors for the export of several U.S. commodities, including meats, dairy and wheat. Additionally, U.S. producers will enjoy the same, and in many cases better, terms of access with Chile than producers in Canada that benefit from the Chile-Canada FTA that was implemented several years ago. Chile's agreement with Canada provided an immediate eleven percent tariff advantage for Canadian producers vis-à-vis their U.S. counterparts. We applaud the leveling of the playing field, so to speak, that the U.S.-Chile agreement will result in for our farmers.

I appreciate the opportunity to testify on the opportunities that the U.S.-Chile Free Trade Agreement will afford U.S. agricultural producers and stand ready to work with the members of this Committee to establish a standard for all free trade agreements that results in meaningful, concrete market access for U.S. agricultural exports and the elimination of discriminatory barriers to trade.

Thank you.

Testimony of

Laurence N. Wesson
President, Aurora Instruments, Inc.

On behalf of
The National Association of Manufacturers

Before the Subcommittee on Tax, Finance, and Exports
Of the House Committee on Small Business

On
The Chilean Free Trade Agreement: Opening Doors to South American Markets

June 12, 2003

Mr. Chairman and members of the Subcommittee, my name is Larry Wesson, and I am president and CEO of Aurora Instruments, Inc., a small manufacturer of fiber optic test equipment located in Ambler, PA. I am pleased to have this opportunity to address the Subcommittee to support the proposed free trade agreement with Chile. I am also pleased to speak on behalf of the National Association of Manufacturers (NAM) and its 14,000 members, in particular its 10,000 small and medium-sized companies. There are many reasons why this agreement is good for small businesses and their employees, for America, and for Chile. I would like to describe some of them as they relate to Aurora Instruments and the other members of the NAM.

Aurora Instruments has been in business for 13 years. We compete worldwide in the very challenging and exciting markets for telecommunications, cable television, military, aerospace, and research equipment. Our principal products are fusion splicers and related equipment. A fusion splicer is a complex instrument which aligns and arc-welds two optical fibers together, end to end, so that signals can propagate across the weld almost as if there were no joint. This process demands the ultimate in precision. Typical communications fibers are barely larger than a human hair, and their light-carrying cores are only one-tenth that size (typically only about 10 microns in diameter). To make a good splice, those cores must be aligned to within less than 1 micron of each other. An automatic fusion splicer that performs this minor miracle can cost $20,000 to $25,000, and companies such as Sprint, Verizon, AT&T, Comcast, and Cox Communications use them routinely to install and repair the fiber optic cables that handle both telecom and broadband communications.

Our little company in Pennsylvania, Aurora Instruments, is *the only company manufacturing portable fully-automatic fusion splicers in America*. In fact, it is the only such manufacturer in the Western Hemisphere. All of our real competitors manufacture in either Japan or Europe, and they are all multi-billion dollar conglomerates. We feel very much like an American David facing foreign Goliaths every day in international

competition. The Japanese are fierce competitors by nature, but the Europeans also have an advantage with respect to the Chilean market: they have a free trade agreement in place and we do not.

Beginning in 1997 and despite being a very small company, Aurora was able to become the largest supplier of fusion splicers in Chile. This was no small feat, as our main competitors in Chile are two very large Japanese conglomerates that have many resources and few scruples about cutting their prices as low as it takes to keep out competitors, even if it means losing money until the competitors give up or go out of business. In Chile, however, we were able to win major business by establishing a strong relationship with a local distributor who was alert to the tactics of the competitors, who had close relationships with the end-users, and who convinced us to discount as much as possible.

In 1997, we obtained 74% of the Chilean market, while our average price was 5.3% *higher* than that of our main Japanese competitor. In 1998, we still had 57% of the market, while our average price was 5.3% lower than our competitor's. In other words, when prices are within a few percentage points of each other, this American competitor can win big.

Things have gone badly downhill for Aurora in Chile since 1999. Factors that hurt us include not only the absence of a U.S.-Chile free trade agreement, but the worldwide telecom market depression, the Asian financial crisis that seriously slowed the Chilean economy, and the drastically overvalued US dollar. By 2000 and 2001 our effective prices had become 20% higher than those of our Japanese competitors, and our market share had fallen to 34%. In 2002, we sold nothing at all in Chile.

We believe that passage of the U.S.-Chile free trade agreement will help rebalance the playing field and allow us to regain market share in Chile. The elimination of Chile's across-the-board six percent tariff for U.S. imports will make a significant difference in the sourcing decisions of our Chilean distributor. The NAM has estimated that the U.S. share of Chile's imports has fallen by one-third since 1997, and Aurora's lost business is just a small part of that decline. According to the NAM, U.S. firms would be selling a billion dollars a year more in exports to Chile if we had maintained the 24.5 percent share of Chile's imports that we had in 1997. That's $20 million a week in lost sales! The NAM has shown that much of that lost business has gone to companies based in countries, such as Canada, Brazil, and Argentina, which have already negotiated free trade agreements with Chile.

In the case of Aurora Instruments, most of our lost business has been to Japan, which does not yet have a free trade agreement with Chile. The price advantage we will gain from the free trade agreement will be a major factor enabling us to compete against our Japanese competition. Moreover, we don't have a lot of time to do this. Since agreeing to testify, I have learned that Chile and Japan have already begun exchanging information about each other's trade regimes, which is the first step toward entering free-trade negotiations. This possibility makes the speedy passage of the U.S.-Chile free trade agreement even more critical for our company. Fortunately, the benefits in the U.S.-

Chile agreement are front-loaded. Chilean tariffs will be completely eliminated for 85 percent of U.S. industrial exports on the first day the agreement takes effect. That means Aurora Instruments and other small firms can gain an immediate competitive advantage from the agreement.

The recent purchasing trends by the distributor of our products in Chile also demonstrates a troubling increase in imports from the European Union in anticipation of the EU-Chile free trade agreement that took effect this past February. A market analysis we commissioned in 2002 showed that back in 1995 our distributor bought only 1.9% of its imports from Europe. But our distributor's imports from the EU (specifically Germany, Italy, England, and France) increased from 1.9% in 1995 to 5.9% in 1998, 12.9% in 1999, 11.3% in 2000, 48.7% in 2001, and a high point of 64.7% in 2002, just last year. And this for a company specializing in US suppliers! US suppliers, by contrast, have seen their share of our distributor's imports fall from 87% to only 31% over the same period. Needless to say, with Chile now enjoying free trade with the European Union, those figures are likely to worsen even further unless we give our exporters every opportunity to compete on cost and quality as opposed to facing artificial trade barriers. That's why we need this free trade agreement.

The subject of today's hearing cannot impact two other major issues that harm my business and others: the overvalued dollar and the general over-taxation of U.S.-based production. But a trade pact with Chile can do something about the relative advantages that a few percentage points make in end-user costs due to duties. By saving a few percentage points on import duties into Chile, you can swing the margin back in favor of American manufacturers such as Aurora, compared with our Japanese and European competitors. The across-the-board six percent tariff that Chile assesses on all goods that do not come in under a free trade agreement will be ended for American suppliers. For Aurora Instruments and other small companies that cannot afford to leap tariff walls by investing in foreign facilities to produce locally, this could make a major difference, and Chile could again become a major market for us.

Recapturing our Chile business could allow us to add workers to fulfill our renewed contracts. Similar additional hires could take place in workplaces across America, and other small businesses that never thought of exporting to Chile may consider doing so for the first time. The NAM has estimated that, by helping the United States to recover its lost share of Chile's imports and compete fairly with the European Union, the free trade pact with Chile could generate as many as 20,000 new export-related jobs in the United States.

Approval of the Chile agreement is only the first step toward lower trade barriers in this hemisphere. The excellent standards in the agreement in a range of areas of importance to manufacturers, small and large, set a high bar for others in our neighborhood to meet if they want to negotiate trade agreements with the United States. These include what I am told are state-of-the-art provisions in the areas of intellectual property protection, electronic commerce, customs facilitation, dispute settlement, and investment protection. Passage of the agreement will give momentum for similar high standards in other

agreements, ranging from the Central America free trade agreement currently being negotiated to the Free Trade Area of the Americas, which is due to be completed by 2005.

Despite being a small manufacturer, or some might say a *very* small manufacturer, Aurora Instruments tries very hard, and reinvests a very high percentage of its operating income, to be as competitive as it can be in both the most advanced technology *and* smart marketing against very tough foreign competition. In fiber optic technology we are always in a race, as we try to keep up with, or ahead of, both our competitors and our customers' expectations. Luckily, the United States offers the best workforce in the world to draw from, given the resources to employ them. The overall market, taxes, the investment climate, and competition are factors that individual businesses can do little about, yet the government is in a position to make a tremendous difference in many cases. Passage of the agreement with Chile is one such case.

If this were another committee I could digress on many other issues that can make or break a small manufacturer. Taxes, for instance, are our third largest single expense after payroll and rent, so payroll taxes make a major difference to the bottom line. Access to capital is crucial for small companies, particularly those like Aurora Instruments that are in very competitive international high tech businesses and which hope to grow; therefore, investment-friendly tax initiatives like reductions in taxes on dividends and capital gains are vital.

The value of the dollar against other currencies is yet another critical factor, as swings in either the overvalued or the undervalued direction amount to a *de facto* tax on exports or imports which can kill those forms of trade, like ours, before you even know it. Many economic experts have estimated that the dollar appreciated about 40% relative to other currencies from 1997 to 2002, and for an export-active company like Aurora this can ruin 40% or more of our business. But we are here to discuss free trade.

The government can give and it can take away, and at Aurora I think we are exceptionally pro-active for such a small manufacturer in making use of the positive things available from the government. For instance, we are exceptionally active in exporting and in penetrating foreign markets, and we have worked frequently with both the Philadelphia Export Assistance Center of the Commerce Department and the Office of International Business Development (OIBD) of the Commonwealth of Pennsylvania to explore and solve export related issues, often resulting in major wins over our Japanese competitors. We have also used export credit services of the Export/Import Bank, trade networking information services of the Trade Development Administration, and advice from USAid, not to mention having a long record as an innovative high-tech supplier to the US military and security agencies. Working with the Pennsylvania OIBD, for instance, my partner, Nellie Cabato, and I have participated in three international trade missions with governor Tom Ridge, resulting in major improvements in our market positions in Israel, Mexico, and, of course, Chile.

In December, 2000, my partner and I joined Governor Ridge and representatives of many other companies on a trade mission to Chile, where we met many potential customers as well as Chilean government officials, and perhaps the hottest topic of the time was the importance of negotiating a free trade agreement with the United States. It was just at that time that formal talks began between Chile and the United States on the free trade agreement. We were privileged to be present in Santiago when officials of the Chilean government presented the case to our group, in the strongest possible terms, that a free trade agreement was long overdue.

The overall point I wish to make is that at Aurora Instruments we are very conscious of the benefits of international trade, and we work very hard to be alert to trade issues and to do the best we can internationally. That is why I am before you now as an advocate for the Chile/United States free trade agreement.

Let me close with one final reason, perhaps the most important one. Independent of any particular company such as Aurora Instruments, free trade is part of *freedom*. Import taxes contribute nothing to the value created by a manufacturer or the value received by the buyer, the end-user. Why then should they pay something that merely distorts their economic calculations of value given and received, benefit and cost? Trade should be free because people should be free to keep and enjoy the fruits of their own labor, and burdens like import duties take some of that value from both sides of an honest relationship.

Thank you. I look forward to your questions.

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