# ECONOMIC AND SECURITY CONCERNS IN TOURISM AND COMMERCE: H.R. 3232 AND H.R. 1776

## HEARING

BEFORE THE

SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION

OF THE

COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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WITNESSES



SUBMITTED MATERIAL

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[1] The prepared statement of Mr. Delahunt was unavailable at the time of printing.

# ECONOMIC AND SECURITY CONCERNS IN TOURISM AND COMMERCE: H.R. 3232 AND H.R. 1776

**THURSDAY, SEPTEMBER 11, 2008**

House of Representatives,
Subcommittee on Commerce, Trade,
and Consumer Protection,
Committee on Energy and Commerce,
*Washington, DC.*

The subcommittee met, pursuant to call, at 11:08 a.m., in room 2123 of the Rayburn House Office Building, Hon. Bobby L. Rush (chairman) presiding.

Members present: Representatives Rush, Schakowsky, Barrow, Ross, Weiner, Whitfield, Stearns, and Blunt.

## OPENING STATEMENT OF HON. BOBBY L. RUSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Rush. The subcommittee will come to order.

Before we begin, I want to just take a moment, if I might, to express my gratitude to both my vice chair—well, first of all to my vice chair for during my absence convening the hearings and doing all that she could to provide very capable leadership to this subcommittee during my extended absence. Jan, I really want to thank you so much. You are a great member, a great American and a great friend. Thank you so much for all that you have done.

I want to also extend my commendations to my ranking member, who has been very cooperative and has really worked hard during my absence in a bipartisan way to make sure that this committee functions in a bipartisan manner and that this committee maintains its long history of being one of the most successful subcommittees in the Congress based on bipartisanship and based on inclusion and based on fairness, so I want to thank my ranking member, Mr. Whitfield, for his cooperation.

And lastly, I want to thank the staff on both sides, the Republican staff and the Democratic staff members, for their work over the past months. We have done some tremendous work and we really set a pace in this subcommittee that I believe will be very difficult for others to emulate. So thank you so very much.

Now on to the business of the day. The first bill that the subcommittee will take up today is H.R. 3232, the Travel Promotion Act of 2007. This bill will create a nonprofit corporation for travel promotion, which will be funded by fees charged to foreign visitors from their visa waiver program countries and matching contributions from the travel and tourism industry. The corporation will be tasked with running public awareness campaigns about U.S. entry requirements in foreign countries as well as generally promoting tourism to the United States. As our witnesses will tell us, the U.S. share of international arrivals has shrunk over the past 7 years in comparison to the rest of the world and I think that this legislation is a creative approach to help our country reverse this trend. We are conducting this hearing on this day—as we all know that 9/11 had a dramatic impact on the tourism industry which we are trying to rebound presently.

While I wholeheartedly support increasing tourism to the United States, I do have several concerns with H.R. 3232 as it is written. For the sake of brevity, I will concentrate on two areas, namely oversight and how the Corporation for Travel Promotion is funded. With regard to oversight, I am sure that adequate checks and balances for the corporation are in place. I would welcome a discussion of the roles that the Departments of Commerce, Homeland Security, Justice, State, and Treasury might play in overseeing the corporation's operations and funding. In terms of funding, I would like to explore whether the corporation should be allowed to contribute up to 80 percent of required matching funds in the forms of goods and services and whether funding for the corporation should be subject to the congressional appropriations process.

The second piece of legislation the subcommittee will consider is H.R. 1776, the Call Centers Consumer's Right to Know Act introduced by Mr. Altmire of Pennsylvania. H.R. 1776 would require the employee of a call center when initiating or receiving a phone call to identify his or her physical location at the beginning of the phone call. While the job market for call centers in the United States remains robust, there are also disturbing trends that these jobs are increasingly being offshored to foreign countries. H.R. 1776 is an attempt to confront this emerging tide of offshoring and keep these jobs right here in the United States. Mr. Altmire should be commended for his legislative effort. However, this subcommittee needs to resolve several issues regarding this bill.

First, we need to get a handle on the actual status of the labor market for call center jobs here in America. Second, we have to determine technical jurisdictional issues involving the FCC's ability to enforce the bill's mandates, and lastly, we need to determine if H.R. 1776 will in fact accomplish its goals and help maintain or relocate call center jobs here in the United States.

I am considering a more forceful approach to Mr. Altmire's bill, in which a call center employee would not only be required to identify his or her location but also would be required to actually transfer the customer to a domestically based call center upon request of said customer. I hope to fully deliberate on these matters during this hearing in preparation for a possible markup of these two bills during the remaining weeks of the 110th Congress. It is important that we pass smart, effective legislation as is the proud tradition of this subcommittee. Hopefully we can work together in a bipartisan manner. When we have disagreements, I hope that we can disagree respectfully.

With that, I yield back the balance of my time.

Mr. RUSH. And now I recognize the ranking member of this subcommittee, my friend, Mr. Whitfield of Kentucky, for any opening statement that he would like to make.

**OPENING STATEMENT OF HON. ED WHITFIELD, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF KENTUCKY**

Mr. WHITFIELD. Mr. Chairman, thank you so much, and I might say on behalf of the entire committee that we are all particularly excited that you are back with us. We know that you have been experiencing a serious illness and that you have made a remarkable recovery, and you have been in our thoughts and prayers and we all look forward to working with you and look forward to your continued distinguished career in the U.S. Congress.

All of us also excited about this hearing today on these two important pieces of legislation. I am delighted to see our whip is with us today, Mr. Blunt, who is one of the primary cosponsors of this legislation, H.R. 3232, the Travel Promotion Act. Obviously tourism continues to play an important role in the United States, and with our economy floundering a little bit, the more we can do to encourage foreign travelers to come to America, the better it is from an economic standpoint for all of us. I am particularly interested in the testimony today relating to this legislation as it relates to the establishment of this nonprofit corporation. I think that is an interesting way to go, and, I think Chairman Rush mentioned this in his testimony, I am particularly interested in this initial $10 million from the general fund at the Treasury to provide the initial expenses for this corporation and I am assuming that that money will be paid back and I understand that there is a fee that will be imposed on certain travelers coming to the United States, and I would like to know, does this money actually have to be appropriated or not? And those are some questions that we can get into as we go forward with this hearing.

Another thing that I am particularly interested in hearing today also is from Dr. Long, who will be focusing on tourism in rural areas of our Nation. There are many rural areas around the country that are having significant economic problems and anything that we can do to promote tourism to rural areas, and that is one of the intents and purposes of this legislation, would certainly be beneficial to all of us.

In addition, as the chairman noted, we are going to be hearing testimony on the Call Center Consumer's Right to Know Act, H.R. 1776, and I look forward to the testimony of witnesses on that bill also. I know we do have some concerns with that bill but hopefully with the testimony from the witnesses, we can learn a lot more about that.

I appreciate the time and effort of our witnesses that are here today. I am sorry that the Commerce Department and Treasury Department are not here to testify but I think they have submitted testimony. We look forward to this hearing, Mr. Chairman, and once again, we are delighted you are back.

Mr. RUSH. And now it is my pleasure to recognize the vice chairman of the subcommittee, my friend from the great State of Illinois, Ms. Schakowsky, for an opening statement.

## OPENING STATEMENT OF HON. JAN SCHAKOWSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Ms. SCHAKOWSKY. Thank you so much, Mr. Chairman. I just want to tell you what a thrill it is to see you back in the chair. Having seen you since you returned, every time I see you, you look better and better and that is very encouraging to all of us. I just want to welcome you back to the Congress and to the home of our subcommittee.

I am going to submit most of my testimony for the record because we are, unfortunately, going to have a number of interruptions of this committee. I do want to say regarding tourism that it does worry me that our share of international tourism has dropped in the last 10 years. It is surprising to me in a way because of the value of the dollar. I was just abroad and I know how little it seems our dollar is worth and it would be a bargain to come here. So I am concerned about some of the barriers that we ourselves may have put up that I think bear looking at. The security entry to the United States may be part of disincentive. I think the chairman and I have a particular interest since we are very interested in the Olympics coming to Chicago and making it as easy as possible for people to come and paving the way for our being selected.

I am alwo concerned that there is no explicit prohibition in the bill that specific businesses would not benefit from the publicly-financed advertising in the bill. I think that individual businesses ought to do their own advertising, although I see signs everywhere for come to Greece, come to Jamaica. That kind of thing I think is totally appropriate.

In terms of H.R. 1776, the Call Center Consumer's Right to Know Act, I think we need to look at this from a jobs and a security angle, obviously call center jobs but also the security of our personal and financial information being handled by call centers overseas. I am not totally convinced that this is the right way to go but I am looking forward to the testimony.

With that, Mr. Chairman, I yield back. I will put the rest in the record.

Mr. RUSH. The chair thanks the vice chair.

Now it is my honor and pleasure to introduce the former ranking member of the subcommittee, Mr. Stearns of Florida, for the purpose of opening statement.

## OPENING STATEMENT OF HON. CLIFF STEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. STEARNS. Thank you, Mr. Chairman, and like my other colleagues, let me welcome you back. You are an inspiration to all of us to see you here and I know how difficult it has been for you, and I think it is nothing but good news to see you and we encourage you and look forward to working with you.

Also, I think many of us have to be very proud on this subcommittee of the accomplishment that we passed the Consumer Products Safety Improvement Act. The President signed this Act. This is a long time in coming. It is a bipartisan bill. We were very successful after many weeks and almost months with the Senate in the conference, so I think all of us in this committee can be very proud of that bipartisan effort.

Statistics show, particularly in my area of the country in Florida, that when it comes to travel and tourism, the United States, while having been a leader for many years, is starting to fall behind. We have a problem because there is just a noticeable decline in the share of tourism over the past decade and so that is why I welcome this bill that we have today. In 2001, travel to the United States declined by 8 percent, despite the fact that global travel is on the rise. An unfortunate variety of factors can be attributed to the decrease, including a more negative global perception of the United States. We have instituted tough entry requirements because of 9/11 and we have also had economic factors but the dollar's value is very good to foreigners, so we are hoping that tourism will increase. I am particularly concerned that we are not moving quickly enough. This bill, H.R. 3232, the Travel Promotion Act, I think is a very good bill. I support it. Many other countries are currently engaging in effective government advertising and are successfully attracting tourists at high rates. It is important the United States pay attention to the changing trends and we too begin focusing on a plan which will ensure that the United States remains one of the top destinations in the world, especially for those coming from Visa Waiver Program countries.

The government has a vital role here. A lot of people do not believe so, but I think the bill we are considering today contains a solid foundation for boosting U.S. tourism and getting the government involved in effective advertising and outreach via a private-public campaign and the creation of a nonprofit corporation, the Corporation for Travel Promotion. As with any bill, there will be some amendments and I look forward to that. I would like to thank Mr. Blunt and Mr. Delahunt for their initiative here.

In closing, Mr. Chairman, I think I will mention something about the other bill we are considering, H.R. 1776, the Call Center Consumer's Right to Know Act. This is a bill that is aimed to protect American consumers by requiring call center employees to identify their physical location at the beginning of the call. While the United States is a world leader in call center employment and the U.S. share of the industry employs almost 6 million people, concerns have arisen about the rate at which the United States is losing call centers to other parts of the world where labor is obviously significantly cheaper. This legislation attempts to rectify this issue and I think it is important to examine the implications of the bill closely and take into account the testimony of our panel of witnesses today.

With that, Mr. Chairman, I yield back.

Mr. RUSH. The chair thanks Mr. Stearns.

Now it is my pleasure to recognize the distinguished member of this committee, Mr. Ross of Arkansas, for the purpose of opening statement.

**OPENING STATEMENT OF HON. MIKE ROSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS**

Mr. ROSS. Thank you, Mr. Chairman, and we are very delighted to have you back with us and presiding over this hearing today on two important pieces of legislation: H.R. 1776, the Call Center Consumer's Right to Know Act and H.R. 3232, the Travel Promotion

Act of 2007. I, along with 234 of my colleagues in the House and 48 in the Senate, have cosponsored this bill. In addition, 46 members of this full committee, or 80 percent of the members of the House Energy and Commerce Committee, are cosponsors of the bill. Clearly there is strong bipartisan support for this legislation, and I believe that is because we all recognize the tremendous role the travel and tourism industry plays in our country's economy. Mr. Chairman, given the fact that 80 percent of the members of the Energy and Commerce Committee and 234 of my colleagues in the House and 48 in the Senate have cosponsored this legislation, it is my hope that following this hearing today and the short time remaining in the 110th session of Congress, we can move to a markup of this bill and get it to the floor for a vote of the members of the United States House of Representatives.

The tourism industry is responsible for approximately 7.5 million American jobs and $104.9 billion in tax revenues for federal, state and local governments. In my home state of Arkansas alone, approximately 57,700 people are employed by the travel and tourism industry, and visitors to Arkansas generated approximately $902,300,000 in 2004. As such, promoting travel to the United States is extremely important to me. This bill is what I call commonsense legislation which will create American jobs here at home, strengthen our economy here at home and increase our Nation's image abroad at no cost to the American taxpayer. Travel to the United States since 2001 has declined by 8 percent, despite a 30 percent increase in global travel. I believe that this legislation is a good, positive first step to remedy this growing problem by creating more U.S. jobs and generating much needed economic growth.

The Travel Promotion Act creates a travel campaign jointly managed by our government and the private sector. The legislation specifies that travel promotion be funded at no cost to U.S. taxpayers by the private sector together with a modest fee paid by foreign travelers. It establishes a travel promotion fund whereby private industry can contribute up to $100 million or matched with a government contribution financed by a $10 fee paid by foreign travelers from visa waiver countries. American travelers frequently pay similar fees when traveling to other countries. These countries spend millions of dollars to entice visitors to come to their countries and I believe that it is past time that America does the same. I am concerned about our Nation's economy and our international image abroad. However, I am hopeful that this hearing and this legislation can reverse this decline by bringing new visitors to the United States, generating new visitor spending and raising millions of dollars in new federal tax revenue.

Once again, thank you, Chairman Rush and all the witnesses for coming today before the subcommittee, and I look forward to hearing the testimony. With that, Mr. Chairman, again I can't thank you enough for scheduling this hearing. Again, it is my hope that we can follow this hearing up with a markup in the few days left in the 110th session of Congress, given the enormous support for this bill, 80 percent of the House Energy and Commerce Committee, as well as more than 200 of my colleagues in the House.

Again, Mr. Chairman, welcome back. We are delighted to have you back with us. With that, I will yield back the balance of my time.

Mr. RUSH. The chair thanks the gentleman.

The chair recognizes now the distinguished gentleman from the great State of Georgia, my home State, Mr. Barrow.

Mr. BARROW. Mr. Chairman, I have no opening statement. In the interest of time, I will waive an opening statement but I would want to take this opportunity to commend you once again and to express my compliments to the chair and my great feeling over your return among us. It has been great to see you on the floor. It is even better to see you back in the chair. God bless you, sir, and thank you for being with us, and with that, I will yield back.

Mr. RUSH. The chair thanks the gentleman.

At this time I would like to ask that Mr. Blunt, who is not a member of the subcommittee but a member of the full committee, be allowed to give an opening statement. Are there any objections? With none said, the chair now recognizes Mr. Blunt for a 5-minute opening statement.

## OPENING STATEMENT OF HON. ROY BLUNT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. BLUNT. Mr. Chairman, I won't take the 5 minutes. I am so glad that you are back and we are having this hearing. You and I have been good friends, ironically since we traveled together about 10 years ago to represent our country at a NATO parliamentary meeting. Good things happen when people travel. That is one of the things we are talking about here today.

Also, Mr. Delahunt and I have spent a lot of time over the last year-and-a-half working on our legislation, H.R. 3232. I certainly am pleased to hear the comments from all of my colleagues that relate to that legislation. The fee that Mr. Ross mentioned is a fee that is going to be collected anyway. We think this would be an appropriate use for that fee before it gets diverted into some other use, which is one of many reasons that I join Mr. Ross's view and the view of others that hopefully we can move this bill quickly through our committee and to the floor. Certainly foreign travelers stay longer, they spend more, and, particularly important on the 7th anniversary of 9/11/2001, they like us better, and encouraging all of those things to happen, starting with they like us better, is one of the real reasons that we should be interested in this, one of the real reasons that Mr. Delahunt and I worked together on this legislation, and Mr. Chairman, you and the other members of the committee that have cosponsored this legislation give us real encouragement that hopefully we can make this important step in the right direction before that fee is diverted somewhere else and as we focus on this important sector of our economy.

Again, Mr. Chairman, welcome back and thank you so much for having a hearing on both of these bills today and for letting me join the subcommittee for a few minutes, and I have a written statement to submit for the record.

[The prepared statement of Mr. Blunt was unavailable at the time of printing.]

Mr. RUSH. The chair thanks the gentleman, and as announced earlier, the Committee now stands in recess until the conclusion of the 9/11 memorial service. I have been informed that the ceremony will last approximately 20 to 30 minutes. The Committee stands in recess.

[Recess.]

Mr. RUSH. The Committee is called to order. The chair asks unanimous consent that Mr. Delahunt's statement be inserted into the record at this time. Is there any objection? Hearing none, the chair orders that the statement be inserted into the record at this time.

[The prepared statement of Mr. Delahunt was unavailable at the time of printing.]

Mr. RUSH. Now we will move to our witnesses. I really want to thank you for being here. I want to thank you for your patience. It is really a testimony to your commitment on these issues that you, one, take time out from your precious day's time to come to appear before this subcommittee, and two, that you have allowed yourselves to remain while we conduct some other business in the affairs of the Nation.

Our first witness is Mr. Geoffrey Freeman, who is the senior vice president of public affairs for the Travel Industry Association. Mr. Freeman will speak on behalf of TIA, which is a not-for-profit trade organization that represents the U.S. travel industry. The second witness is Dr. Patrick Long, who is the director of the Center for Sustainable Tourism at East Carolina University. The Center for Sustainable Tourism is devoted to implementing sustainable practices in business operations, public policies, and personal travel behaviors. Dr. Long will speak about H.R. 3232's effects on promoting rural tourism.

I would like to note, as previous speakers have already noted, that the subcommittee did invite the Departments of Commerce and Treasury to testify at today's hearing. The chair is disappointed that neither agency was able to produce a witness. However, I do thank the Department of Commerce for providing written statements on the legislation, and I now ask unanimous consent that they be inserted in the record at this point. Are there any objections? Hearing none, the statements will be inserted into the record.

[The information follows:]

**The Honorable William Sutton**

**Assistant Secretary for Manufacturing and Services**

**International Trade Administration, U.S. Department of Commerce**

**Statement for the Record**

**on H.R. 3232**

**"The Travel Promotion Act of 2007"**

**for a hearing before the**

**Subcommittee on Commerce, Trade and Consumer Protection**

**House Committee on Energy and Commerce**

**September 11, 2008**

Thank you, Mr. Chairman, for this opportunity to provide our views on H.R. 3232, the "Travel Promotion Act of 2007." As the Assistant Secretary for Manufacturing and Services, I oversee the Department of Commerce's Office of Travel and Tourism. My team and I work with the Departments of State and Homeland Security and other Federal agencies to develop policies and programs that enhance the competitiveness of the U.S. travel and tourism industry and ensure that we continue to facilitate travel to the United States as we provide for our security. We work to remove barriers to the growth of tourism exports and support our Commercial Service offices around the world to assist American travel and tourism businesses and destinations to market and sell their products. We also are the primary government source for travel and tourism statistics.

Overview of the Industry

Travel and tourism is an important contributor to our nation's economy. The United States travel industry accounted for a record $747 billion in spending by U.S. domestic and international visitors in 2007, an increase of almost six percent over 2006. Total direct and indirect spending generated over $1.3 trillion in tourism-related output. Travel and tourism is estimated to be 2.6 percent of the nation's GDP. In 2007, direct employment supported by the travel and tourism industry totaled almost 5.9 million, a two percent increase over 2006.

The United States is one of the world's most competitive destinations and continues to be the top generator of world travel receipts. In 2007, international travel to the United States generated $122 billion, growing by 14 percent from 2006 and setting a record in travel exports[1] for the

[1] U.S. travel and tourism exports include U.S. travel receipts – such as the purchase of travel and tourism-related goods and services, to include food, lodging, recreation, gifts, entertainment, local transportation in the country of travel, and other items incidental to a foreign visit – and passenger fare receipts – fares paid to U.S. air carriers and vessel operators for travel between the United States and foreign countries and between two foreign points.

second straight year. In 2007, travel and tourism generated the largest trade surplus in ten years, reaching approximately $18 billion in our favor.

Total international arrivals to the United States also set a record in 2007, when the country hosted almost 56 million visitors, a 10 percent increase over 2006. This is the second time arrivals grew by more than 10 percent since 2004.

International travel in 2008 continues to grow at record levels. We are pleased to report that our travel exports are up 23 percent in the first half of 2008, and we are on track to set new records for the third straight year.

Department of Commerce Views

As these numbers underscore, the travel and tourism industry is important to our nation's economy, employment, and trade. Secretary Gutierrez has actively worked with the Travel and Tourism Advisory Board (TTAB) to ensure that the industry remains competitive in the global market. He has worked to remove barriers to growth, including signing a Memorandum of Understanding with the People's Republic of China to increase group travel from China to the United States.

Given these impressive figures and our commitment to facilitating travel to the United States, the Department of Commerce shares the Chairman's and the Committee's interest in supporting the travel and tourism industry. However, we oppose H.R. 3232 for several key reasons.

The legislation proposes that funds from the Treasury be used for various tourism promotion activities such as funding a travel and tourism advertising program. The Administration believes that tourism advertising activities should be financed and undertaken by the private sector and, where they desire, by state and local governments.

The Department of Commerce opposes provisions in Section 6 of this bill that would divert fees associated with a traveler pre-screening system, such as the Electronic System for Travel Authorization (ESTA) recently proposed by the Department of Homeland Security (DHS), to the proposed Corporation for Travel Promotion. Should DHS determine that it will charge fees for the use of ESTA, those fees should be used solely to reimburse the cost of running the system.

The Department of Commerce also opposes the investment and borrowing authority proposed for the Corporation, and we are particularly concerned that the funding mechanisms proposed by H.R. 3232 would circumvent the normal appropriations process.

We disagree with the argument that has been made that funding a tourism promotion program with fees collected from visitors from other countries means that it would not be paid for by the American taxpayer. The Administration believes that all revenues collected by the Federal Government from any source are the property of the American taxpayer and therefore should be used for governmental functions. Also, the U.S. becomes less desirable, as a travel location, when additional costs are added to travelers.

The Administration also believes that, if passed, Section 8 (c) of the legislation, which would abolish the TTAB could have a negative effect on the development of tourism policies that reflect the interests of U.S. industry. As I mentioned, Secretary Gutierrez works closely with the TTAB, which provides advice on government policies and programs that affect the U.S. travel and tourism industry. The Administration believes this process is critical to ensure that the Secretary receives policy advice directly from the appropriate industry representatives who are appointed for this purpose. Therefore, the Administration does not support abolishing the TTAB, as proposed in this legislation.

In addition, the Department of Commerce works very closely with other Federal agencies to ensure that U.S. policies and programs facilitate and enhance travel to the United States. Interagency deliberation on these issues is undertaken through the Tourism Policy Council (TPC). The Administration agrees that the TPC membership should be updated to account for new Federal department structures including the addition of representatives from the Departments of Homeland Security and Education as proposed in H.R. 3232. However, the Administration does not agree with the inclusion of a private sector organization, even a nonprofit organization, on the interagency TPC. This would give that organization a unique and inappropriate position among the multiple stakeholders in the development of public policy.

The Administration would also like to use this opportunity to note that the structure as outlined in this legislation does not appear to provide an appropriate level of transparency and oversight of expenditures of public funds.

Conclusion

In conclusion, the United States travel and tourism industry continues to be a key part of our nation's economy. Our travel and tourism industry remains the world's largest generator of revenues in this category. The Department of Commerce has an active program dedicated to expanding travel and tourism business opportunities for employment and economic growth. There is no market failure that would necessitate the level of Federal intervention into the travel and tourism industry proposed by H.R. 3232. For all of the reasons explained in this statement and the Department's views letter on the bill, the Administration opposes H.R. 3232.
We look forward to working with the Congress and with the private sector on policies and programs that will continue to enhance the competitive position of the United States in this area.

**Appendix A: Responses to Written Questions Submitted by the**

**Subcommittee on Commerce, Trade and Consumer Protection**

**House Committee on Energy and Commerce**

- Could the duties assigned by H.R. 3232 to the Corporation for Travel Promotion (i.e., spreading information abroad about U.S. entry requirements and generally promoting tourism) be performed by already-existing U.S. agencies, such as the Departments of State and Homeland Security?

  Yes. In fact, the U.S. Department of Commerce actively supports and promotes the interests of the U.S. travel and tourism industry, and collaborates with the Departments of Homeland Security and State in efforts to facilitate travel to the United States.

  The Administration believes that travel and tourism advertising should be funded by the industry and, if they so desire, by state and local governments. We defer to the State Department and the Department of Homeland Security on communicating changes in entry and exit policies to domestic and international audiences.

- Will the additional entry fee proposed by H.R. 3232 serve as a disincentive for foreigners to travel to the United States?

  The Administration believes that increasing fees on visitors could have a negative effect on consumer perception of the United States as a travel destination. Any fees imposed on travelers into the United States should be used on inherently governmental programs that facilitate and manage secure travel to the United States, and improve the traveler's experience with the process. The Federal Government does the most to encourage travel by facilitating a secure and efficient experience.

- Should the funding mechanism for the Corporation for Travel Promotion be subject to the normal appropriations process?

  The Administration opposes this legislation, in part because the funding mechanism lacks the policy deliberation, accountability, and oversight provided by the normal appropriations process.

- Who determines the fair market value of in-kind goods and services permitted by section 6(c)(2) of H.R. 3232 to be contributed by the Corporation for Travel Promotion in lieu of matching funds? Furthermore, should the Corporation be allowed to contribute up to 80 percent of required matching funds in the form of goods and services?

  Under section 5(c)(2) of the legislation, the Corporation itself would determine the fair market value of goods and services (including advertising) contributed to be included in determining the amount of matching funds.

  With regard to the issue of the 80 percent match of goods and services, the Administration opposes the use of federal funds for this advertising purpose and therefore does not take a position on the level of in-kind contributions proposed.

- Should the Corporation for Travel Promotion's board be expanded to include a member competent in immigration issues (*e.g.*, a representative from the American Immigration Lawyers Association)?

  The Administration opposes the creation of the Corporation for Travel Promotion. Therefore, the Administration does not have an opinion regarding the membership of the Corporation's Board.

- Should oversight of the Corporation for Travel be expanded, for example by including reporting measures to Departments of Justice, State, the Treasury, and Homeland Security? Moreover, should the approval of the Secretary of Commerce be necessary for the Corporation to be permitted spend more than $25 million on an advertising campaign, promotion, or related effort? (See section 3(g).)

  The Administration believes in strong accountability and oversight in all programs that involve the expenditure of public funds. However, the Corporation for Travel Promotion does not fill a Federal need and lacks accountability structures usually found in programs that expend Federal funds. Therefore, the Administration opposes the Corporation for Travel Promotion.

- What effect, if any, will H.R. 3232 have on promoting tourism to rural areas of the United States?

  H.R. 3232 does not directly address tourism promotion in rural areas, therefore it is not clear that that enactment of the legislation would have any effect on promotion of rural tourism.

GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

September 5, 2008

The Honorable John D. Dingell
Chairman, Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515-6115

Dear Mr. Chairman:

Thank you for the opportunity to share the views of the Department of Commerce (Department) on H.R. 3232, the "Travel Promotion Act of 2007."

The Department fully supports the travel and tourism industry, recognizing its importance to our nation's economy, employment and trade. Secretary Gutierrez is directly and actively involved with this industry and works closely with the Travel and Tourism Advisory Board (TTAB), established in 2003 to advise the Secretary on government policies and programs that affect the U.S. travel and tourism industry. In addition, the Department works very closely with other federal agencies, such as the Departments of Homeland Security, State, and Transportation, to ensure that U.S. policies and programs facilitate and enhance travel to the United States.

The Office of Travel and Tourism Industries (OTTI), in the Department's International Trade Administration, serves as the principal U.S. Government contact for the travel and tourism industry. OTTI coordinates the interagency Tourism Policy Council (TPC), conducts unique research and data collection, develops intra-governmental and inter-governmental policy, and serves as a liaison between the industry and other federal agencies.

H.R. 3232 would create a Corporation for Travel Promotion that operates much like a government-sponsored enterprise. Board members would be appointed by the Secretary of Commerce. The Corporation would have the authority to borrow funds from the Treasury and would be partially funded by fees collected by the Federal Government.

The Department shares the Committee's interest in supporting the travel and tourism industry but opposes H.R. 3232. The Department believes that tourism promotion activities should be financed and undertaken by the private sector and, where they desire, by states and local governments. We believe that federal resources are better used to support inherently governmental efforts, such as the liberalization of air travel services and visa facilitation. The Department opposes provisions in Section 6 of this bill that would divert fees associated with a traveler pre-screening system, such as the Electronic System for Travel Authorization (ESTA) recently proposed by the Department of Homeland Security (DHS), to the proposed Corporation for Travel Promotion. Should DHS determine that it will charge fees for the use of ESTA, those fees should be used solely to reimburse the cost of running the system. The Department also opposes the investment and borrowing authority proposed for the Corporation. Moreover, the funding mechanisms proposed by H.R. 3232 would circumvent the normal appropriations process.

The Honorable John D. Dingell
Page 2

The Department supports the proposal in H.R. 3232 to update membership in the interagency TPC to include representatives from the Departments of Homeland Security and Education. However, we cannot support the provision granting TPC membership to the proposed nonprofit Corporation. Adding the proposed Corporation to the TPC would give the private sector an inappropriate position among the multiple stakeholders in the development of public policy within the Federal Government and could serve to restrict the free flow of public policy ideas. We greatly value the advice of the private sector and actively seek the tourism industry's input and guidance through our close collaboration with the TTAB.

Thank you for the opportunity to express the Department's views on this legislation. We look forward to working with Congress and your Committee on this and other issues of importance to the national economy and to this important industry. The Office of Management and Budget has advised that there is no objection to the transmittal of this letter to the Congress from the standpoint of the Administration's program. If you have any questions, please contact me or Nathaniel F. Wienecke, Assistant Secretary for Legislative and Intergovernmental Affairs, at (202) 482-3663.

Very truly yours,

Lily Fu Claffee

cc: The Honorable Joe Barton
Ranking Member

Mr. RUSH. Again, to our witnesses who are present, the subcommittee welcomes and thanks you for your testimony. And now the first witness will be Mr. Geoffrey Freeman, who I previously introduced. Mr. Freeman, you have 5 minutes for an opening statement.

**STATEMENT OF GEOFFREY FREEMAN, SENIOR VICE PRESIDENT OF PUBLIC AFFAIRS, TRAVEL INDUSTRY ASSOCIATION**

Mr. FREEMAN. Thank you, Chairman Rush and Ranking Member Whitfield. We appreciate this opportunity, and Chairman Rush, allow us to echo everyone else's comments and welcome you back to Washington.

In the years since 9/11, the United States has instituted countless new security policies in order to protect the homeland. The Administration, Congress, and many others are to be applauded for the success of those policies and the fact that America has not been attacked again. Many of those policies have also had unintended consequence, either from poor implementation or by creating a perception around the world that travelers are no longer welcome in the United States. Helping fuel that perception is the foreign press, a press that is all too willing to highlight America's inefficiencies or discourage travelers. One of the best examples of this is a full-page story that ran in the Times of London this past January, a story titled "Travel to America, No Thanks" and featured a picture of the Statue of Liberty holding a stop sign. The story went on to tell its readers 10 places around the world they could travel without having to go through the unnecessary security hassles that we often feature here in the United States. Whether the story was true or not, whether the accusations were true or not, didn't matter. It fed a perception around the world that travelers were no longer welcome. This was one of many stories over the past 7 years that have discouraged travelers from visiting the United States.

To be clear, America's security is job number one and the policies we have implemented are, by and large, the right security policies. But basic economics say that with every obstacle we put in place, you have to have a corresponding effort to welcome visitors to the United States or else, and that "or else" that we have confronted over the past 7 years is a decline in travel. However unfounded the concerns may be about America's security policies, the United States welcomed 2 million fewer overseas visitors in 2007 than we did in 2000, this despite an extraordinarily weak dollar and the fact that there are 35 million more people traveling long distances today than there were 7 years ago. The cumulative economic impact of the decline of 46 million visitors over 7 years is $143 billion in spending, $23 billion in tax receipts, and in 2007 alone, 340,000 jobs that America could have had had it simply kept pace with global travel trends.

Welcoming overseas visitors to the United States is a no-brainer. When overseas visitors come to the United States, they spend an average of $4,000 per person per trip. That compares to an average of $1,200 by Mexican or Canadian visitors. And these visitors that spend $4,000, they don't use our healthcare system, they don't use our education system and they are not a strain on Federal, State or local resources. We can't welcome enough safe and secure overseas visitors.

So what is it going to take to welcome more visitors? It is really a three-part plan. We have to build an efficient visa system, we have to build a smart and welcoming entry process and we have to better communicate our security policies and let travelers around the world know that America welcomes them. We applaud Congress for the important steps it has taken over the past 2 years to address America's visa system and the entry experience. Very significant steps have been taken to improve each of those areas. That leaves us with the last step, communicating our security policies and letting travelers know that we welcome them here in the United States.

H.R. 3232, the Travel Promotion Act, which has enormous bipartisan support, as Mr. Ross touched on earlier, would combine public sector accountability with private sector execution to help the United States welcome millions of additional visitors each year. The Corporation for Travel Promotion will clearly explain U.S. travel policies, promote the United States as a whole as a premier travel destination and reverse negative perceptions, and best of all, it is funded with no money from U.S. taxpayers. The funding comes from the private sector and a $10 fee on visa waiver travelers who do not spend $131 on a U.S. visa.

Around the world, travel promotion programs are creating jobs, increasing spending and generating taxes for our competitors. What do the U.K., Japan, Australia, and dozens of other countries around the world know that the United States doesn't? What they accept and what they know is that travel promotion makes dollars and cents. For too long the United States has stayed silent while the foreign press deters travelers and while other countries attract our visitors and while critics with a pre-9/11 mindset say that the U.S. government has no role in attracting overseas travelers. The government put in place many reasonable security barriers after 9/11. It is time that the government partner with the private sector to limit the negative impact of those barriers.

Before you finalize your work for this year, we strongly urge you to pass the Travel Promotion Act and help provide the American economy with the stimulus it needs. Thank you.

[The prepared statement of Mr. Freeman follows:]

Travel Industry Association

TESTIMONY

OF

GEOFFREY FREEMAN, SENIOR VICE PRESIDENT, PUBLIC AFFAIRS OF THE TRAVEL INDUSTRY ASSOCIATION

ON

"ECONOMIC AND SECURITY CONCERNS IN TOURISM AND COMMERCE: H.R. 3232 AND H.R. 1776"

BEFORE THE

SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES

SEPTEMBER 11, 2008

TRAVEL INDUSTRY ASSOCIATION
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Chairman Rush, Ranking Member Whitfield and other distinguished members of the committee: I am pleased to offer testimony on behalf of the Travel Industry Association (TIA) and our strategic partner the Travel Business Roundtable. TIA is the national, non-profit organization representing 1,700 travel and tourism public and private entities across the country. TIA members encompass every sector of the diverse, $740 billion travel community. Our industry creates jobs and careers; we fulfill important social policy goals, such as moving people from welfare to work; we contribute more than $99 billion in tax revenue for local, state and federal governments to drive our economy; we create a travel trade surplus to offset the nation's worsening balance of payments deficit; and we promote America's public diplomacy efforts.

Today, as we honor the victims of the 9/11 attacks, the travel community stands united in support of the security measures taken over the last several years to protect America from another horrific terrorist attack. We are keenly aware of the need to ensure that our borders are protected from people intent on doing our country harm. However, as the U.S. has instituted increased security in our travel systems, it has neglected to ensure that increased security is balanced by sensible investments in travel facilitation and that new security requirements are properly communicated to international visitors.

The result is predictable. Millions of overseas travelers are avoiding the U.S. due to concerns over long delays in visa issuance and an unfriendly and complicated entry experience–both of which have lead to a global perception that foreign visitors are not as welcome as they were prior to 9/11. Making matters worse, the foreign press has fueled negative perceptions and encouraged foreign nationals not to travel to America. Earlier this year, the *Sunday Times* of London published an article titled, "Travel to America? No Thanks" which urged Britons to enjoy a stress-free summer by avoiding traveling to the U.S. The article describes America's entry experience in this way.

*"Nowhere else can a visitor expect such a spirit-crushingly frosty reception. A preflight e-interrogation, epic queues at immigration, thin-lipped questioning from aggressive border guards and an outside chance of a rubber-gloved rectal rummage..."*

The article goes on to offer readers a list of friendlier countries to visit during their summer vacation like Spain, Austria, and Switzerland.

Stories such as this are scattered across international papers without response from the U.S. and have contributed to America's decline in the international travel market. Remarkably – despite an enormously weak dollar and thirty-five million more travelers in today's global marketplace – the United States welcomed two million fewer overseas visitors in 2007 than we did in 2000.

Declining visitation to the U.S. is not limited to tourists. All forms of travel – business, student and medical –witnessed a decline. From 2004 to 2005, for example, business travel to the U.S. fell 10 percent according to the World Travel Market. Over this same time period, business travel to Europe increased by 8 percent. At a time when the number of people traveling around the world is at an all time high, the number of overseas travelers to America remains well below pre-9/11 levels.

Overseas visitors tend to stay longer in the U.S. and spend much more than the average domestic traveler. Overseas visitors spend on average $4,000 per trip compared to $376 for domestic travelers – or $1,200 by Mexican or Canadian travelers.

The ripple effect of this downturn in overseas travel is significant to the U.S. economy. Had the U.S. kept pace with the growth in global overseas travel since 2001, it would have had an additional 46 million visitors, $140 billion in visitor spending, $23 billion in tax receipts. In 1996, travel created a $26 billion positive trade balance for the United States. In 2005, that trade balance had slipped to $7.4 billion, and even with a weakened dollar, in 2007 the trade balance remained below 1996 levels at $17.6 billion.

The Commerce Department reports that spending by international visitors was at record-high levels in 2007 totaling $96.7 billion; however, when measured in real dollars, spending by international travelers in the United States actually declined by 6.3 percent compared to 2000 – nearly $5.2 billion in 2007 alone. Measuring in absolute dollars as Commerce has done fails to account for inflation.

Furthermore, the recent spike in overseas visitors that the Commerce Department touts is due largely to a weakened dollar. But counting on a frail U.S. economy to drive up overseas visitation is a short-term solution to a long-term problem. As the dollar begins to climb back against foreign currencies, America is likely to see overseas travel, like all of its other exports begin to decline once again.

Millions of Americans across this country are feeling the negative economic impact caused by this loss in revenue. As you may know, the travel community is one of America's largest employers with one in eight people employed directly or indirectly in a travel related job. These are hard working middle-class families that rely on tourism dollars to make a living wage and small business owners who have invested their life savings or home equity into the family business.

Recent news about record high unemployment echo American concerns over their job security. The 7.7 million Americans employed in travel-related jobs cannot wait on a solution to these economic woes any longer. They are looking to Congress for leadership and a solution.

The travel community has stepped up its efforts to work with Congress and the Administration to develop a set of comprehensive solutions to America's international travel problems. We are actively engaged with the Department of State and the Department of Homeland Security to find ways to improve access to visas for legitimate travelers and make our entry procedures more user-friendly. We know our federal partners have begun making improvements to America's travel procedures, and we commend them for their efforts to date. But it's not enough to make reforms to the structural problems of our various security programs. We must also tell the world that we are making these improvements and clearly communicate new and ongoing security changes.

While individual government agencies are doing what they can with their existing budgets to develop communication plans, the reality is that most do not have dedicated resources to communicate security changes for each new and evolving program or to counter the misperceptions about the entry process that confuse and discourage travelers. While the travel community is dedicating marketing and sales resources toward helping the government communicate changing security procedures, it is not a substitute for a well-funded, nationally coordinated program that communicates these policies with a single voice.

There is no better example of this problem than a massive change in travel policy slated to go into effect in January 2009. The DHS's Electronic System for Travel Authorization (ESTA) will require all travelers from countries that participate in the Visa Waiver Program (currently 15 million visitors annually) to register with the United States government in advance of their trip. While this policy is good for America's security and may, over time, enhance the efficiency of the travel process, it has the very real potential of deterring millions of visitors lacking an effective communications campaign. Already, the foreign press is salivating at the opportunity to attack America's latest security "barrier," travelers are confused and America's in-market promoters are at a loss for how to counter the growing concern over the new policy.

ESTA is good policy. But nearly equally as important as the policy is how that policy is communicated. That's why the public-private partnership, embodied in H.R. 3232, the *Travel Promotion Act*, makes perfect sense. The Act, which is co-sponsored by 236 Members of Congress including 45 Members of this Committee, would establish an independent, non-profit corporation to operate a nationally coordinated, public-private campaign to counter negative perceptions of America's entry process, clearly communicate our travel policies and promote the United States as a premier international destination. This legislation combines public sector accountability with private sector ingenuity.

The Corporation for Travel Promotion will overcome the leading obstacles to visiting the U.S. by:

- clearly explaining U.S. security policies;
- reversing negative perceptions about the experience of traveling to the United States by countering misinformation;
- maximizing economic and diplomatic benefits of overseas travel to all 50 States and the District of Columbia; and
- promoting the United States as a premier travel destination.

According to the legislation, the corporation would be funded with no U.S. taxpayer dollars. Instead, the private sector will invest up to $100 million and a matching contribution will be made to the Corporation via a $10 fee on overseas visitors arriving from countries that participate in the Visa Waiver Program. A nominal $10 fee on travelers who, on average, spend $4,000 per person to visit the United States is a reasonable and affordable convenience charge. Furthermore, other countries currently charge U.S. travelers similar entry and exit fees – up to $160 in the UK– that the U.S. does not currently reciprocate.

Clearly, the travel community would not endorse a fee if it thought it would lead to a decline in travel. To the contrary, experience and research demonstrate that a fee-funded program will have a significant return on investment.

A 2007 study by Oxford Economics shows that a modestly funded nationally coordinated travel promotion campaign, combined with visa and entry reforms enacted last year by Congress, would attract 1.6 million new visitors per year, yielding $8 billion per year in new visitor spending and $850 million per year in new federal tax revenues.

This is precisely the type of economic stimulus the U.S. economy needs and clearly illustrates that government can and should partner with the private sector in promotion of travel.

Our foreign competitors understand the importance of unified communications and the basic economics of competing for foreign travelers, which is why nearly every other developed nation operates a government sanctioned promotion program. For example, Australia, Greece and Mexico each spend over $100 million per year on promotion. Currently, the United States spends zero.

Beyond the economic benefits of passing the Travel Promotion Act this year is the positive impact increased international travel will have on America's public diplomacy efforts. According to a survey of 2,000 international travelers conducted by the Travel Industry Association, those who have visited the U.S. are 74 percent more likely to have a favorable opinion of our country. More than 60 percent of respondents said that visiting the United States would make them more likely to support America's policies in the world.

As we embark on a path to improve America's image around the world, imagine the goodwill that will result if we simply let people know we want them to come. Imagine the benefits that will flow to our nation if our neighbors around the globe know that America remains an open, friendly, pleasant place to visit.

In closing, let me reiterate the urgency needed to restore and revitalize the travel industry as an economic generator for America. Before you finalize your work for the year, I urge you to pass the Travel Promotion Act and help bring economic relief to the millions of Americans that count on a healthy tourism industry for their economic security.

Now, more than ever, the world needs to hear a clear and simple message from the United States: many things may have changed since 9/11, but one thing hasn't: America is open and welcoming.

Thank you for the opportunity to testify before you today, and I look forward to addressing your questions.

THE SUNDAY TIMES

# Travel to America? No Thanks

It's already a nightmare, but now they want to make entry into the USA tougher. So let's not go says Matt Rudd.

The Sunday Times
January 20, 2008

We would like to apologise for a terrible omission in last Sunday's feature 10 Steps to a Stress-Free Summer. We forgot to include "Don't go to the USA".

Fortunately, Michael Chertoff, baldie boss of the Department of Homeland Securitisation, has now reminded us that we're not wanted. Or, rather, that we are wanted (because tourists bring lots of nice money with them), but only if we jump through lots of hoops in the process.

Chertoff has let it be known that Europe is a platform for terrorism. He says it's important to step up checks on travellers. Yes, that's right, step them up. In fact, it would be really, really great, he didn't say, but was probably thinking, if all we prospective visitors could be so good as to stay at home and just send our holiday money over in an envelope.

"Travelling to the US offers experiences like nowhere else on earth." That's what it says at discoveramerica.com, the official travel and tourism website of the United States, and it's absolutely right. Nowhere else can a visitor expect such a spirit-crushingly frosty reception.

A preflight e-interrogation, epic queues at immigration, thin-lipped questioning from aggressive border guards, and an outside chance of a rubber-gloved rectal rummage are all part of the fun. So, if Chertoff and co want to tighten Fortress America further, it's time we considered other more welcoming holiday options. Such as Iran or North Korea.

Here are a few sunny alternatives to consider before you book your flight, take your shoes off and try to convince our friends stateside that you're not intent on the destruction of America, you've just come for the hamburgers.

**NEW YORK? Try Hong Kong**

New York is irreplaceable, but so is Hong Kong, so replace it with that. As approaches go, the Star ferry from Kowloon trumps the Staten Island ferry to Manhattan. The view from the urinals at Felix, the Peninsula hotel's penthouse bar, is just as jaw-dropping as the one from the Top of the Rock(efeller).

And, most important, iPods are the same price. Yes, you have to sit on the plane for another five hours, but there are no queues or rubber-glove probes at the other end. Hong Kong likes tourists.

The Peninsula (00 800 2828 3888, www.peninsula.com) has the classic views and the Rolls-Royces, with double rooms starting at £233. Or try the Philippe Starck-designed Jia Boutique Hotel (00 852 3196 9000, www.jiahongkong. com), in Causeway Bay. Trendy, but not irritatingly so, it has doubles from £130. Fly to Hong Kong with British Airways (0870 850 9850, www.ba.com) or Virgin Atlantic (0870 380 2007, www.virgin-atlantic.com); from about £450.

**DISNEYWORLD? Just east of Paris**

How will poor little Johnny manage without his once-in-a-lifetime overdose of saccharine-soaked, rodent-based Floridian amusement? By being dragged to Disneyland Paris instead – yes, like Father Christmas, Mickey Mouse can be in two places at once.

And, by hopping on Eurostar rather than a 747, you're reducing your carbon footprint as well as your chances of immigration-based superhassle. Thomas Cook (www.thomascook.com) does easy-peasy packages from shiny St Pancras; from £326pp for three nights at Disney's three-star Explorers Hotel, based on two adults and two children (aged 2-11).

Or skip Disney altogether and try a more continental take on the theme-park experience. PortAventura (www. portaventura.co.uk), an hour from Barcelona, offers a less commercial family adventure than the big American theme parks – and the food is more sophisticated.

**COWBOYS? They do it better in Spain**

American tourism has a knack of spiralling into toe-curling theme-parkery at the drop of a Stetson, so finding a genuine ranching experience (free from wannabe actors recreating pukey scenes from City Slickers) isn't easy. Why not go somewhere where men are still men and cowboys still herd cows (as opposed to driving a toy train around the OK Corral)?

You have two options (yeehah!): the Argentine pampas or Extremadura, Spain's wild west. The first option is obviously half a planet further away, but comes with excellent steak: talk to Last Frontiers (01296 653000, www.last-frontiers.com) about a tailor-made gaucho adventure. An eight-night trip, with four nights being a cowboy and three in Buenos Aires, starts at £1,995pp, including flights from Heathrow.

Relatively speaking, the second option is in your back garden, but what a wild and thoroughly overgrown garden it is – join the *vaqueros*, Spain's more grizzled answer to the cowboys, through Ride World Wide (01837 82544, www.rideworldwide.com).

**VEGAS, BABY? Macau, darling**

Until recently, every casino in this former Portuguese colony was owned by one man – the Hong Kong businessman Stanley Ho – and their services were pitched squarely at the Chinese gambler. Then the Chinese changed the rules, allowing the Las Vegas billionaires Steve Wynn and Sheldon Adelson to set up shop.

Two years later, Macau has eclipsed family-friendly Lost Wages by offering glitzier casinos in which to lose your money, prettier croupiers to take it from you and fancier hotels in which to cry yourself to sleep. Leave Las Vegas to Bette Midler and head east.

Macau is a 55-minute ferry hop from Hong Kong (£18 return, with Turbojet, www.turbojet.com.hk; for flights, see above), which you've already chosen instead of New York. Stay nowhere but the Wynn (00 853 2888 9966, www.wynnmacau.com; doubles from £150).

**HIGHWAY ONE? Do the wigglier version**

Wind in your hair, curve after curve of beautiful bitumen ahead of you, rolling waves to your right: is there any road quite as liberating as California's Highway One? Yes – it's called the Great Ocean Road, and it runs west out of Melbourne. It's got much less traffic, and you have absolutely no chance of bumping into a toothsome Arnold Schwarzenegger on a cafe terrace.

But you're right, Australia is too far to go to make a stand against Mr Chertoff's tourorist crackdown. How about the Amalfi, Highway One squished down, cultured up and served with a cornetto? It's bumper to Cinquecento bumper in summer, so go in early May or late September. Citalia (0871 664 0253, www.citalia.com) can fix you up with a car and six nights' five-star accommodation from £899pp, staying in Positano and Amalfi, flying from Gatwick with British Airways. Or do it yourself: airlines flying to Naples include Thomsonfly (www.thomsonfly.com) and EasyJet (www.easyjet.com). Travelsupermarket.com has a week's inclusive car hire from £122.

**ASPEN? St Moritz is posher**

The Swiss resort invented the idea of snowy holidays for posh people back in the 19th century. Aspen is a johnny come lately by comparison – it has nothing to match the extracurricular activities on offer in its European rival, such as the Cresta Run and polo matches on ice.

Descent International (020 7384 3854, www.descent.co.uk) has a chalet there to rival the most lavish celebrity homes in Aspen – the palatial Chesa Albertini, built in 1655 and owned by the same family ever since. One week, arriving on March 9, costs £30,700 for a party of up to 12 (plus four children), including food as well as free-flowing champagne.

If you're after North America's empty pistes, rather than its celebrity lifestyle, try Canada. Fly into Calgary and take a road trip through the wilds of the Rockies and British Columbia. There's a scattering of resorts there – Kicking Horse, Lake Louise, Fernie, Panorama – that make America look like Oxford Street on a Saturday afternoon. Packages are available through Frontier Travel (020 8776 8709, www.frontier-travel.co.uk).

## Appendix A

brandarchitectureinternational

# Recommended Total Budget: $150MM - $200MM; Advertising= $65MM - $85MM

| | Inbound Visits | Spend Per Visitor | Recommended Total Marketing Spend | Advertising Spend at 43% | Total Marketing Spend Adjusted for Policy Barriers | Advertising Spend |
|---|---|---|---|---|---|---|
| Canada | 14,855,000 | $ 0.75 | $ 11,148,750 | $ 4,793,963 | $ 11,148,750 | $ 4,793,963 |
| Mexico | 12,858,000 | $ 0.75 | $ 9,643,500 | $ 4,146,705 | $ 9,643,500 | $ 4,146,705 |
| UK | 4,300,000 | $ 15.00 | $ 64,500,000 | $ 27,735,000 | $ 64,500,000 | $ 27,735,000 |
| Japan | 3,900,000 | $ 15.00 | $ 58,500,000 | $ 25,155,000 | $ 19,500,000 | $ 8,385,000 |
| Germany | 1,400,000 | $ 15.00 | $ 21,000,000 | $ 9,030,000 | $ 21,000,000 | $ 9,030,000 |
| France | 879,000 | $ 15.00 | $ 13,185,000 | $ 5,669,550 | $ 13,185,000 | $ 5,669,550 |
| South Korea | 705,000 | $ - | $ - | $ - | $ - | $ - |
| Australia | 582,000 | $ 5.00 | $ 2,910,000 | $ 1,251,300 | $ 2,910,000 | $ 1,251,300 |
| Italy | 546,000 | $ 5.00 | $ 2,730,000 | $ 1,173,900 | $ 2,730,000 | $ 1,173,900 |
| Brazil | 485,000 | $ 5.00 | $ 2,425,000 | $ 1,042,750 | $ 2,425,000 | $ 1,042,750 |
| Netherlands | 449,000 | $ 5.00 | $ 2,245,000 | $ 965,350 | $ 2,245,000 | $ 965,350 |
| China | 405,000 | $ 15.00 | $ 6,075,000 | $ 2,612,250 | $ 2,025,000 | $ 870,750 |
| Spain | 386,000 | $ - | $ - | $ - | $ - | $ - |
| | | | $ 194,362,250 | $ 83,575,768 | $ 151,312,250 | $ 65,064,268 |

## Appendix B

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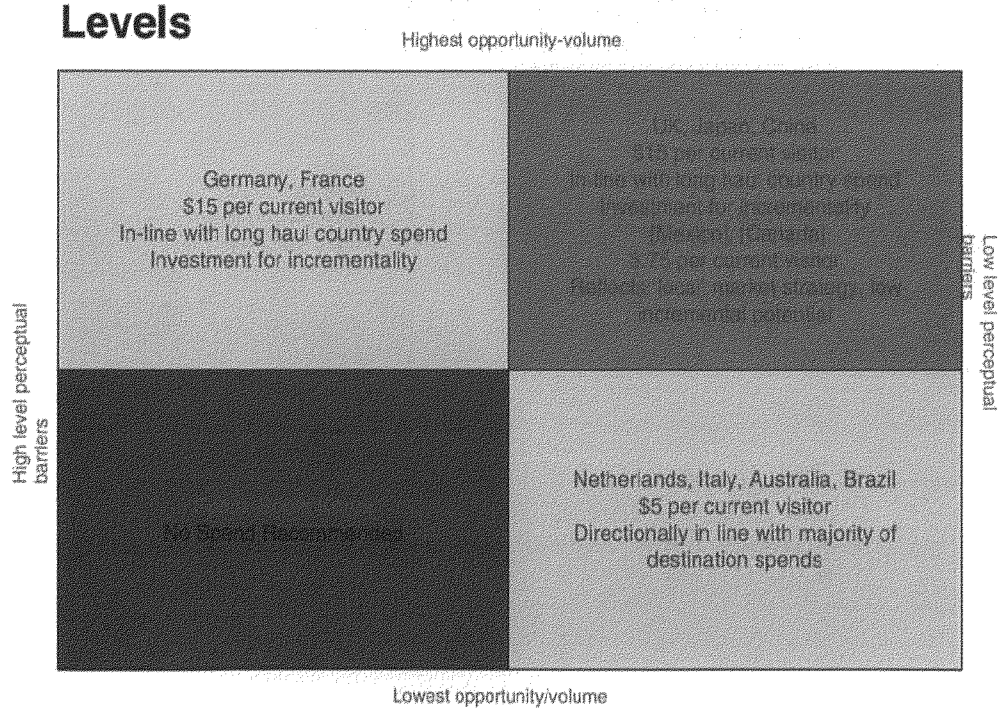
# Prioritizing Source Markets: Spending Levels



Mr. RUSH. Thank you very much, Mr. Freeman.

And now Dr. Patrick Long. Dr. Long, you have 5 minutes for an opening statement, and we welcome you again. Thank you so much.

**STATEMENT OF PATRICK LONG, DIRECTOR, CENTER FOR SUSTAINABLE TOURISM, DIVISION OF RESEARCH AND GRADUATE STUDIES; PROFESSOR, COLLEGE OF BUSINESS, EAST CAROLINA UNIVERSITY**

Dr. LONG. Thank you, Mr. Chairman and Ranking Member Whitfield, for the opportunity to testify today on H.R. 3232. I am Patrick Long, Director of the Center for Sustainable Tourism at East Carolina University, Greenville, North Carolina. I am also past chairman and past president of the National Rural Tourism Foundation authorized by Congress under the Tourism Policy and Export Promotion Act of 1992.

A number of years ago, Charles Kuralt had a conversation with Douglas Duncan, newspaper editor of the Chelton, Nebraska, Clipper. Duncan explained in that conversation how you know when you are in a small town. He started by noting that you know you are in a small town when Third Street is on the edge of town. He went on to say that you know you are in a small town if you are born on June 13 and your family receives gifts from the local merchants because you are the first baby born that year. You know you are in a small town if you dial a wrong number and talk for 15 minutes anyway. You know you are in a small town if you can't walk for exercise because every car that passes you offers a ride. You know you are in a small town when the biggest business in town sells farm machinery. And you know you are in a small town if someone asks you how you feel and spends the time to listen to what you have to say.

Although rural life in the United States is ever changing, it provides both a nostalgic and a real attraction to our international visitors. Certainly more cosmopolitan today than Duncan described to Kuralt, rural areas continue to have limited economic options. What they do have is a wealth of history, culture, natural resources, and rural ambience that can serve as the basis of a tourism economy. I come before you today to offer a reminder that Congress formally recognized in 1992, the important role that tourism plays in the economic revitalization of rural areas by enacting the National Rural Tourism Foundation. Recognizing the potential for rural tourism, the Act noted the following. Many local communities with significant tourism potential are unable to realize the economic and employment opportunities that tourism provides because they lack the necessary local resources and expertise needed to induce tourism trade. And secondly, increased efforts directed at the promotion of rural tourism will contribute to the economic development of rural America and further the conservation and promotion of natural scenic, historic, educational and recreational resources for future generations of Americans as well as foreign visitors.

We support the goals of H.R. 3232 and believe much can be done at the congressional and agency levels to promote international visitor travel and to streamline the entry process. Under this bill, the provision of a coordinated clearinghouse of U.S. travel information and requirements with a promotional component has the potential to jump-start stagnant inbound travel. International tourism expenditures are of great importance to the U.S. economy. In my home State of North Carolina, there were over 358,000 international visitors in 2007, generating expenditures of $607 million.

Recognizing the importance of increasing the flow of international tourists who research has shown are interested in experiencing at some point rural America, I come before you today as past chairman of the foundation to make the case for those rural communities that are not currently a visible part of our country's tourism product and badly need tourism as an economic revitalization tool. There are few states in the U.S. without a substantial number of rural communities struggling economically that wouldn't benefit from assistance in their tourism planning, implementation and promotion. From the many stopping points along Route 66, which has its auspicious beginnings in the district represented by the Honorable Chairman Bobby Rush, we see the uniqueness of countless national treasures. These rural communities are the potential draw for thousands of tourists looking for a scenic ride, a good meal, comfortable lodging, and a unique shopping experience. In particular, these communities can build their capacity to serve the needs of our international visitors.

My comments today therefore are not so much about the legislation before you, which appears to be strongly supported by the tourism industry as well as by an impressive number in Congress, but rather to ask you to be mindful of the needs of rural America. What I would ask is that in addition to supporting the Travel Promotion Act, that you consider ways to strengthen the capacity of the previously authorized national rural tourism foundation to meet its original charge, to serve as a catalyst to the economic revitalization of rural America through tourism. Thank you.

[The prepared statement of Dr. Long follows:]

**STATEMENT OF**
**PATRICK T. LONG, PH.D.**

**DIRECTOR, CENTER FOR SUSTAINABLE TOURISM**
**DIVISION OF RESEARCH AND GRADUATE STUDIES**
**EAST CAROLINA UNIVERSITY**
**GREENVILLE, NORTH CAROLINA**

**BEFORE THE SUBCOMMITTEE ON COMMERCE, TRADE AND CONSUMER PROTECTION**
**COMMITTEE ON ENERGY AND COMMERCE**
**U.S. HOUSE OF REPRESENTATIVES**

**SEPTEMBER 11, 2008**

Thank you Mr. Chairman for the opportunity to testify today on H.R.3232--the Travel Promotion Act of 2007.

I am Patrick Long, Director of the Center for Sustainable Tourism at East Carolina University, Greenville, North Carolina. I am also past chairman and past president of the National Rural Tourism Foundation (NRTF) authorized by Congress under the Tourism Policy and Export Promotion Act of 1992.

A number of years ago Charles Kuralt had a conversation with Douglas Duncan, newspaper editor of the Shelton, Nebraska "Clipper"[1]. Duncan explained in that conversation how you know when you are in a small town. He started by noting that you know you are in a small town when "Third Street is on the edge of town". He went on to say that:

- You know you're in a small town if you're born on June 13th and your family receives gifts from the local merchants because you're the first baby of the year;
- You know you're in a small town if you dial a wrong number and talk for fifteen minutes anyway;
- You know you're in a small town if you can't walk for exercise because every car that passes you offers you a ride;
- You know you're in a small town if you write a check on the wrong bank and it covers it for you anyway;
- You know you're in a small town when the biggest business in town sells farm machinery; and, finally,
- You know you're in a small town if someone asks you how you feel and spends the time to listen to what you have to say!

My comments today are influenced by the many years I have spent living in and working with rural communities. From my childhood days growing up in Northfield, Minnesota, whose tourism logo is "Welcome to Northfield: Town of Cows, Colleges and Contentment" and which annually celebrates the "Defeat of Jesse James Days" to my thirty years initiating rural assistance programs in tourism and economic development in Colorado, to my current role as Director of the Center for Sustainable Tourism at East Carolina University. Throughout, my work has been dedicated to economic and community development in rural areas.

But I am here today primarily to offer a reminder that Congress formally recognized in 1992 the important role that tourism plays in economic development and revitalization of rural areas by enacting the National Rural Tourism Foundation. The legislation that created the NRTF was quite sound, creating an entity that could support community-based planning, tourism product

[1] On the Road With Charles Kuralt by Charles Kuralt. Fawcett Gold Medal, New York. Published by Ballantine Books, 1985.

development, coordinate training opportunities, provide information and resource dissemination, and address marketing and promotion of rural areas to the international visitor. This was done in direct partnership with many and varied Federal agencies in order to support economic development. Recognizing the potential for rural tourism, the Act noted:

1. "Many local communities with significant tourism potential are unable to realize the economic and employment opportunities that tourism provides because they lack the necessary local resources and expertise needed to induce tourism trade;
2. Increased efforts directed at promotion of rural tourism will contribute to the economic development of rural America and further the conservation and promotion of natural, scenic, historic, scientific, educational, inspirational, and recreational resources for future generations of Americans and foreign visitors; and,
3. Exporting those goods and services which United States industry can produce at a comparative cost advantage, such as travel and tourism services, will be in the Nation's long-term strategic interest."

In addition, the Act identified that the function of the Foundation shall be the "planning, development, and implementation of projects and programs which have the potential to increase travel and tourism export revenues by attracting foreign visitors to rural America". Initially, such programs were to include:

1. "Participation in the development and distribution of educational and promotional materials pertinent to both private and public attractions located in rural areas of the United States, including Federal parks and recreational lands, which can be used by foreign visitors;
2. Development of educational resources to assist in private and public rural tourism development; and
3. Participation in Federal Agency outreach efforts to make such resources available to private enterprises, state and local governments, and other persons and entities interested in rural tourism development.

I draw your attention to these particular excerpts because they reinforce why I appear before you today. We at the Center for Sustainable Tourism (www.sustainabletourism.org) support the goals of H.R. 3232 and believe much can be done at the Congressional and agency levels to promote international visitor travel, and to streamline entry process. The provision of a coordinated clearinghouse of U.S. travel information and requirements in concert with important promotional components, have the potential to jumpstart stagnant inbound U.S. travel. As the United States strengthens its ties with China, such as obtaining *approved destination status*, we have a greater opportunity to strengthen our markets to its outbound travelers – estimated by the U.S. Commercial Service to reach 100 million by the year 2020.

As has been well-documented in the justification for H.R. 3232, our country has long-suffered from the lack of a coordinated and well-funded international promotional effort that creates tourism jobs, revenue flow, and a positive balance of trade in tourism. International tourism expenditures are of great importance to the US economy— in my home state of North Carolina there were over 358,000 international visitors in 2007 generating expenditures of $607 million.

First and foremost, the legislation you are considering provides for a competitive and substantial promotion and marketing program funded by international visitor fees. In addition, it authorizes the establishment of a non-profit Corporation for Travel Promotion governed by a non-government, private sector board of directors, under the oversight of the Department of Commerce. Such corporation would perform the important functions of explaining U.S. security policies, reversing negative perceptions of travel to the U.S. through public education, expand economic and diplomatic benefits of oversees travel across the U.S., and promote our country as a desirable and enjoyable travel destination. All are important functions.

Recognizing the importance of reinvigorating the flow of international tourists who, research has shown, are interested in experiencing the natural, cultural and heritage destinations of rural America, I come before you today as Past Chairman of the National Rural Tourism Foundation (www.ruraltourism.org). I am here to make the case for those rural communities that are not currently a visible part of our Country's tourism product and would benefit significantly from tourism as an economic revitalization tool. My comments today, therefore, are not so much about the legislation before us, which appears to be strongly supported by the tourism industry, as well as by an impressive number in Congress, but rather to ask you to be fully mindful of the needs of rural America as you consider any tourism legislation.

I would like to take a moment to share with you a rural tourism scenario. On the eastern plains of Colorado, a short distance from the Kansas border on the Interstate 70 corridor in Kit Carson County lies the rural community of Burlington, Colorado--population 3,678. In an effort to increase revenues for the community, Burlington began exploring ways to improve retail sales through tourism and to decrease the dependence of existing tourism attractions on public tax dollars for their operation. Results of a study conducted by the NRTF in partnership with the

University of Colorado indicated that tourism product development guided by a long-range marketing plan could significantly increase both retail sales and lodging taxes for the city.

The tourism related sectors in Kit Carson County play an important role in that region's economy. Combined, the accommodations and food services sector, and the arts, entertainment and recreation sectors make up over 11% of the total employment in the county, while providing 4.5% of the total wages. Tourism-related employees in Kit Carson County account for 33% of the total tourism related employees in a five-county region and 33.2% of total tourism related wages.

The cost of living in the county has increased at a rate greater than per capita income over the last decade. Thus, the average citizen is less well off than they were in 1990. Although Burlington still serves as a regional service center for some industries, the small population base and weak population growth coupled with slow growth of employment, income and wages, suggests that the local area will have long-term difficulty in attracting new businesses based on internal demand. Unless a major high-wage employer can be recruited to the area, revenue enhancement can best be accomplished through drawing business from outside the immediate area.

The City of Burlington is extremely fortunate it has an interstate highway directly adjacent to the community. Additionally, a Colorado Welcome Center, serving a full 10% of all travelers on I-70, is also a critical economic asset. Capitalizing on these two opportunities is absolutely vital to the long-term economic viability of that community.

The NRTF study recommended that the community move immediately to develop a long-term vision and plan of action for tourism development, at the same time identifying funding sources to support three phases of development. Phase one would include a comprehensive signage plan that includes I-70, the east and west entrances from I-70, and connections between 14th Street, Rose Avenue and Lincoln Street. This first phase also called for the development of a safe and appealing corridor that visually integrates the retail businesses in downtown with the pathway between Old Town and the Carousel, once featured in a National Geographic special. Most critically, beginning with this phase, the accommodations, food services, and retail sectors were to be recruited to participate actively in the tourism planning process.

Phase Two would focus on the business-to-business linkages that would help the community capitalize on every traveler who exits I-70, and that will energize merchants to actively and collectively contribute to market growth. Redesign of the town website, construction on the main street tourism corridor, and directional signage all needed to communicate to travelers that Burlington balances the modern life of an agricultural community with respect for its rich historic and natural assets.

Phase Three recommended that an agricultural hall of education be developed at the community's historic tourism anchor, Old Town, which would feature contemporary agricultural practices and offer interactive experiences that will have a strong appeal to youngsters.

As you are aware, tourism development is of great importance to the economic survival of many rural communities and there are few states in the U.S. without a substantial number of such communities struggling economically that wouldn't benefit from assistance in their tourism planning, implementation, and promotion. For example, in the Eastern third of North Carolina, within the immediate service area of East Carolina University and our Center, I regret to report that 22 of 41 counties are classified as Tier I, the lowest economic classification.

Rural communities such as the example of Burlington, Colorado, can benefit from proven planning examples and access to rural tourism information resources, technical assistance, training opportunities, business development techniques, funding ideas and sources, marketing assistance, conferences and knowledge about, and access to, and existing federal programs, many of which they frequently are not even aware.

All along Route 66 which has its auspicious beginnings in the District represented by the Honorable Chairman Bobby Rush, we see the uniqueness of our countless national rural treasures at the many stopping points. These rural communities are the potential draw for thousands of tourists each weekend looking for a scenic ride, a good meal, comfortable lodging, or a unique shopping experience. They also can be better positioned to attract the expenditures of hikers, campers, sportsmen, motor coach travelers, and the general touring public, as well as benefit from the growing number of second home owners. In particular, these communities can build their capacity to serve the needs of our international visitors. And, such development must now be sustainable as we are seeing in the rebuilding of Greensburg, Kansas, a rural community devastated in 2007 by a tornado, in order for businesses and communities to decrease costs, increase profits, and compete in any future traveler marketplace.

Regarding sustainability, as director of a sustainable tourism center, I would be remiss not to emphasize the importance of responsible and sustainable actions by the tourism industry; every tourism sector would benefit from embracing sustainable practices in an effort to save money, increase profits, or simply because it is in the best interests of the local, national and world environment. Such practices could include management and reduction of greenhouse gas emissions, reduction of solid waste and water consumption, wastewater management, conservation and management of energy (www.renewabletourism.org), ecosystem and biodiversity conservation, land use planning and management, air quality protection, preservation of social norms and cultures and provision of economic benefits to local and indigenous communities, responsible purchasing and training and education in sustainability for employees and clients. As the world's largest industry we have an obligation to positively impact individual traveler behaviors, business practice, and public policy at all levels to ensure that tourism's "footprint" is minimized. Major research initiatives on sustainable tourism are currently underway by PhoCusWright in partnership with Sustainable Travel International as well as by the Travel Industry Association of America to more accurately determine the marketplace, trends, and effects of such practices on business operations in tourism.

What I would ask today is that in addition to supporting the bill you have before you that you consider other ways to meet the unique needs and contributions of America's rural communities so they might more fully benefit from travel to the U.S. As one action, I would ask that you consider strengthening the capacity of the National Rural Tourism Foundation to meet its original purpose --to serve as a catalyst for the economic revitalization of rural America through tourism. *Although the Foundation was never publicly funded and consequently has been unable to reach its full potential, it stands ready to meet its goals should Congress see fit to revisit the Foundation's role and consider providing appropriate resources.*

Strengthening the Foundation will create opportunities to increase export earnings from tourism and transportation services traded internationally and will encourage the development of the tourism industry in rural communities which have been severely affected by the decline of agriculture, family farming, the extraction or manufacturing industries, or by the closing of military bases. Immediate beneficiaries include:

- Underdeveloped rural areas seeking economic revitalization through tourism development;
- Current residents of, and people relocating to, rural destinations either as business operators, second home owners or retirees;
- Producers/suppliers of outdoor recreation products;
- Transportation venues—rail, car, airline, bus and shuttles;

- Small tourism business/entrepreneurs;
- Real estate developers (golf, vacation homes, factory outlet malls);
- Lodging/Accommodations (small hotels, guest ranches, bed and breakfasts, and campgrounds);
- Planning consultants and technical assistance providers;
- Government units at the local, regional, and state levels.

In closing, I wish to share with you these reflections on rural America by Charles Wilkinson, Natural Resources Law Professor at the University of Colorado at Boulder. His remarks encapsulate the aura and mystique of the rural community experience:

*"We need to develop what I call an ethic of place. It is premised on a sense of place, the recognition that our species thrives on the subtle, intangible, but soul-deep mix of landscape, smells, sounds, history, neighbors, and friends that constitute a place, a homeland. An ethic of place respects equally the people of a region and the land, animals, vegetation, water, and air. It recognizes that residents*[2] *revere their physical surroundings and that they need and deserve a stable, productive economy that is accessible to those with modest incomes. An ethic of place ought to be a shared community value and ought to manifest itself in a dogged determination to treat the environment and its people as equals, to recognize both as sacred, and to insure that all members of the community not only search for, but insist upon, solutions that fulfill that ethic."*

Professor Charles Wilkinson: Beyond The Mythic West (p. 75)

[2] Original word was "westerner".

Mr. RUSH. The chair recognizes himself for 5 minutes of questioning. My first question is directed to Mr. Freeman and Dr. Long. Data from the Department of Commerce's International Trade Association showed international arrivals in the United States have steadily increased since 2007. An entry fee such as the one proposed by H.R. 3232 may serve as a further disincentive for visitors to come to the United States, thus possibly reversing this trend. Do you think that this is accurate? Please explain your opinion and provide supporting evidence, and I would ask you to give short and concise answers in the interest of time. Mr. Freeman.

Mr. FREEMAN. Thank you. We appreciate the Department of Commerce's concerns and have had many conversations with them about those. There are two important numbers to look at here. First of all, there is international travel. International travel includes the entire world including Canada and Mexico, and then there is overseas travel. When you look at international travel, it is true that the United States returned to pre-9/11 levels at the end of 2007 but that boom in travel is driven almost entirely by Canadians and Mexicans. Before 9/11, the United States welcomed 50 million visitors, 25 million from Canada and Mexico and 25 million from overseas. In 2007, we got back to welcoming 50 million visitors, 30 million from Canada and Mexico, 20 million from overseas. Clearly, when you look at overseas travelers, the travelers who spend $4,000 on average per trip as opposed to the $1,200 Canadian or Mexican travelers spend, this is where we are seeing a problem. From an economic standpoint, there is an issue there, and from a public diplomacy standpoint. When these travelers aren't coming to America, we are missing that opportunity to win hearts and minds around the world. Travelers from the U.K., Japan, Australia, and other overseas countries are avoiding the United States post-9/11. As to whether or not any type of fee could discourage travel to the United States, I think the only thing we can do is look at what these countries do and what does the evidence suggest. Every country I mentioned has a fee in place, either an entry fee or an exit fee, that Americans and other travelers currently pay as we go into or out of those countries. The fees that we pay to those countries fund, among other things, their travel promotion programs against the United States and every one of those countries is seeing an increase in travel that the United States is not seeing. The fact is that the average traveler spends $4,000. We don't believe a $10 fee invested in promotion would be a deterrent, it would lead to an increase of millions of visitors.

Mr. RUSH. Thank you, Mr. Freeman.

Dr. Long, do you have anything to add to this or do you agree with Mr. Freeman?

Dr. LONG. I concur with my colleague, Mr. Freeman, on that. I feel that a $10 fee, as we all experience when we travel to other countries paying those fees, would certainly not be a deterrent for anyone wanting to come to see the products that we have for tourism in America.

Mr. RUSH. Thank you. To the both of you again, building on the last question, section 5 of H.R. 3232 also stipulates that the initial loan from the Treasury to the Corporation for Travel Promotion must be repaid within 5 years. Section 5 contemplates no penalty for non-repayment of the loan. What happens if the corporation fails to repay this loan in time, or worse, defaults? Do you believe that a penalty should be included in Section 5 as a consequence of failure to repay the loan in time or defaults on the loan? Would you please answer with a yes or no answer?

Mr. FREEMAN. I believe the sponsors of the bill put that language in there in order to provide the entity with startup costs. The private sector, the corporation have to pay that back with interest within a certain number of years, as you mentioned. We absolutely concur that there should be penalties if that money is not paid back.

Mr. RUSH. Dr. Long?

Dr. LONG. I am not familiar enough with that aspect of the bill to respond in a reasonable fashion.

Mr. RUSH. Mr. Freeman, I only have a few minutes left of my time. I would direct your attention to Section 5B of H.R. 3232, which establishes a travel promotion fund to partially fund the Corporation for Travel Promotion. This section caps annual transfers from the fund at $100 million. Can you tell me why this level was chosen?

Mr. FREEMAN. I believe what it accounts is a maximum of $100 million. For every dollar the private sector puts on the table, there is a matching fee through the visa waiver fee that would be applied. That dollar is capped at $100 million. That is the absolute maximum that the visa waiver fee would contribute to this program. I think in reality, it would take several years to get the private sector and the whole program up and running, and I think it would be some time before you would have a $100 million max, but that should be yet another sign of the accountability measures in this program, that those funds are capped rather than left open.

Mr. RUSH. Thank you. My time is up, and now the chair recognizes the ranking member, Mr. Whitfield, for 5 minutes for questioning.

Mr. WHITFIELD. Thank you, Chairman Rush, and thank you, Dr. Long and Mr. Freeman, for your testimony. Dr. Long, let me ask you. You had referred to the National Rural Tourism Foundation, and is there anything in this legislation, H.R. 3232, that would strengthen that foundation or gives you reason to believe that at least it would be helpful for that foundation to be more effective?

Dr. LONG. We are not asking for any change in the proposed legislation as you see it before you. We do know that increasing visitation to this country will certainly increase the opportunity for local communities to benefit from this. The point that I bring to you is that there are many communities that are not prepared to receive those dollars and that in any future thinking, whether it is directly in future tourism legislation or whether it is agency funding such as agriculture, commerce, whatever the case may be, that the goodwill of the foundation be kept in mind.

Mr. WHITFIELD. You all probably have larger crowds than rural Greenville now with the East Carolina Pirates, right?

Dr. LONG. The Pirates have done a good thing for the reputation of that school and that part of the State.

Mr. WHITFIELD. Thank you.

Mr. Freeman, this initial $10 million, does that have to be appropriated?

Mr. FREEMAN. I believe the way the language is written, that money does not have to be appropriated. It is a $10 million loan from the Treasury paid back with interest by the private sector.

Mr. WHITFIELD. So this legislation, if it passed, would authorize the government to transfer up to $10 million for initial costs?

Mr. FREEMAN. I believe so.

Mr. WHITFIELD. OK. Now, I noticed that this whole program, this whole corporation is dependent upon this $10 fee being collected, and section 6, the first sentence says, "If a fully automated electronic traveler authorization system to collect basic biographical information in order to determine in advance of travel the eligibility of an alien to travel to the United States is implemented, then a fee would be imposed." Is that system going to be implemented?

Mr. FREEMAN. Yes, indeed, it is. On January 12 of next year, the Department of Homeland Security is implementing a new program whereby millions of travelers who come to the United States via the visa waiver program will now have to register with the U.S. government in advance of their trip to the United States. I think all of us should be concerned about the effect this could have on travel lacking a significant communications program to let the world know how this program will work. While DHS has not put a fee in place initially because we do not believe they wanted to go through a rulemaking process in the few short months they have left in this Administration, we do believe that a fee will be implemented in a future administration and that will present the opportunity for the matching funds.

Mr. WHITFIELD. And how did you all decide to implement this fund in the Treasury Department? This legislation directs that a fund be set up in the Treasury Department.

Mr. FREEMAN. Again, I believe the sponsors of the legislation in working on this, the transfer of the money from Homeland Security, which collects the electronic system for travel authorization fee, or will——

Mr. WHITFIELD. So Homeland Security would collect the $10 fee?

Mr. FREEMAN. The fee is collected through Homeland Security, and in order for it to make it to the Corporation for Travel Promotion, the rules simply require it to go through the Department.

Mr. WHITFIELD. How much is the fee today that they collect?

Mr. FREEMAN. Again, the program begins in January of next year. Because they didn't want to go through a rulemaking this year, there isn't a fee set. That will be determined by the next administration. We believe that fee that they will set will be in the range of $10.

Mr. WHITFIELD. So there would be an initial $10 million loan that would be repaid with interest, then in 2009 there would be a match of 50/50, and then 2010, the corporation would have to pay 100 percent, I suppose.

Mr. FREEMAN. Well, in 2009, there would be the $10 million loan. The purpose, just so everyone is aware, of that $10 million loan is to enable the Corporation for Travel Promotion to retain the staff it needs first but then to begin doing the research and the development so we can hit the ground running, know which countries we are targeting, know what our promotion is in those countries. In 2009, I believe, according to the legislation, it is a 2:1 contribution. For every dollar the private sector puts on the table, there are $2 from this fee, and for every year thereafter it is a 1:1 contribution.

Mr. WHITFIELD. Now, is there anything in this legislation that would mandate that the private sector contribute? I mean, is there a mechanism that——

Mr. FREEMAN. It is a voluntary contribution, and indeed, I think that is what we hope, all of us would hope would work rather than mandating the private sector in a sense be taxed to do this. This is something that the private sector is currently saying, the travel community is coming to you and saying we want to put money on the table. We have seen what has happened over the past 7 years when we haven't communicated. Help us help the country by bringing more visitors in.

Mr. WHITFIELD. And this is primarily through the travel industry association? I mean, you all would be the ones out there trying to convince people?

Mr. FREEMAN. Well, I think we would be working closely with the Corporation for Travel Promotion to ensure the private sector and the private sector would include companies, it would include local convention and visitor bureaus. It could include State tourism offices to contribute to the fund to bring people to the United States. The fact is, if you are not willing to visit the United States, then you are not going to go to Illinois, you are not going to go to Kentucky, you are not going to go to those other places if you have concerns about visa and entry policy.

Mr. WHITFIELD. And the——

Mr. RUSH. The chair has the responsibility of alerting the gentleman that his time has expired and we have to move on. The chair now recognizes the gentlelady from Illinois, Ms. Schakowsky, for 5 minutes of questioning.

Ms. SCHAKOWSKY. Thank you. I have a couple of questions.

Mr. Freeman, I represent a very diverse district and my office probably spends about 80 percent of its time dealing with issues of immigration and visas. I personally spend a lot of time on the telephone calling embassies around the globe trying to get someone another interview, guaranteeing personally that they will go back. You seem to feel though that the provisions of the Homeland Security situation aren't the problem as long as we explain them to people. Maybe it depends on countries but I was just at an Indian wedding of a very prominent family and I would say about half a dozen of those guests were only there because I got on the phone and made those calls. Otherwise they wouldn't have been permitted into the United States. What is your experience?

Mr. FREEMAN. I think that as we look at the problem, as we look at the decline of 46 million travelers over the past 7 years, it isn't simply due to communications. It is a three-legged stool. The first part is the visa problem. In a country like Brazil right now, the wait time to simply get an interview for a visa is 100 days. That is not making us more secure, it just suggests that we are more inefficient than we need to be. We are not staffed appropriately. The same problems have existed in India for quite some time. We have similar problems in China. We need a visa system that meets the 30-day standard that the State Department has set for itself. Unfortunately, the State Department to date has not built a business plan despite report language from this Congress last year asking it to do so, to find every consulate where the wait time is over 30 days and tell Congress how they are going to get that wait time below——

Ms. SCHAKOWSKY. So this legislation, I am sure advertising is attractive but not if the result is that people then apply for visas and can't get them. I think a lot of people like myself don't necessarily plan 100 days in advance. They find a good deal and they plan a couple months ahead. Will this work?

Mr. FREEMAN. This legislation will absolutely work in a number of countries around the world. When you look at a country like Brazil or a country like India where there are visa problems, those need to be addressed, and obviously the problem needs to be addressed in those countries before you can start marketing yourself as a destination, and that is why we have been working with so many in Congress to address those problems. I do believe in India, the wait times about 18 months ago were up to 150 days to get an interview for a visa. In recent weeks, the wait times have been down to about 15 days. We need to communicate that. We need to promote that. It isn't just about posters around the world saying come to the United States. When we put new security policies in place, when we improve the visa system, when we launch an international register traveler program to expedite the processing, we need to tell the world we are doing these things, not leave it to the foreign press.

Ms. SCHAKOWSKY. We do, although a lot of those people who finally get the interview end up getting denied to come to the States too. I know. As I said, I spend a lot of time doing that. I think we have to streamline somehow, to streamline our process without risking our security.

I wanted to ask both of you, do you support a provision that would make sure that the corporation doesn't support a specific business such as I cited in my opening statement?

Mr. FREEMAN. Absolutely, and I believe that was the intent of the sponsors. The role of this entity is to encourage people to travel to the United States. Once they are a captive audience, then Florida, California, various hotels, theme parks, others, they can fight over them, but if they are not considering the United States, then nobody else, whether it be Illinois, California, Florida, or the rest, can convince them, can educate them on visa or entry policy. It is the role of this entity to communicate U.S. security policy and encourage people to visit the United States, not one specific entity or destination.

Ms. SCHAKOWSKY. Dr. Long, I think it was the New York Times that did a whole piece on crumbling barns in rural America and how all these wonderful old barns are just falling apart and somehow changing the character of rural America. Your testimony got me thinking about just how charming and intriguing it would be, I think, to promote a rural America tour, and I would be interested in helping with that. We have some wonderful places in Illinois that have exactly that kind of atmosphere that you mentioned.

Dr. LONG. Well, I realize that our focus today is international travelers, but if you think about the shortening of the travel experience due to energy costs and the like, we are going to see a lot more domestic folks that are going to be traveling outside of urban areas that are going to rediscover, recapture their desire to visit rural America.

Ms. SCHAKOWSKY. Oh, I would think even international travelers might be interested in the flavor of rural America.

Dr. LONG. Yes, and I didn't mean to misinterpret that, but in addition to that international draw, rural America would benefit from the increased domestic expenditures as well.

Ms. SCHAKOWSKY. Thank you.

Mr. RUSH. Thank you. At this time we want to thank the witnesses for their testimony. Again, our sincere apologies for the delay, but thank you for your fine testimony. So we want to thank the witnesses for their time and you are now excused. Thank you so very much.

The chair has another commitment and now would like to ask the vice chair if she would please come and chair the second part of this hearing. Thank you so much.

Ms. SCHAKOWSKY [presiding]. We are going to begin. I am Congresswoman Jan Schakowsky, the vice chair of the committee, taking over the chair now. The second panel is made up of Lois Greisman, Associate Director for the Division of Marketing Practices, Bureau of Consumer Protection, the Federal Trade Commission; Jeffrey Rechenbach, Executive Vice President, Communication Workers of America; Tim Searcy, Chief Executive Officer of American Teleservices Association, ATA, and our fourth witness, Dr. David Butler, Director of Call Center Research Laboratory of the University of Southern Mississippi, Executive Director, National Association of Call Centers. We will begin with Ms. Greisman, 5 minutes.

**STATEMENT OF LOIS C. GREISMAN, ASSOCIATE DIRECTOR FOR THE DIVISION OF MARKETING PRACTICES, BUREAU OF CONSUMER PROTECTION, FEDERAL TRADE COMMISSION**

Ms. GREISMAN. Thank you, Chairman Schakowsky and Ranking Member Whitfield. I am delighted to be here this afternoon. As you know, my oral remarks represent my own views. The written statement is that of the Federal Trade Commission.

I would like to take this time just to highlight a few points from that statement. The Commission's experience with call centers arises in connection with its telemarketing initiatives which focus primarily on deceptive and abusive practices. Combating telemarketing fraud has been a top priority for the Commission for well over a decade. In total, the Commission has filed more than 375 cases, the vast majority of which target garden-variety frauds yet highly pernicious frauds such as business opportunities, investment promotions, sale of bogus products in the weight-loss area and so on.

Since 2003, as I am sure you are well aware, and the implementation of the Do Not Call Registry, the Commission also has focused considerable attention to protecting consumers' privacy by limiting the number of unwanted telemarketing calls that they receive. Indeed, consumers have now placed more than 168 million telephone numbers on the Do Not Call Registry just since 2003, and it has been a remarkable success, due in part, I believe, to the Commission's rigorous law enforcement program and also to significant efforts by the telemarketing industry. In that regard, I thank American Teleservices Association, Tim Searcy.

In a nutshell, the Commission's law enforcement experience in the telemarketing arena is broad and robust but the law enforcement mission, as I mentioned, has been focused on deceptive and abusive practices, outright lies, implied lies or privacy invasion, rather than examination of the sort of labor and international trade policy issues that I think really lie at the heart of H.R. 1776. So it is against that backdrop that the Commission's testimony flags four specific aspects of the bill with some concerns.

The first one addresses the bill's potential breadth. It would appear to require disclosure of the call center's physical location, whether operating in the United States or abroad, and appears to reach even local pizza parlors or doctors' offices. Second, we have some concerns about the definition of call centers as it might reach online transactions, particularly online service assistance. Resolving ambiguity as to the bill's coverage would improve enforcement and also, we believe, provide critical guidance to industry as it would comply with any new requirements. Third, the bill's certification of compliance requirement may present any enforcement agency with costly burdens, and the bill itself does not seem to have any enforcement mechanism for a failure to certify. Last but not least, because I think this goes to the very efficacy of H.R. 1776, we are concerned that the FTC's jurisdictional limitations would substantially complicate and indeed might undermine effective enforcement of the bill, and these jurisdictional limitations include depository institutions, airlines and insurance companies, which perhaps are among many of the very entities that use overseas call centers. Having such entities beyond the statutory reach of the FTC would, we believe, frustrate enforcement.

So for those reasons, the Commission respectfully suggests that another agency without such limitations and one versed in the labor and international trade policy issues at the core of H.R. 1776 might prove better situated to administer and enforce the bill. The Commission is pleased to continue to provide further assistance, and I assure you, will vigorously protect American consumers from telemarketing fraud. I will be happy to answer any questions.

[The prepared statement of Ms. Greisman follows:]

**Prepared Statement of**

**The Federal Trade Commission**

**Before the**

**House Committee on Energy and Commerce**
**Subcommittee on Commerce, Trade, and Consumer Protection**
**United States House of Representatives**

**Washington, D.C.**
**September 11, 2008**

Chairman Rush, Ranking Member Whitfield, and members of the Subcommittee, I am Lois Greisman, Associate Director of the Division of Marketing Practices, Bureau of Consumer Protection at the Federal Trade Commission ("Commission" or "FTC").[1] I appreciate the opportunity to appear before you today regarding H.R. 1776, provisionally titled the "Call Center Consumer's Right to Know Act." The bill would require call center employees to disclose, in telephone calls with consumers, the physical location of the call center.

This testimony begins by describing the Commission's experience with fraud and abuse perpetrated over the telephone in order to assist the Subcommittee in its consideration of H.R. 1776.[2] This testimony also provides comments aimed at ensuring the bill meets its intended purpose.

## I. FTC's Law Enforcement Experience

The Commission's experience with call centers is primarily based on its extensive program to battle fraudulent and abusive telemarketing practices through its vigorous enforcement of the Telemarketing Sales Rule ("TSR"), which includes enforcement of the privacy protections of the National Do Not Call ("DNC") Registry.[3]

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[1] The views expressed in this statement represent the views of the Commission. My oral presentation and responses to questions are my own and do not necessarily reflect the views of the Commission or any individual Commissioner.

[2] The FTC has broad law enforcement responsibilities under the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. 41, *et seq.* The statute provides the agency with broad jurisdiction over most economic sectors. Certain entities or activities, however, such as depository institutions and companies engaged in common carrier activity, and companies engaged in the business of insurance, are wholly or partly exempt from FTC jurisdiction. In addition to the FTC Act, the agency has enforcement responsibilities under more than 50 other statutes and more than 30 rules governing specific industries and practices.

[3] In December 2002, the Commission adopted amendments to the TSR that, among other things, established the National Do Not Call Registry, prohibited call abandonment,

**A. History of the FTC's Telemarketing Fraud Law Enforcement Program**

The Commission has a strong and longstanding commitment to rooting out telemarketing fraud. From 1991 to the present, the FTC has initiated more than 375 telemarketing cases. The vast majority of these involved fraudulent marketing of investment schemes, business opportunities, sweepstakes pitches, and the sales of various goods and services, including health care products. One hundred and ten of those cases were brought prior to 1994, pursuant to Section 5 of the FTC Act, which prohibits "unfair or deceptive acts or practices in or affecting commerce."[4]

In 1994, Congress enhanced the Commission's enforcement tools by enacting the Telemarketing and Consumer Fraud and Abuse Prevention Act (the "Telemarketing Act").[5] This legislation directed the Commission to issue a trade regulation rule defining and prohibiting deceptive or abusive telemarketing acts or practices. Accordingly, the Commission promulgated the TSR in 1995. Since 1996, the Commission has filed more than 265 cases under the TSR. In most of these cases, the Commission sought preliminary relief to immediately halt ongoing law violations, and in virtually every case ultimately obtained permanent injunctions to prevent such

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required (where feasible) transmission of Caller ID identifying information, and established important new safeguards in situations where telemarketers use preacquired account information. 68 Fed. Reg. 4580 (Jan. 29, 2003). The TSR was also recently amended to, among other things, bar telemarketing calls that deliver pre-recorded messages (so-called "voice blasting" or "robo calls"), unless the consumer previously has agreed to accept such calls from the seller. Those amendments will become fully effective in September 2009. TSR Final Rule Amendments, 73 Fed. Reg. 51164 (Aug. 29, 2008).

[4] 15 U.S.C. § 45(a).

[5] 15 U.S.C. §§ 6101-6108.

conduct in the future.[6] In addition to injunctive relief, the Commission has secured orders providing for more than $500 million in consumer restitution or, where that was not practicable, disgorgement to the U.S. Treasury. During this period, the Commission, through cases filed on its behalf by the U.S. Department of Justice,[7] has obtained civil penalty orders totaling nearly $24 million.

**B. The FTC Enforces the Do Not Call Registry**

To prevent telemarketers from making unwanted intrusions into the privacy of consumers' homes, the Commission amended the TSR in 2003 to strengthen its privacy protection provisions by, among other things, establishing the National Do Not Call Registry.[8]

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[6] In cases involving the anti-fraud provisions of the TSR, the Commission typically seeks and obtains *ex parte* temporary restraining orders ("TROs") halting defendants' illegal practices and freezing their assets for eventual restitution to defrauded consumers. In cases involving solely DNC and other privacy protection provisions of the TSR, the Commission generally seeks to negotiate a settlement before filing a complaint. In both anti-fraud and privacy protection TSR cases, however, the ultimate resolution is a permanent injunction with strong conduct prohibitions and consumer restitution or civil penalties, depending on the facts of the case.

[7] Civil penalty actions are filed by the Department of Justice ("DOJ") on behalf of the FTC. In general, under the FTC Act, the Commission must notify the Attorney General of its intention to commence, defend, or intervene in any civil penalty action under the Act. 15 U.S.C. § 56(a)(1). DOJ then has 45 days, from the date of the receipt of notification by the Attorney General, in which to commence, defend or intervene in the suit. *Id.* If DOJ does not act within the 45-day period, the FTC may file the case in its own name, using its own attorneys. *Id.* The Commission supports legislation that would expand the agency's independent litigating authority to allow the FTC to bring actions for civil penalties in federal court "in its own name by any of its attorneys" without requiring that DOJ have the option to litigate on the FTC's behalf. Federal Trade Commission Reauthorization Act of 2008, S. 2831, 110th Cong. § 3(1) (2008).

[8] The FTC promulgated the DNC provisions and other substantial amendments to the TSR under the express authority granted to the Commission by the Telemarketing Act. Specifically, the Telemarketing Act mandated that the rule – now known as the TSR – include prohibitions against any pattern of unsolicited telemarketing calls "which the reasonable consumer would consider coercive or abusive of such consumer's right to privacy," as well as restrictions on the hours unsolicited telephone calls can be made to consumers.

Consumers have registered more than 168 million telephone numbers since the Registry became operational in June 2003 and DNC has been tremendously successful in protecting consumers' privacy from unwanted telemarketing calls. A Harris Interactive® Survey conducted in October 2007 showed that 72 percent of Americans have registered their telephone numbers on the National Do Not Call Registry, and that more than 90 percent of those who registered their numbers report fewer unwanted telemarketing calls.[9] Many registrants (nearly 20 percent) report that they get no telemarketing calls at all. Discussing the effectiveness of Do Not Call just one year after the inception of the program, the chairman of The Harris Poll, Harris Interactive, stated, "In my experience, these results are remarkable. It is rare to find so many people benefit so quickly from a relatively inexpensive government program."[10] Similarly, an independent survey by the Customer Care Alliance[11] demonstrates that the Registry has been an effective means for consumers to limit unwanted telemarketing calls.[12]

While the Commission appreciates the high rate of compliance with DNC, it vigorously enforces compliance to ensure the program's ongoing efficacy. Violating DNC subjects telemarketers to civil penalties of up to $11,000 per violation.[13] The Commission has brought 43

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[9] Harris Interactive, *National Do Not Call Registry: Seven In Ten Are Registered And All Of Them Will Renew Their Registration* (October 31, 2007), http://www.harrisinteractive.com/harris_poll/index.asp?PID=823).

[10] Quote from Humphrey Taylor, Press Release, FTC, Compliance with Do Not Call Registry Exceptional (Feb. 13, 2004), http://www.ftc.gov/opa/2004/02/dncstats0204.shtm.

[11] Customer Care Alliance is a consortium of companies involved in customer service, dispute resolution, and related activities. *See* www.ccareall.org.

[12] *See* Customer Care Alliance, *National Do Not Call Study Preliminary Findings* (June 2004).

[13] As noted above, DOJ files civil penalty actions on behalf of the FTC. The Commission's ability to protect consumers from unfair or deceptive acts or practices would be

telemarketing cases[14] alleging Do Not Call violations or unlawful call abandonment. Thirty-three of these cases have been resolved, resulting in court orders requiring total payment of nearly $16.7 million in civil penalties and $10.8 million in redress or disgorgement.

One example of the Commission's vigorous enforcement of DNC is its recent law enforcement crackdown on seven companies accused of violating the requirements of the National Do Not Call Registry.[15] Last November, the Commission announced six settlements that collectively imposed nearly $7.7 million in civil penalties along with an additional complaint for civil penalties against a company marketing financial products. More recent examples of the Commission's enforcement of the DNC provisions include consent agreements announced this past July with two companies that telemarket Dish Network satellite TV subscriptions, settling charges that they called consumers whose telephone numbers were on the National Do Not Call Registry.[16] Additionally, in May of 2008, the Commission announced the

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substantially improved by legislation, all of which is currently under consideration by Congress, that provides the agency with civil penalty authority in the areas of data security, telephone records pretexting, and spyware, similar to that provided under the Telemarketing Act. Civil penalties are important in these areas because the Commission's traditional remedies, including equitable consumer restitution and disgorgement, may be impracticable or not optimally effective in deterring these particular unlawful acts.

[14] These DNC cases are included in the more than 265 TSR cases noted above.

[15] http://www.ftc.gov/opa/2007/11/dncpress.shtm.

[16] *U.S.A. v. Planet Earth Satellite, Inc.*, No. 2:08-cv-1274-PHX (N.D. Tex. 2008); *U.S.A. v. Star Satellite, LLC*, No. 2:08-cv-00797-RLH-LRL (D. Nev. 2008). The latter consent agreement also settled charges that the defendants abandoned calls by conducting "voice blasting" campaigns that delivered prerecorded messages in cold calls to thousands of consumers. As part of its privacy protection, the TSR prohibits call abandonment – defined as failing to connect a call answered in person (not by an answering machine or service) with a live sales representative within two seconds of the person's completed greeting. 16 C.F.R. § 310.4(b)(iv). Voice blasting – telemarketing campaigns that deliver only prerecorded messages – violates this prohibition. *See* http://www.ftc.gov/opa/2008/07/dishtm.shtm.

filing of five complaints against telemarketers engaged in allegedly deceptive practices. These cases also charged the defendants with violating the DNC provisions of the TSR.[17]

**C. The FTC Conducts Telemarketing Fraud Sweeps**

A key feature of our telemarketing fraud law enforcement program is partnering with other law enforcement agencies whenever possible to leverage resources and protect American consumers from fraudulent telemarketers. The agency coordinates with various law enforcement partners to bring law enforcement "sweeps" – multiple simultaneous law enforcement actions – that focus on specific types of telemarketing fraud.[18] The agency also works to promote joint filing of telemarketing actions with state enforcers.

Another recent illustration of the agency's robust enforcement program is "Operation Tele-PHONEY" – the largest law enforcement sweep of the telemarketing industry ever coordinated by the FTC. Four months ago, together with the U.S. Department of Justice, the

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[17] *See* http://www.ftc.gov/opa/2008/05/telephoney.shtm.

[18] The following is a sampling of some of the sweeps that the FTC and its law-enforcement partners have conducted over the past several years: "Dialing for Deception" http://www.ftc.gov/opa/2002/04/dialing.shtm (a sweep by the FTC that targeted telemarketing fraud in connections with in-bound telephone calls); "Ditch the Pitch" http://www.ftc.gov/opa/2001/10/ditch.shtm (a sweep targeting fraudulent out-bound telemarketing brought by the FTC and 6 states); "Operation No Credit," http://www.ftc.gov/opa/2002/09/opnocredit.shtm (43 law enforcement actions, including criminal indictments, targeting a wide range of credit-related frauds brought by the FTC, the DOJ, the U.S. Postal Inspection Service, and 11 state and local authorities); "Operation Protection Deception" http://www.ftc.gov/opa/2000/10/protectdecpt.shtm (a sweep against telemarketers of fraudulent "credit card protection" services with extensive assistance from 5 states and the Federal Bureau of Investigation ("FBI")); "Senior Sentinel" http://www.ftc.gov/opa/1995/12/sen.shtm (a sweep targeting telemarketers who defraud the elderly coordinated by the DOJ and FBI, with 5 civil cases brought by the FTC, that led to hundreds of arrests and indictments across the country); "Project Telesweep" http://www.ftc.gov/opa/1995/07/scam.shtm (nearly 100 cases filed by the FTC, DOJ and 20 states targeting business opportunity fraud often promoted through slick telemarketing).

U.S. Postal Inspection Service, 25 state attorney general offices and other state and local agencies, and Canadian authorities, the Commission announced more than 180 civil and criminal law enforcement actions targeting illegal telemarketing.[19] Contemporaneous with the announcement of these law enforcement actions, the FTC also announced "Who's Calling," a new consumer education campaign designed to help individuals identify telephone fraud and report such fraud to the FTC.

With Operation Tele-PHONEY, the Commission filed thirteen new actions against telemarketers alleging deceptive practices in violation of the TSR and Section 5 of the FTC Act. In many cases, the FTC also alleged abusive telemarketing practices including violations of the DNC provisions of the TSR. The Commission charged that these telemarketing defendants employed a variety of deceptive techniques to get consumers' money. Some allegedly misrepresented the usefulness of the products they hawked; others told consumers they had won or would receive some "free" products; and still others asserted they were calling from a trusted source, such as an entity affiliated with the government, a financial institution, or even a charity.

The vast majority of the Operation Tele-PHONEY cases were filed against telemarketers operating in the United States. For example, as part of the 2008 telemarketing sweep, the Florida Department of Agriculture and Consumer Services visited more than 100 telemarketing rooms located in five Florida counties. Of the 74 civil actions brought by state Attorney General's offices, approximately 70 were filed against domestic telemarketing entities.

Actions against fraudulent telemarketers operating abroad and targeting American consumers can pose significant law enforcement challenges because assets and evidence are

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19 http://www.ftc.gov/opa/2008/05/telephoney.shtm.

beyond the jurisdiction of United States courts. The Commission has worked to develop and maintain partnerships with Canadian law enforcement agencies, such as Canada's Bureau of Competition and various other law enforcement agencies.[20] Through these partnerships, agency staff share information and assist each other in law enforcement investigations and litigation. With Operation Tele-PHONEY the Commission announced several actions against foreign telemarketers that were brought by Canadian agencies.[21] As a further example of the close cooperation with its Canadian partners, the FTC benefitted from the assistance of a Senior Investigator from Canada's Competition Bureau who was assigned to work at FTC headquarters for several weeks on Operation Tele-PHONEY.

In addition, the agency recently entered into a Memorandum of Understanding with the Department of Justice's Office of Foreign Litigation designed to assist the Commission in obtaining evidence and assets located abroad. Made possible by the SAFE WEB Act, this is an important initiative that will further the Commission's ability to get monetary relief for American consumers who were defrauded by scam artists operating from other countries.

### D. The FTC Refers Cases for Criminal Prosecution

Although the Commission does not have criminal law enforcement authority, it recognizes the importance of criminal prosecution to buttress deterrence and consumer confidence. Accordingly, the Commission routinely refers matters appropriate for criminal

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[20] The Commission participates in various partnerships, including the Toronto Strategic Partnership, Project COLT (Centre of Operations Linked to Telemarketing), Project Emptor, the Alberta Partnership, the Vancouver Strategic Alliance, and the Atlantic Partnership.

[21] The press release announcing Operation Tele-PHONEY includes links to charts listing all actions taken as part of the sweep. *See* http://www.ftc.gov/opa/2008/05/telephoney.shtm.

prosecution to federal and state prosecutors through its Criminal Liaison Unit. Since October 1, 2002, federal and state criminal authorities have charged 271 persons with crimes involving telemarketing fraud arising from acts investigated or prosecuted by the Commission. Of those 271 persons charged, 165 were convicted or pleaded guilty. The rest are awaiting trial, are in the process of extradition from a foreign county, or are fugitives from justice.

**E. The FTC Pursues Third Parties That Facilitate Telemarketing Fraud**

Telemarketers' deceptive and abusive practices often are aided or made possible by third parties such as list brokers who sell personal information about consumers to shady telemarketers, or by unscrupulous payment processors, who enable fraudulent telemarketers to reach into consumers' bank accounts.

List brokers can play an important role in facilitating telemarketing fraud. The FTC has brought a number of cases challenging the sale of such databases to fraudulent telemarketers. In December 2007, the FTC sued one such information broker, Practical Marketing, Inc., charging that it assisted telemarketers by selling "full data leads" – lists that include a consumer's financial account numbers – to telemarketers perpetrating advance-fee loan scams in violation of the TSR.[22] To halt this operation, the FTC joined forces with the U.S. Postal Inspection Service and the United States Attorney's Office for the Southern District of Illinois, which brought federal criminal charges against Practical Marketing for identity theft. In addition to

[22] *FTC v. Practical Marketing, Inc.*, No. 3:07 cv-00685 JPG-DGW (N.D. Ill. 2007), http://www.ftc.gov/opa/2007/10/listbrokers.shtm.

bringing cases against list brokers,[23] the FTC seeks orders against telemarketing defendants to ban or severely restrict them from selling, renting, leasing, transferring, or otherwise disclosing their customer lists.

The FTC also has targeted other third-party actors such as payment processors, without whose assistance telemarketers would not be able to gain access to consumers' bank accounts.[24] Generally, the FTC has alleged that these payment processors knew or consciously avoided knowing that they were facilitating fraudulent telemarketing operations in violation of the TSR,[25] and, where appropriate, also has alleged direct violations of Section 5 of the FTC Act. A case announced with Operation Tele-PHONEY against Your Money Access, LLC ("YMA"), a payment processor, provides a recent illustration of the Commission's enforcement in this area.[26]

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[23] In 2002, the FTC sued three other information brokers that allegedly knew or consciously avoided knowing that they supplied lists of consumers to telemarketers acting in violation of the TSR. The FTC charged that Listdata Computer Services, Inc., Guidestar Direct Corporation, and NeWorld Marketing LLC knowingly supplied lists to telemarketers that were engaging in per se violations of the TSR. The orders obtained by the FTC permanently barred the list brokers from providing lists to telemarketers engaging in illegal business practices and required them to pay nearly $200,000 combined in consumer redress. *FTC v. Listdata Computer Services, Inc.*, No. 04-61062 (S.D. Fla., stipulated final order entered Aug. 17, 2004); *FTC v. Guidestar Direct Corp.*, No. CV04-6671 (C.D. Cal., stipulated final order entered Aug. 13, 2004); *FTC v. NeWorld Marketing LLC*, No. 1:04cv159 (W.D. N.C., stipulated final order entered Aug. 12, 2004); *see also* http://www.ftc.gov/opa/2004/08/guidestar.shtm.

[24] *See, e.g., FTC v. Global Marketing Group, Inc.*, No. 8:06CV- 02272 (JSM) (M.D. Fla., filed Dec. 11, 2006) (litigation ongoing); *FTC v. First American Payment Processing, Inc.*, No. CV-04-0074 (PHX) (D. Ariz, stipulated final order entered Nov. 23, 2004); *FTC v. Electronic Financial Group*, No. W-03-CA-211 (W.D. Tex., stipulated final order entered Mar. 23, 2004); *FTC v. Windward Marketing, Ltd.*, No. 1:06-CV-615 (FMH) (N.D. Ga., stipulated final order against certain payment-processors entered June 25, 1996, summary judgment order against remaining payment-processors entered Sept. 30, 1997).

[25] 16 C.F.R. § 310.3(b).

[26] *FTC, State of Illinois, State of Iowa, State of Nevada, State of North Carolina, State of North Dakota, State of Ohio, and State of Vermont v. Your Money Access, LLC*, No. 07

In this case, the Commission joined forces with seven state attorneys general to sue the payment processor, charging that YMA took millions of dollars from consumers' bank accounts on behalf of fraudulent telemarketers and Internet-based merchants. The complaint alleged that by providing access to the banking system and the means to extract money from consumers' bank accounts, the defendants played a critical role in their clients' fraudulent and deceptive schemes.[27]

## II. H.R. 1776

This section discusses four aspects of the bill that raise concerns. First, the bill's underlying purpose is to provide members of the public with a way to know when they are dealing with an overseas call center. As currently drafted, however, the obligation to disclose physical location would apply broadly to all entities that have telephone contact with consumers, whether operating in the United States or abroad. This would likely include local pizza parlors, flower shops, or even doctors' offices. To reduce unnecessary compliance burdens upon domestic entities that do business by telephone, the disclosure requirement could be tailored more precisely to apply only to call centers operating outside the United States.[28]

The second issue is ambiguity in a key definition that delimits the bill's scope of coverage. Specifically, the term "call center" is defined in Section 2(d) of the bill as "a location

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5147 (E.D. Pa. 2007). *See also* http://www.ftc.gov/opa/2007/12/yma.shtm.

[27] Another recent case against a payment processor is *FTC v. Interbill*, No. 2:06-CV-01644-JCM-PAL (D. Nev., filed Dec. 26, 2006).

[28] Similarly, the requirement, in Section 2(a) of the bill, to disclose "the physical location" of sales or service representatives handling calls would likely be less burdensome and more effective in achieving its intended purpose if it required the disclosure of only the city and country in which those representatives are working.

that provides customer-based service and sales assistance or technical assistance and expertise to individuals located in the United States via telephone, the Internet, or other telecommunications and information technology." It is unclear whether the reference to the Internet is intended to bring within the bill's scope all on-line transactions, including on-line service assistance. Resolution of this ambiguity would facilitate enforcement of the bill, if enacted, and would also help those entities potentially subject to the bill's requirements to understand what they must do to comply.

Third, the requirement in Section 2(b) of the bill for annual certification by every U.S. corporation or subsidiary that "utilizes a call center to initiate telephone calls to, or receive telephone calls from, individuals located in the United States" represents a potentially costly burden for any agency tasked with enforcement of this bill. Additionally, as drafted, the bill provides no apparent enforcement mechanism for failure to comply with the certification requirement.

Fourth, jurisdictional issues could significantly complicate FTC enforcement of this bill's requirements. As noted above, the proposed legislation would impose disclosure burdens on all entities that communicate with consumers by means of a call center. The entities that currently utilize call centers overseas – presumably the key concern of this bill – include depository institutions, airlines, and insurance companies, among others. Under the FTC Act, the FTC has limited or no jurisdiction over many of these large users of overseas call centers. Moreover, the Commission would encounter significant practical, legal, and logistical problems enforcing this bill against overseas call centers, and would not be able to reach the exempt U.S. entities that engage those third-party overseas call centers. The Committee might want to consider assigning enforcement of this bill to an agency without these jurisdictional challenges. Importantly, it should also be noted that the FTC's expertise derives from its enforcement against "unfair or deceptive acts or practices" under Section 5 of the FTC Act and related regulations. As described above, that experience is broad and robust but does not touch upon the kinds of labor and foreign trade issues that are at the heart of H.R. 1776. An agency well-versed in labor and foreign trade issues would likely be better suited than the FTC to administer and enforce H.R. 1776.

## III. Conclusion

The Commission would be happy to provide further assistance as may be relevant in the drafting of this legislation to achieve the result that best serves the public interest. The Commission will continue to enforce vigorously the laws that protect American consumers from fraud and from unwanted telemarketing calls, and looks forward to working with the Committee as it considers H.R. 1776.

Ms. SCHAKOWSKY. Thank you.
Jeffrey Rechenbach now.

**STATEMENT OF JEFFREY RECHENBACH, EXECUTIVE VICE PRESIDENT, COMMUNICATION WORKERS OF AMERICA**

Mr. RECHENBACH. Thank you, Chairman Schakowsky, Ranking Member Whitfield and subcommittee members for the opportunity to testify before you today in support of H.R. 1776, the Call Center Consumer's Right to Know Act, introduced by Congressman Jason Altmire. My name is Jeff Rechenbach. I represent the 600,000 active members of the Communications Workers of America, or CWA, and I have asked that my written testimony be entered into the record.

CWA represents 150,000 customer service workers across our Nation. Customer service workers are professionals who want to provide quality service and have the opportunities for secure careers. That desire is being undermined by a race to the bottom and the outsourcing of customer service work. The Call Center Consumer's Right to Know Act is bipartisan and simple. It seeks to improve the level of customer service American consumers receive while creating good-paying jobs. It simply gives consumers the right to know the location of the call center and the representative with whom they are speaking. I believe the legislation could be improved if consumers were able to request that they be transferred to an American-based call center if they so desire.

I would not criticize the abilities or the work ethic or the character of call center workers in other countries or demean their cultures in any way. In fact, through our international union brothers and sisters, we established a worldwide Customer Service Professional Week and it is the first week of October this year. In our view, any fault found with the quality of outsourced customer service work is simply the result of poor management practices and the difficulties with supervision and accountability when operations are subcontracted. It is a product of the race to the bottom where outsourcing favors cutting costs over quality service.

Recently, through collective bargaining, CWA and AT&T reached an agreement to bring back from offshore 5,000 call center jobs. This was a win-win. However, with low coverage of collective bargaining, we should not expect that returning work from offshore and eliminating subcontracting foreshadows a new trend for American workers. Too much of U.S. management is caught in the treadmill of lowering wage rates and consequently lowering quality through outsourcing.

It is estimated that 4 million Americans work in call centers. Remarkably, the Bureau of Labor Statistics does not have a category for customer service agents nor does it canvas communities to survey for wages for these workers. An increase in service sector jobs would ease the pain for Americans who lost their good-paying manufacturing or textile industry jobs because of offshoring. We have lost over 3.6 million manufacturing jobs since NAFTA, according to the U.S. Bureau of Labor Statistics, and we continue to hemorrhage U.S. manufacturing jobs. While this job loss figure is staggering, forecasts regarding the number of service sector jobs that we can expect to see offshored are even more sobering. Forester Research Company estimates that the United States will lose 3.3 million service sector jobs by 2015. This number is considered by many to be a conservative estimate. In 2002, Forester attempted to estimate the number of high-tech jobs that would be offshored. By 2004, Forester had found that its estimate was 38 percent lower than what had actually happened.

Unfortunately, recent developments have exacerbated this problem. According to the U.S. Trade Representative, the American government provided more than $650 million in trade-related assistance to the signatories of the Central American Free Trade Agreement. This included money that went to education programs which taught English to future call center workers in Central America. The result has been an exodus of call center jobs. The number of call center jobs created in Costa Rica doubled to 50,000 between 2005 and 2007.

Madam Chairman, what this bill is really all about is giving American families a chance to be better consumers. Let them make the choice as to whether or not they want to spend their dollars with a company that helps sustain American communities with good-paying jobs or whether they want to look the other way on that notion. When I go to buy a shirt, I can clearly see a label telling me where it was made. The same is true with suits, shoes, most food, electronics and even cars. I can make a choice: do I want to buy a shirt made in the United States or am I OK buying one made in a foreign land. Quality, price, and land of origin should and can be part of the choice in dealing with service-based industries as well.

Madam Chairman, members of the subcommittee, thank you for holding a hearing on this important legislation, and I look forward to your questions.

[The prepared statement of Mr. Rechenbach follows:]

# Testimony Of

Jeffrey Rechenbach
Secretary-Treasurer

Communications Workers of America
Before

The Subcommittee On Commerce Trade and Consumer Protection

Of The

House Energy and Commerce Committee
Washington, DC

September 11, 2008

Communications Workers of America
501 Third St. NW
Washington, DC 20001
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Thank you Chairman Rush, Ranking Member Whitfield and Subcommittee members for the opportunity to testify before you today in support of H.R. 1776, the Call Center Consumer's Right to Know Act introduced by Congressman Jason Altmire. My name is Jeffrey Rechenbach and I represent the 600,000 active members of the Communications Workers of America (CWA). I ask that my written testimony be entered into the record.

The Call Center Consumer's Right to Know Act, is bipartisan and simple. It seeks to improve the level of customer service American consumers receive while providing well-paying jobs. It gives consumers the right to know the location of the call center and the representative with whom they are speaking. The legislation would be improved by allowing consumers to be able to request that they be transferred to an American-based call center. If demand increases then businesses will have to increase the supply of American call center jobs.

CWA represents 150,000 customer service professionals, and our members hear first-hand why many customers object to the service they receive from employers that outsource these services abroad. As one example, CWA-represented reservations agents at US Airways in North Carolina found themselves having to deal with customer complaints concerning reservations processed at outsourced call centers in Mexico, El Salvador and the Philippines. After the workers and CWA documented the issues and discussed the problems with management, US Airways brought those services back to the United States, where it realized the agents were better trained and supervised.

CWA members in telecommunications also hear about, and have to fix, problems with outsourced technical support for high-speed Internet services. After discussions with AT&T, that company also has agreed to bring back thousands of tech support jobs that had been performed in call centers abroad.

Other major companies are engaging in "reverse outsourcing" as they realize the high value-added component of customer service. Thomas Koulopoulos, author of the book "Smartsourcing," is cites Dell and Citigroup as returning call center jobs to this country to improve customer service. "There was an illusion that globalization was just about technology and world is flat because you make it flat, but that only goes so far. You have to have people close to the customer," he told ABC News recently.

I have no intention at all to criticize the abilities, or the work ethic or the character of call center workers in other countries or to demean their cultures in any way. Any fault found with the quality of outsourced customer service work is most likely the result of poor management practices, poor training, and difficulties with supervision and accountability when operations are subcontracted. It is more a product of the "race to the bottom" mentality of offshoring to begin with, a concern with cutting costs over providing quality service.

One thing we know for sure: Many Americans object to the quality of services provided by offshore contractors, and some are quite naturally worried about security issues and giving up personal financial and medical information to call center workers located in other parts of the world. Many Americans also object to supporting the exodus of good jobs overseas – especially when employers take pains to conceal the practice. These customers care about creating and keeping good middle-class jobs in America. And they have a right to know who they are dealing with when they pick up the phone for assistance.

These call center jobs are among the very jobs that supporters of the North American Free Trade Agreement (NAFTA) insisted would be created during the NAFTA debate of the early 1990's. An increase in service sector jobs was going to ease the pain for Americans who lost their well-paying manufacturing or textile industry job because of offshoring. We've lost over 3.6 million manufacturing jobs since NAFTA according to the U.S. Bureau of Labor Statistics and we continue to hemorrhage manufacturing jobs.

While this job loss figure is staggering, forecasts regarding the number of service sector jobs – the post-industrial "jobs of the future" -- we can expect to see offshored are even more sobering. Forrester Research Company estimates that the United States will lose 3.3 million service sector jobs by 2015. This number is considered by many to be a very conservative estimate. In 2002, Forrester attempted to forecast the number of high tech jobs that would be offshored. By 2004, Forrester had found that its estimate was 38% lower than what had actually happened.

In late 2003, the Fisher Center for Real Estate and Urban Economics at the University of California Berkley published *The New Wave of Outsourcing* report which estimates that as many as 14 million service sector jobs could be offshored. This estimate includes other back office functions and high tech jobs such as computer programming, engineering, legal research and data entry functions to name a few. Another firm, Gartner Inc., calculated that 25% of traditional U.S. based IT jobs will move offshore by 2010. These are daunting job loss estimates that will inflict even greater damage on America.

Unfortunately, our government has done nothing to address the loss of service sector jobs and current trade policies have made matters worse. Between 2003 and 2007, the U.S. government provided more than $650 million in trade related assistance to signatories of the Central American Free Trade Agreement (CAFTA), according to the United States Trade Representative (USTR). We understand that some of this money went to education programs which taught English to future offshore call center workers in Central America, and the result has been has spurred the loss of American call center jobs. The number of call center jobs created in Costa Rica doubled to 50,000 between 2005 and 2007. In addition, Datamonitor, a leading market research firm, expected the number of call center jobs in all of Central America to more than double between 2004 and 2008 from 336,000 to 730,000.

I could spend the rest of my time and the time allotted to my fellow witnesses talking about the negative impacts of offshoring on job creation and our battered economy. The problem is that most of these statistics are based on conservative estimates and fail to tell us the whole story. This is an area where the Federal Government has failed. The

Federal Government does not adequately track the number of jobs that are offshored leaving Congress to rely on such estimates. This is a problem which the Call Center Consumer Right to Know Act does not address. CWA welcomes the opportunity to work toward a solution with you and your colleagues in Congress.

One of the main reasons for this underreporting of jobs that are offshored has to do with the reporting requirements. Neither the U.S. Department of Labor, Bureau of Labor Statistics (BLS), nor the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) currently keeps data on such job loss.

The BLS Mass Layoff Survey contains questions on the "Economic Reasons" for layoff. Section I. *Business Demand Reasons* asks employers about layoff reasons associated with a decreasing or an unfavorable level of demand for a company's products or services that can be attributed to conventional economic factors and/or cycles. Item number 15 covers "Import Competition" It includes a range of reasons including import competition but could be expanded to specifically address job loss due to off-shoring.

Currently, service sector workers, including call center workers, do not qualify for Trade Adjustment Assistance (TAA) because they do not "produce a tangible good." CWA supports a robust TAA program that includes service sector workers with determinations being made by employees of federal and state governments.

Amending TAA reporting requirements and improving data sharing could provide another way for the government to obtain this valuable information. Congress could request that the Department of Labor Employment and Training Administration (ETA) develop an easily accessible public database that provides specific information on TAA determinations. Though this information is available on each individual petition, it is not categorized or aggregated as part of the Department of Labor's report on TAA that is publicly available on the DOL-ETA website for the Trade Adjustment Assistance Program.

Another useful tool in collecting this data would be to improve the Worker Adjustment and Retraining Notification Act (WARN). Presently, WARN regulations do not require that information on mass layoffs or plant closings provided to the state dislocated worker unit and to the chief elected official of the unit of local government contain any details on the nature of the dislocation. The WARN act has been severely weakened over the years. We urge Congress to improve WARN so as to improve the reporting of jobs offshored and data sharing between the federal and state governments.

Mr. Chairman, I would like to read from a "Dear Colleague" letter circulated by Congressman Jason Altmire (D-PA) and Congressman Tim Murphy (R-PA) on April 1, 2008. "As commerce is conducted more and more over fiber optic cables and telephone lines, Americans have lost the comfort and security of knowing with whom they are dealing." These two members of Congress raise an important point regarding the American consumer and security.

Congress has worked diligently over the years in its effort to address identity theft. We've all seen the stories in the news about information being taken from misplaced disks or laptops and the massive efforts to prevent identity theft and financial harm to the people whose information was accessed illegally. These victims had no power to say that they weren't comfortable with their personal information being stored in this manner. The Call Center Consumer Right to Know Act provides consumers with the power to say with whom they're comfortable sharing their personal information.

Consumers have the right to know who they are talking to. Many companies do not operate their own customer sales and service operations, but contract with a third party call center operator to provide the service. The employees are instructed to answer the phone with the brand name they are selling or servicing, and to respond to any customer inquiry with the information that they are employees of the company selling that brand. This is not accurate information.

Customers erroneously place confidence in the transaction based on the brand name and reputation of the company, when in fact this confidence is misplaced. The customer may be giving credit card information to a convicted felon taking airline reservations from a prison-based call center or be providing confidential personal data to a service representative working out of their home using their personal computer, which most likely doesn't have an adequate firewall to deter hackers from easily obtaining such confidential information.

The story by David Lazarus of the San Francisco Chronicle on April2, 2004 should serve as an omen. The story reveals what can go wrong when sensitive personal data falls into the wrong hands. He writes about an Ohio company that offshores medical files, including patient records, from several California hospitals, was the victim of an extortion attempt by its own workers in Bangalore, who threatened to reveal confidential materials unless they received a cash payoff. He also writes about a security breach and threat received by UCSF Medical center by a Pakistani woman who was transcribing the files for the Bay Area hospital.

Businesses are not the only entities offshoring the personal data of American citizens. State governments have offshored personal data as well as well. According to a story written by Lori Wallach on CommonDreams.org, allegations surfaced in Ohio that the state had sent birth records to a company located in Sri Lanka in 2001 for processing. Pennsylvania appears to offshore the coding of police records according to a story published on April 25, 2004 by the Observer Reporter, a Pennsylvania paper. At this time, we are not sure what happened to the personal information that was offshored. We can only hope that this valuable information doesn't fall into the hands of people who have something more sinister than extortion planned.

Mr. Chairman and members of the subcommittee, thank you for holding a hearing on this important legislation and I look forward to your questions.

Ms. SCHAKOWSKY. Thank you.
Mr. Searcy.

**STATEMENT OF TIM SEARCY, CHIEF EXECUTIVE OFFICER, AMERICAN TELESERVICES ASSOCIATION**

Mr. SEARCY. Thank you, Madam Chairman and members of the committee for the opportunity to come and speak to you today on this important issue.

As CEO of the American Teleservices Association, I represent more than 2 million professionals in all aspects of customer service. The mission of the ATA is to assist in balancing the interests of consumers and legitimate business using contact centers. Consumer protection is of paramount interest to the members of the ATA. For this reason, ATA members are advised and required to conform to a strict code of ethics including compliance with federal and State laws. The ATA has also worked to create an accreditation process for contact centers including third-party audits to ensure that firms are complying with these laws and to promote best practices in compliance and consumer protection. The ATA's self-regulatory organization has received early praise from both the Federal Trade Commission and the Federal Communications Commission in public comments. It has been a pleasure to create a relationship with the FTC and Lois Greisman's office in which we are able to work together to focus on fraudulent issues in teleservices and to bring bad characters and bad actors out into the light.

As part of a very complex patchwork of Federal and State laws, many elements of disclosure already exist to inform the consumer about the individual and the company with whom they are in contact. Disclosures to comply with these laws require identification of the caller, the company engaged in the call, the purpose of the call and the nature of the goods or services. Additionally, there is a requirement to transmit the calling party number and the company name to be retrieved by a customer using caller identification technology.

The particular type of disclosure contemplated in House Resolution 1776 is a burdensome additional expense without clear benefit to the consumer. Each time additional disclosures or compliance requirements are added to a call, call lengths are increased and the cost of doing business by phone increases as well, while the quality of the interaction with the consumer declines. The rising costs of compliance and regulation are causing many firms to contemplate automation only or offshore solutions to stay cost-competitive. Currently, members of the teleservices industry can expect to pay tens of thousands of dollars annually to stay in compliance with Federal laws, but when State laws are added to the compliance regimen, costs skyrocket to over $200,000 per year. The cost of doing business is the primary impetus for choosing alternative solutions to domestic live operator contact centers. With no other financial option and in a challenging economic environment, companies are choosing overseas contact centers and automated IVR, or interactive voice response systems, to handle calls for everything from sales to service.

A term of the industry which has frequently been seen in print is "rightsourcing." Because firms have taken a broader view of the customer relationship and the economics which govern profitability, companies have begun to very carefully select which locations are best suited for various types of customer interaction. It is with no small irony that we are beginning to see companies from Spain, France and Australia choose U.S. contact centers to handle calls on their behalf because of both the expertise and the labor costs.

I would like to offer two options to requiring location disclosure at the beginning of the call. The ATA believes that a reduction in overall compliance costs could be a means to make domestic contact centers even more affordable. Exclusive federal jurisdiction alone could reduce the costs to industry by an estimated $200 million or more per year and make onshore solutions more desirable. By creating one set of laws, firms would no longer have to manage an impossible patchwork of overlapping and sometimes contradictory rules.

Secondly, I agree with Mr. Rechenbach: Consumers should have a choice to know the location of a company's contact center if they are interested. If you want to find out where goods and services have been purchased, if you want to know where something has been made, you can look at the label to determine, but that is your choice, that is something that you take interest in. No federal law currently exists which mandates that an entity disclose a contact center's location upon request. The American Teleservices Association's SRO requires firms that seek accreditation as best practices providers to disclose their location when asked. The ATA would be very supportive of turning this practice into law.

In summary, profitability of the contact center industry is highly dependent upon efficiency and the amount of time spent on the phone with consumers. Additional and unnecessary disclosures during a call increase the amount of time spent per call and reduce the number of people that can be reached and/or calls that can be handled during a given period of time. Also, creating an unnatural communication at the start of the call will only deteriorate the consumer experience by creating a robotic interaction when they are seeking to relate to a human being.

Prior to any change in federal law, adequate investigation and study needs to be done to determine the appropriate course of action. ATA believes current disclosures required by the TSR and the TCPA are adequate for contact centers to conduct business effectively while keeping consumers informed of their rights. However, the consumer has the right to know upon request the location of their call center.

Thank you for the opportunity to voice our opinion and testify.

[The prepared statement of Mr. Searcy follows:]

ATA

American Teleservices Association

**COMMENTS OF AMERICAN TELESERVICES ASSOCIATION (ATA) FOR CONSIDERATION BY THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON ENERGY AND COMMERCE SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION SEPTEMBER 11, 2008 HEARING ON ECONOMIC AND SECURITY CONCERNS IN TOURISM AND COMMERCE.**

**September 11, 2008**

**Introduction:**

Mr. Chairman, and members of the committee, thank you for the opportunity to attend and testify at this hearing on economic and security concerns in tourism and commerce. My name is Tim Searcy, and as the CEO of the American Teleservices Association (ATA), I represent nearly 5,000 contact centers employing more than two million professionals involved in all aspects of customer service, including inbound and outbound contact centers, which provides the communication link to the American consumer, leveraged by every major corporation in our country. Our association represents contact center employees and all employees supporting this important consumer service point for all markets in our economy. Our members use the contact center as the primary service point to deliver consumer support in the form of telephone, internet and email communication involving sales inquiries and service. The mission of the ATA is to assist in balancing the interests of consumers and legitimate businesses using contact centers to promote the public interest.

ATA applauds this Subcommittee for taking on the overwhelming, but vitally necessary task of consumer protection. Our comments are offered from the perspective of the nation's contact center industry, but are, in most instances, equally relevant to the broader U.S. business community with international operations.

**Comments:**

Consumer protection is of paramount interest to the members of the ATA. For this reason, ATA members are advised and required to conform to a strict code of ethics including compliance with federal and state laws. The ATA has also worked to create an accreditation process for contact centers including third party audits to insure that firms are complying with these laws and to promote best practices in compliance and consumer protection. The ATA's Self-Regulatory Organization has received early praise from both the Federal Trade Commission (FTC) and the Federal Communication Commission (FCC) in their public comments regarding the direction of the teleservices channel and its alignment to meet consumer needs.

As part of a very complex patchwork of federal and state laws, many elements of disclosure exist to inform the consumer about the individual and entity with whom they are in contact. Depending upon industry and jurisdictional mandate, contact centers are either subject to the federal Telephone Consumer Protection Act (TCPA) or the Telemarketing Sales Rule (TSR), or in some cases both. Disclosures to comply with these laws require identification of the caller, the entity engaged in the call, the purpose of the call, and the nature of the goods or services. Additionally, there is a requirement to transmit the calling party number and the company name to be retrieved by a customer using caller identification technology. Depending upon which state a call is being taken from or made to, there are a host of other specific disclosures which are required at the beginning of the call, at the time of a sales transaction, and at the conclusion of the call.

The particular type of disclosure contemplated by H.R. 1776 is a burdensome additional disclosure without clear benefit to the consumer. Each time additional disclosures or compliance requirements are added to the call, call lengths are increased, and the cost of doing business by phone increases and the quality of the interaction with the consumer declines. The rising costs of compliance and regulation are causing many firms to contemplate automation only, or offshore solutions to stay cost competitive.

Currently, members of the teleservices industry can expect to pay tens of thousands of dollars annually to stay in compliance with federal laws, but when state laws are added to the compliance regimen, costs skyrocket to over $200,000 per year. The cost of doing business is the primary impetus for choosing alternative solutions to domestic live operator contact centers. With no other financial option, and in a challenging economic environment, companies are choosing overseas contact centers and automated Interactive Voice Response (IVR) systems to handle calls for everything from sales to service.

Offshore contact centers as a source of inexpensive labor have been a choice for over twenty years. However, five years ago, the industry saw a substantial increase in the use of offshore contact centers as the federal Do Not

Call list and a surplus of state laws came into effect. In the last two years, with a weakening dollar and increased attention to customer relationships, the contact centers that have previously shifted operations overseas are now returning. Although many would claim that this is a natural byproduct of unsatisfactory service, the facts do not bear this out. In reality,w the free market and natural forces have created this change.

A term of the industry which has appeared frequently in print, is "rightsourcing". In short, the concept is that the customer type, type of call for sales or service, and location of the personnel are intertwined with profitability and long-term customer satisfaction. Because firms have taken a broader view of the customer relationship and the economics which govern profitability, companies have begun to very carefully select which locations are best suited for various types of customer interaction. It is with no small irony, that we are beginning to see companies from Spain, France, and Australia choose U.S. contact centers to handle calls on their behalf because of both expertise and labor costs.

**Options:**

There are a number of options to requiring location disclosure at the beginning of the call. The ATA believes that a reduction in overall compliance costs could be a means to make domestic contact centers even more affordable. The House has within its power the ability to declare that the FCC has exclusive jurisdiction over interstate calling. Exclusive federal jurisdiction alone could reduce the costs to industry by an estimated $200 million or more per year and make onshore solutions more desirable. By creating one set of laws, firms would no longer have to manage to an impossible patchwork of overlapping and sometimes contradictory rules.

A second option would be to conduct a more comprehensive study of the costs and benefits of creating location disclosure. No substantive information is available to determine what trends exist, and it is quite possible this legislation is unwarranted and unneeded. Companies have proven time and again that they will make choices in order to do a better job of securing customers and keeping those customers. It is important to know whether the marketplace is being responsive and balanced in its approach to customer satisfaction and to allow free market forces an opportunity to demonstrate self control. A study of this issue could certainly substantiate the current speculation.

Finally, consumers should have a choice to know of the location of a company's contact center if they are interested. No federal law currently exists which mandates that an entity disclose a contact center's location upon request. The American Teleservices Association Self-Regulatory Organization requires firms that seek accreditation as best practices providers to disclose their location when asked. The ATA would be very supportive of turning this practice into law.

**Summary:**

In summary, profitability of the contact center industry is highly dependent upon efficiency and the amount of time spent on the phone with consumers. Additional and unnecessary disclosures during a call increases the amount of time spent per call and reduces the number of people that can be reached and/or calls that can be handled during a given period of time. Also, creating unnatural communication at the start of a call will only deteriorate the consumer experience by creating a robotic interaction when they are seeking to relate to a human. Prior to any change in federal law, adequate investigation and study needs to be done to determine the appropriate course of action.

ATA believes the current disclosures required by the TSR and TCPA are adequate for contact centers to conduct business effectively while keeping consumers informed of their rights. However, the consumer has the right to know, upon request, the location of a call center.

Thank you for the opportunity to voice our opinion and testify before this committee.

Ms. SCHAKOWSKY. Thank you.

Dr. David Butler.

**STATEMENT OF DAVID L. BUTLER, DIRECTOR, CALL CENTER RESEARCH LABORATORY, UNIVERSITY OF SOUTHERN MISSISSIPPI; EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF CALL CENTERS**

Dr. BUTLER. Thank you, Madam Chairman and members of the committee. I am not going to read from anything because I will put everyone to sleep. I would like to make a couple of points.

My background is as an academic and I collect data on the call center/contact center industry and I would like to bring some baseline facts to bear since this bill is talking about jobs. Number one is, the United States government and its entities do not do a good job of collecting information on this industry. At present, the S.I.C. code and the N.A.I.C.S. code associated with this industry both collect improper and wrong information on this industry, so relying on those two pieces of data collection, you get an inaccurate count of the contact and call center industry in the United States. Number two, to even get a remotely good count, you have to go to the Bureau of Labor Statistics occupational code, and even within there you have to consolidate eight separate codes to be able to get even a decent resolution of what is happening in this industry.

In that vacuum, we started collecting data on the number of call centers open, closed, expanded, adding jobs and contracting in the United States since 2002 to the present. Right now, if you consolidate all those years, the United States has gained over 87,000 jobs in the call center industry. Only one year, 2003, was there a net loss in jobs. So as a starting point, we need to understand that this is a net job gain industry in the United States.

Within the United States, we track 11 subsectors in this industry. Only one of those sectors, the reservation distribution sector, is actually losing jobs and that is losing jobs both in the United States and near shore and offshore and that is because of technology changes. Whenever I booked my flight out here, I purchased it online. I printed my boarding pass this morning from the hotel. I didn't talk to a call center operator or reservation person. Those jobs have been lost to technology more than they have been lost to offshore operations.

The last two issues I would like to make are regarding the bill itself. At present, the way the bill is written for disclosure, I think it will have minimal impact on the call center industry. By disclosing where someone's geographic location is, I believe consumer choice of making a choice of offshore or not offshore, that was something that would probably been more effective about a decade ago when this was a more sensitive topic. If the bill were changed to actually have a request to move to an American operator or American customer service representative, I think that would have more significant impact, but the unintended consequence of potentially moving jobs offshore, especially from U.S. third-party providers that own and operate call centers offshore is significant, so I think there are some repercussions on the negative side that need to be examined before we move forward. Thank you.

[The prepared statement of Dr. Butler follows:]

David L. Butler, Ph.D.
Director
The Call Center Research Laboratory
The University of Southern Mississippi
and
Executive Director
The National Association of Call Centers
A Not-for-Profit Membership Organization
Serving the Call Center Industry

Testimony before the Subcommittee on Commerce, Trade, and Consumer Protection of the Committee on Energy and Commerce
Hearing Titled "Economic and Security Concerns in Tourism and Commerce: H.R. 3232 and H.R. 1776"

Thursday, September 11, 2008

Microsoft Office Word 2003

**Summary**

- Good and reliable data on the US call center industry is difficult to come by and reports in news periodicals distort the reality of the call center industry.
- The call center industry within the United States is a total growth industry from 2002-2008.
- Only one call center industry sector is in decline and that is in decline within the US and overseas both and is due to technological changes rather than inexpensive labor overseas.
- As presently written H.R. 1776 will have limited impact on the call center industry.
- The impact that H.R. 1776 will have will be narrowly focused to US owned 3rd party outsource providers with offshore operations.
- If H.R. 1776 adds in the requirement requiring the option to be transferred to an American call center agent the impacts will be larger but still mainly targeted to the US owned 3rd party outsource providers with offshore operations.

**Introduction and Background**
My testimony is embedded with twelve years of academic research on the call center industry. At present I am a tenured Associate Professor and Director of the Call Center Research Laboratory at The University of Southern Mississippi. We are the only academically linked call center research lab in the country. My other hat is as Executive Director of the National Association of Call Centers (NACC) a not-for-profit organization serving the call center industry with valuable data and research emerging from the university's Call Center Research Laboratory. For a complete listing of research and publication items, as well as my biography, please see the final sections of this testimony.

The goal for this testimony is to educate and inform the committee members on the call center industry generally, especially as it relates to labor and jobs within the United States, and to offer opinions and insights into how the proposed H.R. 1776 Call Center Consumers' Right to Know Act will influence the call center industry if passed into law.

**Terminology**
Call centers go by various names in the industry. For the purposes of this testimony I will use the term "call center" to capture all terms such as contact center, customer interaction center, customer service center, and the like. Generally speaking, call centers are centralized locations with 10 or more people who primarily transact business via the telephone and/or the internet whether is it business to business (B2B) or business to consumer (B2C).

**Call Center Data**
There are many misconceptions about the call center industry that need to be addressed. Many of these misconceptions are the product of faulty reporting by leading publications and then taken up as "fact" by readers and decisions made from this source. A challenge associated with the call center industry and its data is that at present the US Government does not collect hard and reliable data on this industry as they do with other sectors. The current S.I.C. and N.A.I.C.S. call center codes do not capture the majority of the call centers in the country due to the methodology associated with data collection. This researcher worked with the US Economic Census several years ago to review their N.A.I.C.S. call center code and methodology to find that they were only capturing outbound telemarketers which at one time constituted approximately 15% of the total call center industry and has now been reduced to less than 10% following the "Do Not Call" legislation. Moreover, the Bureau of Labor Statistics captures a large number call center employees, but to find this data the researcher has to aggregate eight separate occupation codes. Given the complexities with finding good data and information on the call center industry it is not surprising that there is poor information reported about the industry.

Often journalists will write a story using the faulty S.I.C. or N.A.I.C.S. codes or take one or two actions of a call center closing and laying off employees to extrapolate to a national industry trend. This is both poor and inaccurate research.

To fill this vacuum of good and reliable data, the researcher began to collect and track the openings, closings, expansions, and contractions of call centers within the United States in 2002. This job was then handed over to the Call Center Research Laboratory in 2004 upon its formation. Below is a listing of the number of call centers opened and closed by year and the number of jobs gained and lost by year. Though this is not a complete data set, it is one of the best in the industry. It reflects between 50-75% of all call center activity within the United States (Table 1).

| Year | Openings | Closings | Expansions | Contractions | Jobs Gained | Jobs Lost | Difference |
|---|---|---|---|---|---|---|---|
| 2002* | 9 | 9 | 8 | 3 | 4,222 | 2,133 | 2,089 |
| 2003 | 36 | 60 | 22 | 9 | 13,491 | 14,421 | -930 |
| 2004 | 45 | 36 | 12 | 6 | 14,399 | 12,314 | 2,085 |
| 2005 | 121 | 60 | 29 | 5 | 47,940 | 13,797 | 34,143 |
| 2006 | 110 | 86 | 31 | 5 | 38,786 | 23,717 | 15,069 |
| 2007 | 125 | 62 | 31 | 5 | 42,930 | 13,809 | 29,121 |
| 2008* | 25 | 16 | 9 | 3 | 8,647 | 3,068 | 5,579 |
| **Totals** | **471** | **329** | **142** | **36** | **170,415** | **83,259** | **87,156** |

*Denotes partial year

Source: The Call Center Research Laboratory and the National Association of Call Centers

There is an important note about this data. This data measures the change or volatility in call centers, not all call centers. If a call center located in a particular town or city prior to the year 2002 and has stayed in that location, serving customers, without a change, it would not be captured in this data since it did not do something new. It is believed that the majority of the call centers within the United States fall into this category.

When a call center closes, people often jump to the conclusion that all of the jobs are going overseas to India. This is not necessarily the case. Call centers close for many reasons including the loss of a contract, declining sales of a product line, a new technology, self-service technologies, and loss of these jobs to another labor market within the US. Examining the opening and closing data for six years it is clear that a large percentage of lost call centers jobs in the US is not a movement from the US to overseas, which does happen as well, but a movement from a high cost labor location to a less expensive labor location within the US. For example moving from the Northeast or West coast in the US to the South, West and Midwest is very common, not unlike the path manufacturing followed previously.

As Table 1 indicates, the call center industry from the years 2002-2008 has continued to add more jobs than it lost with the exception of 2003 when it lost 930 jobs. The net difference in total jobs from 2002-2008 was a gain of 87,156 jobs.

The call center market is estimated to employ 3-5% of the total US working population. This is a large, but hidden, industry. The average call center employee earns between $10-$12 per hour with good benefits (including medical) with the job. This employee is typically female, a second-income winner in a household, and has a high school diploma and some college, but not a college degree. In short, this is a solid middle class job with good benefits. The average sized call center in the US is approximately 50 seats, but this average is misleading in that there are many small call centers between 10-50 seats in the US and many large call centers from 100-2000 seats as well. So the average size is a reflection of the dual size nature of these businesses.

At the Call Center Research Laboratory we track eleven (11) call center industry sectors since not all call centers are alike. The eleven we track are listed below.

- Financial Services/Banking/Insurance
- Telemarketing/collections
- Third party outsourcing
- Telecommunications
- Government
- Customer Service
- Fulfillment/Distribution/Reservations
- IT Services/Data Bank
- Directory Services/Job placement
- Other
- Medical Services

The Call Center Laboratory's data indicate that ten of the eleven sectors, through 2007, were growing in net American jobs and one was losing jobs both within the US and outside the US. The declining sector is Fulfillment/Distribution/Reservations. The explanation for the decline in jobs in this sector is not attributed to job loss overseas but instead to the advancement of self-service technologies as exemplified by the number of travelers who purchase their airline tickets online, check in online and print their boarding passes online. For additional data on the call center industry, see Appendix 1 at the end of this document.

These data and facts about the call center industry help to inform the opinions regarding the proposed H.R. 1776 legislation in this testimony.

**H.R. 1776 Call Center Consumers' Right to Know Act**

The proposed H.R. 1776 Call Center Consumers' Right to Know Act says, in summary, that any US company or subsidiary with a call center would be required to have the call center agent identify the physical location where the agent was working at the beginning of each call. For example, I would answer the phone, "Thank you for calling the National Association of Call Centers, this is David in Hattiesburg, Mississippi, how can I help you today?"

*Context*

It is necessary to deconstruct pieces of the proposed legislation. First, the legislation applies only to US companies and their subsidiaries. This does not include local, state, and federal government agencies nor does it include companies that are non-US based. This has important implications.

- At present there are three general types of call center companies. One, the typical Fortune 1000 company or small software start-up company that has **internal (corporate-captive) call centers** within their organization. The company's call centers reside within the United States and have direct employees working for this company. These entities would be affected by the proposed legislation if it were passed into law.
- The second type of call center company is a **US outsourcer** (a.k.a. 3rd party provider). This is a company that is within the United States that has as its core competency call centers. These companies seek out contract business from the type one companies above to handle part or all of their call center business. Typically a consumer when calling this type of company cannot distinguish between calling a corporate-captive call center and a 3rd party outsource provider. Over the past five to seven years US based outsourcers have opened call centers outside the US as well keeping call centers within the US. This gives the sales forces of the 3rd party providers an opportunity to offer a portfolio of options to would-be clients at different price points. For example, for $8 an hour per person you can have a call center in the US South. For $6 an hour you can have a call center in the Caribbean, and for $4 an hour you can have a call center in India. This allows the would-be clients to weigh different prices for call center services and also weigh the value of the call center services in each of these locations.
- The third type of call center company is the **Offshore Outsourcer**. These companies are just like the US-based 3rd party outsource providers but they are not US based, but instead are based outside the US in locations such as India and The Philippines. These Offshore companies also seek out business from the first type highlighted above mainly selling their inexpensive costs relative to the US labor market leveraging their higher than average number of English-speaking people that can do the same work as a US citizen only less expensively.

Labor costs account for between 70-85% of call center operational costs. This means for a $1 million dollar investment in an operational call center, $700,000 to $850,000 will be used up by labor costs (wages and benefits). It is this high proportion of labor costs to overall operating costs that make non-US based labor look attractive.

There is an evolution that many companies with call centers go through. The first phase is when they have their call centers in house. From this stage they seek to find avenues to save money and continue to meet Wall Street expectations and consumer demand. To save money they often move part or all of their call center operations from in-house to a domestic US provider with a call center in the US. Since most US based 3rd party providers do not pay as well or have the same benefit level as an in-house operation, they can usually handle the call center business at a lower operating cost than an in-house operation: often saving in the range of 10-25%.

The next stage is when a company continues to seek more savings than can be provided from a US domestic 3rd party call center provider. This is when overseas labor appears attractive. The two alternatives here are to a) use a US based company who has operations overseas or b) to use a pure overseas outsource offshore operation. The savings associated with offshore operations are in labor; often saving up to 50% to the US based labor costs. However, there are hidden costs as well associated with moving people and operations, productivity of a foreign agent versus US agent, the cost of US management based overseas, and increased training time and costs. Even with all of these variables added together, most companies find offshore to be less expensive than onshore since call centers are so heavily burdened by labor costs.

The challenge with overseas offshore call centers is when the customers become unhappy. When customers respond negatively to the call center experience offshore they have three options. One, they can choose not to use that company or product again. Two, they can choose not to use that company or product again and find a suitable substitution. Or three, they can choose to deal with the offshore call center because there are few options available otherwise. US companies have become sensitive to the label of "Indian Call Centers." Companies have to weigh the cost savings of moving offshore to the potential market share loss if they do. For example, if a company has 50% of the market share in laptop computers and they send their technical support call center to India, and the customers become mad and do not repurchase their product, and they lose market share down to 30%, then no matter the savings associated with lower cost labor offshore, the company cannot withstand the loss of that 20% market share. If however, laptops are becoming increasingly less expensive, and the profit margin is thin, creating a commodity market, then a company may not have any other choice but to send the call center help desk to India if they cannot make money having the call center in the US. These are real dynamics that are ongoing in the call center industry each day.

As that data in Table 1 indicates, call centers continue to grow in the US. This is in part to new products and services being offered to the American consumer each day. Almost every product you pick up in a store now has a toll free number associated with it. These toll free numbers are attached to call centers and most of these call centers are within the US. So the more new products and services offered to the American consumer, the increasing number of call center jobs can be expected.

If an industry is old, established, and is in the stages of becoming commoditized as competition heats up and prices fall, then we expect that company to move through the three evolutionary phases outlined above to an eventual fourth phase, self-service, where offshore labor is no longer needed since the majority of the labor is now completed by the consumer via a computer, PDA or kiosk.

*Legislation*

In its present form, the H.R. 1776 bill would only be applicable to the US based in house call centers and US based 3rd party outsourcers. If a company has its call centers in-house the legislation would influence it minimally only requiring a change of greeting script and the potential additional burden of reporting to the Federal Trade Commission. The bill would influence a US based 3rd party call center provider if they owned and operated call centers outside of the US. These agents would be required to disclose their location which most American consumers would realize is not in the US. The third type of call center, the offshore 3rd party provider would be unaffected in that it is not a US company and thus is not subject to US law and jurisdiction.

The US 3rd party call center provider, if the bill passed into law, would have a few options. Option one would be to comply with the law and tell the caller that the agent is in Canada, India, The Philippines, or on a Caribbean island. Will this change the relationship between the consumer and the company? Probably not since the accent from each of these locations (minus Canada) would be apparent to most callers within 45 seconds to a minute. Option two would be for the US based call center provider to create a new corporation structure in other countries outside the US where they would operate their non US call centers. This means that this portion of their company would be outside the control of US law and still operational. The negative impacts of such a move would include potential the lack of revenue from offshore operations flowing back to the US (repatriating profits) and the loss of some American jobs associated with supporting offshore operations from the US.

There may be a gain for the offshore (non US based) 3rd party providers in that they could market themselves within the US to companies that they are not subject to the US law on location disclosure and that they would be wise to go with their company rather than a US-based 3rd party provider which would be subject to those laws. Thus an unintended consequence may be that loss of contracts by the US 3rd party outsource providers.

The only potential positive impact that the current bill may have is in existing in house corporate call centers. Knowing that there exists federal legislation regarding disclosure, the amount of due diligence necessary to move a call center operation from in house to offshore will be higher and this may discourage some companies making this move. However, if the financial reasons are strong enough and the fear of market share loss is minimal to none, then the legislation will more than likely not defray such actions.

In short, as currently proposed, the H.R. 1776 legislation would influence only one main sector of the call center sector, that of US-based 3rd Party outsourcers and only those with offshore operations. The changes of a customer changing products or services associated with a geographical location disclosure is unclear. Since most call centers representatives can be identified as foreign by their accents in less than one minute on the phone, the disclosure of a foreign location would not be surprising to the consumer. The unexpected consequences to the 3rd party providers may be the need to set up a foreign operation to run their overseas businesses and the potential loss of American jobs and repatriation of profit from overseas call center contracts.

**H.R. 1776 Call Center Consumers' Right to Know Act Modified**

In an early version of the H.R. 1776 bill, there was a stipulation that included not only geographical location disclosure but also a requirement to inform the caller that they can be transferred to an American agent in a call center if they wished. The implications, beyond those outlined above already, for such a modification of H.R. 1776 are discussed below.

If a company chooses to keep its call center operations in house then there is no change. They would disclose their location and nothing more would be needed since they are already within the US. If, however, the company sought to save money by moving some of its operations overseas then the law would kick in and they would have to choose between using a US-based 3rd party provider with offshore centers or a complete offshore owned center. If using a US-based 3rd party provider offshore, then the company would have to figure out how many of the calls that would go overseas would be requested to come back to the US-based call center after the option was read to the customer calling. For example, the offshore location may take 70% of the calls and the US-based center would handle 30% of the calls. This would still be a labor savings, but not at the rate originally indicated since some labor costs would still be in the US and there are fixed costs with technology, etc., to running dual call centers. On a more cynical note, the company could adhere to the letter of the law by setting up a very small call center in the US (maybe 1 person) that all offshore calls would be transferred to if they desired to speak to an American agent. The wait times would be significant and lead to frustration on the consumer side making them call back to the original offshore call center. The risks associated with this is that the consumer could be angered to where they chose not to use the product or service from the company again and thus leads to a loss of market share.

US-based 3rd party providers would more than likely create a foreign company where the non-US based call centers would reside. This way if calls were routed to an offshore center then the requirement for disclosure would not exist since it would be out of the US jurisdiction and purview.

Offshore (non-US) call centers would more than likely attempt to gain a market share advantage over their US-based rivals by stating their incorporation in another country. This would more than likely lead to a loss of some of the contracts that would go to a US-based 3rd party provider, but it is unclear if they would win the contracts over the newly constituted offshore 3rd party providers that were created from the original US-based 3rd party providers.

The next result of this bill with the "transfer to an American agent" action would be mixed. More than likely in house call centers would pause before moving to an offshore location since they would not want to risk the loss of market share associated with this option. Additionally, any call center that did not give this option to the consumer would be known immediately as a foreign operation which has some risks associated with it as well. The US-based 3rd party provider would be most affected in that they would either have to open a foreign operation outside the US to avoid the law and or lower their options to customers by offering a percentage of US based call centers to answer the calls that requested an American-based agent.

The 3rd party offshore call centers would not be affected and may gain a market share since being outside the US jurisdiction would become a short term competitive advantage.

**H.R. 1776 Alternate Point of View**
As a Ph.D. academic, my focus is on getting the best and most accurate information possible to make the best informed decisions possible. With this in mind, I asked the National Association of Call Center's Research Director, Paul Stockford, to also respond to the proposed H.R. 1776 bill to ensure that my point-of-view was not monolithic in the belief that alternative insights could be gained with another expert's opinion.

Potential Implications of H.R. 1776: Call Center Consumers' Right to Know Act

Paul Stockford
Chief Analyst, Saddletree Research
Research Director, National Association of Call Centers (NACC)

As is true in almost any industry, the market will determine the ultimate impact of any legislation upon it. While in the case of H.R. 1776 the market is represented by the entire spectrum of American consumers, I believe the impact of the proposed legislation will vary across market segments and industries.

Given the way H.R. 1776 is currently worded, the bill's impact on American jobs will be minimal. Simply having a call center agent state his or her location at the beginning of a telephone transaction without offering the consumer an alternative to continuing that transaction other than terminating it would not be appreciably different from the way many call centers conduct customer service transactions today. If the consumer's choice is to speak to someone in a foreign country or to forego the assistance he or she needs, it is likely that the consumer will choose to speak to the agent in the foreign country. There are no other reasonable options, especially in commodity markets.

The alternative to this scenario would most likely be found in the financial services market. In light of the current problems with identity theft and other criminal fraud activities, consumers are reluctant to provide personal information such as account numbers or identification numbers to anyone over the phone, and particularly to someone who is outside the jurisdiction of the laws of the United States In this case, if the consumer's choice is to speak to someone in a foreign country or take his or her business elsewhere, the likelihood significantly increases that he or she will take their business elsewhere.

In commoditized markets and low-value product markets, the requirement to have call center agents state their location at the beginning of a transaction will have little or no impact on American jobs. The loss of a few low-value customers will matter less to most companies than will the costs associated with supporting a domestic call center.

In markets where each customer is relatively high-value, it is possible that companies will think twice before sending customer service jobs overseas. The loss of a single customer may represent a significant loss of business to the company. This will not change regardless of the status of H.R. 1776. Most financial institutions have not been willing to outsource customer service overseas and risk losing valuable customers regardless of the savings in operating expenses.

There is the possibility that some American businesses will see a competitive advantage in serving their customers via domestic call center agents. It could also be viewed as an additional revenue opportunity as is the case with Dell Computer, which charges customers a premium on their maintenance contracts if they prefer to speak to an American customer service representative when they call for assistance. It should be noted, however, that businesses can pursue either of these opportunities with or without the influence of H.R. 1776.

H.R. 1776 as it is currently written will benefit no one. It will add a new layer of operating expenses to the enterprise, which will likely be passed on to the consumer while offering no tangible benefit to the consumer in return.

If the bill were written to include a clause that provides consumers the choice to speak to an American representative rather than being transferred to an agent in a foreign country, the impact on the market would be significantly different. Given the opportunity to speak to a domestic rather than a foreign agent would most likely be preferable to the majority of American consumers, regardless of the market.

American consumers will vote for their preferred method of contacting a customer service representative with their dollars. A company that provides an alternative to speaking with an offshore representative, in lieu of simply terminating the call, will attract the lion's share of business. This, in turn, will have a positive impact on the number of American jobs saved or created. Consumers will do business with companies that provide them their preferred level of customer service, and companies will add domestic call center agents as a result.

The risk to adding the clause requiring companies to provide a domestic call center alternative is that some companies will make only a minimum effort to meet the requirement. In order to save money, a company may only hire the minimum number of domestic agents in order to comply with the legislation. In the case of these companies, the consumer would have the option of being transferred to a domestic agent, but the wait to reach that agent may be so long that the consumer opts for the offshore alternative to save time. The company has met regulatory requirements while maintaining its objective of minimizing costs through offshore outsourcing. The consumer is the loser.

After studying the call center industry for 19 years, I have seen strong evidence of what can best be described as an industry herd mentality. This tendency to move with the herd is what started the flow of call center jobs offshore in the first place. I believe the same herd phenomenon would occur if companies started bringing jobs back to Americans.

There is overwhelming evidence today of the power of one disgruntled consumer with a blog. A case in point is the gethuman.com. Web site. This Web site was started by one individual who was dissatisfied with the automated call routing systems he encountered when calling companies with whom he routinely did business. He began publishing ways to bypass various companies' automated phone systems, and the result was national attention in every major media outlet. It also caused many businesses to reconsider the value of their interactive voice response and automated call routing systems vis-à-vis the level of customer satisfaction.

In the call center industry, if the company with the American customer service representatives were to gain market share over their competition, the competition quickly would fall in line and begin to bring their call center jobs back to the U.S. regardless of the cost, especially if the loss of customers and market share were evident. Again, it is fairly easy today for a single consumer to make his or her thoughts known to the world via the Internet, and to have those thoughts to resonate with a particular group.

As previously stated, highly commoditized markets would likely not respond to consumer pressure the way other markets would. The impact on American jobs would not be across the board, but it would be significant nonetheless.

As H.R. 1776 is currently worded, its passage would have little or no impact, positive or negative, on the American consumer. Other than providing a piece of information that does not provide a basis for action; i.e., the geographical location of an agent, it is nothing more than an unnecessary layer of expensive business bureaucracy.

By providing the consumer the option of speaking to a domestic agent rather than to an offshore agent, companies empower the consumer to communicate customer service preferences to business, which in turn offers businesses the opportunity to retain their customers by responding to their customers' preferences.

**Biography/Resume/Curriculum Vitae**

**DAVID L. BUTLER, Ph.D.**

David Butler is Director of the Call Center Research Laboratory at The University of Southern Mississippi as well as the founder and Executive Director of the not-for-profit National Association of Call Centers. Dr. Butler has a doctorate in Geography from the University of Cincinnati, a Masters of Science in Geography from Texas A&M University, and a Bachelor of Arts from Texas A&M University. Butler is also Vice President of Butler and Associates: A Research Consulting Company. Dr. Butler has published scores of articles on the call center industry and is author of the book *Bottom-Line Call Center Management* that breaks new ground in call-center literature addressing key skills and techniques in assessing and implementing effective management practices to maximize the human and capital resources at the call center manager's disposal. Following the strategies discussed in the book, Butler works to help call center vice presidents and directors evaluate their current status, implement cost-effective changes, and measure results of their changes to ensure a culture of accountability within the call center at all levels. Butler has been interviewed by CNN and other national and international news outlets on the subject of call centers.

Butler can be reached by contacting the National Association of Call Centers at 100 South 22nd Avenue, Hattiesburg, Mississippi, 39401, (601) 447.8300, David.Butler@nationalcallcenters.org.


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**Expert in strategic research, leadership, and execution of customer service in the call center industry.**

## PROFESSIONAL EXPERIENCE (since 2001)

Founder and Executive Director, The National Association of Call Centers (NACC) **2005-present**
www.nationalcallcenters.org
- Created marketing plan and strategic partnerships for revenue generation
- Increases membership by 70% over eight months in founding membership year
- Published quarterly strategic *State of the Industry Reports* and *In Queue* newsletter
- Launched Gulf South Call Center Conference-successful in net revenue

Founder and Director, Call Center Research Lab (CCRL) **2004-present**
The University of Southern Mississippi, www.usm.edu/callcenters
- Led research teams' efforts in national strategic call center data collection and analysis
- Acquired funding for center operations and expansion, from zero to over $120,000 in operations in 1 year
- Strategic planning for research growth and launch of call center demonstration site

Vice President, Butler and Associates: A Research Consulting Firm **2003-present**
- Strategic planning, evaluation, and execution of call center/customer service operations
- Expert witness testimony for call center cases
- Measuring performance to ensure return on investment in both cost and revenue centers

Director, International Development Program **2002-2005**
The University of Southern Mississippi
- Growth of program by 500% in three years
- Created and led national and international marketing efforts
- Increased revenue by 50% to $1 million per year
- Created research teams to focus efforts into core competencies to improve program production

Associate Professor, Tenured, The University of Southern Mississippi **2001-present**
- Over $2 million in external funding dollars
- Co-led the technology policy and development team
- Created and led three international overseas research trips to examine business and IT services (France, Ireland, and Belize)

## PROFESSIONAL CALL CENTER PUBLICATIONS AND PRESENTATIONS

Author of the book *Bottom-Line Call Center Management: Creating a Culture of Accountability and Excellent Customer Service* (2004) and an additional ten articles and reports focusing on the call center industry. Scores of research presentations on the customer service and the call center industry.

## EDUCATION

Ph.D., University of Cincinnati 2001, Aug.

| | |
|---|---|
| Major: Economic Geography, Minors: Political Science, Economics | |
| Master of Science, Texas A&M University | 1996, Dec. |
| Major: Geography, Minor: History | |
| Bachelor of Arts Texas A&M University | 1994, May |
| Major: History, Minor: Geography | |

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Curriculum Vitae
International Development Program
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**POSITION**

| | |
|---|---|
| 2004-Present | Director, Call Center Research Laboratory (CCRL)<br>The University of Southern Mississippi |
| 2007-Present | Associate Professor, Tenured<br>Department of Political Science, International Development & International Affairs<br>The University of Southern Mississippi |
| 2001-2007 | Assistant Professor<br>Department of Political Science, International Development & International Affairs<br>The University of Southern Mississippi |
| 2006-2007 | Editor, *Horizons: The Journal of Global Policy and Development* |
| 2005-2006 | Book Review Editor, *Horizons: The Journal of Global Policy and Development* |
| 2002, Oct.-2005 Aug | Director, International Development Program<br>The University of Southern Mississippi |
| 2003, June-Sept. | Interim Director, Center for Community and Economic Development |

**EDUCATION**

| | |
|---|---|
| 2001, Aug. | Ph.D., University of Cincinnati<br>Major: Geography<br>Minors: Political Science, Economics |
| 1996, Dec. | MS, Texas A&M University<br>Major: Geography<br>Minor: History |
| 1994, May | BA, Texas A&M University<br>Major: History<br>Minor: Geography |

**ACADEMIC PUBLICATIONS**

| | |
|---|---|
| 2008 | "Women's Work: The Home, the Workplace, and the Spaces Between" submitted to *Industrial Geographer*, with Perry Carter, accepted for publication June. |
| 2008 | "Imagining Plantations: Slavery, Dominant Narratives, and Foreigners," submitted to the *Southeastern Geographer*, March, with Perry Carter and Owen Dwyer, accepted for publication June, publication date spring 2009. |
| 2008 | "Framing the Race Debate: Analyzing a New York Times conversation," submitted to the *Southeastern Geographer*, March, with Josepher Montes, accepted with revisions, revised June. |
| 2007 | "Interdisciplinary Departments" as part of the NSF's Enhancing Departments and Graduate Education (EDGE) project. |
| 2007 | "The Social and Economic Impact of The Call Center Industry in Ireland," in the *International Journal of Social Economics*, volume 34, numbers 3 and 4, with Chuck Jobs and Deena Burris, pages 276-289. |
| 2006 | "International Energy Dependence: Facilitator and Vulnerability," in *Countering Terrorism in the 21st Century*, Volume II, J. F. Forest, ed, Praeger, 2007, with Sumesh Arora. |
| 2006 | "A Case Study in the Globalization of Jobs in Ireland" in the *International Journal of Social Economics*, with Chuck Jobs, Volume 33, no 10. |
| 2004 | *Bottom-Line Call Center Management: Creating a Culture of Accountability and Excellent Customer Service*," Butterworth-Heinemann Elsevier Business Books. |
| 2004 | "U.S. Call Centers: The Undiscovered Country," in *WorldMinds: Geographical Perspectives on 100 Problems*, Kluwer Publishers, Warf, Janelle, and Hansen, Eds. |
| 2003 | "Supply and Demand at Tourist Sites: A Case Study of Plantations" in *eRTR*, Vol. 1, Issue 3 issue. |
| 2003 | "Streamside management zone delineation for control of non-point source pollution" with Brian Mitchell, Donald Williams, and Jerry Griffith, in *ESRI User Conference 2003 Proceedings.* |
| 2003 | "Gender as a Predictor of Interpersonal Power in Political Office," in *Proceedings of the Academy of Organizational Culture, Communications and Conflict*. 7:1, with Sara Kimmel, et. al. |
| 2003 | "The Gendered Construction of Interpersonal Power in Political Office," in *Journal of Business and Economics Research*, 1:10, October 2003, pp. 15-26 with Sara Kimmel, et. al. |
| 2002 | "The Travails of the Independent African-American Travel Agent," in *Annals of Tourism Research*, with Stan Brunn and Perry Carter, 29(4). |
| 2002 | "Culture Matters! Retaining Employees and Increasing Profitability: Happy Airways," in Phillips, Patricia P., ed., *In Action: Retaining Your Best Employees*, ASTD Publications, Alexandria, VA, pp. 135-150. |
| 2001 | "Technogeopolitics and the Struggle for Control of World Air Routes, 1910-1939," in *Political Geography*, June, 20: 5, pp.635-658. |
| 2001 | "Whitewashing Plantations: The Commodification and Social Creation of a Slave-Free Antebellum South," in the *International Journal of* |

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|---|---|
| | *Hospitality and Tourism Administration,* Vol. 2, Nos. 3/4, 159-171 and in *Slavery, Contested Heritage and Thanatourism*, Graham M. S. Dann and A. V. Seaton, Eds, Haworth Press, pp. 159-171. |
| 2001 | "The Revolution Beyond Control: The Coming Clash of Profit and Security in Outer Space," in *National Security Studies Quarterly* with Richard Harknett, Winter, Vol. 7, Issue 1, pp.635-658. |

**ACADEMIC PUBLICATIONS IN PIPELINE**

TBA

**ACADEMIC PUBLICATIONS IN PROGRESS**

| | |
|---|---|
| 2008 | "Technogeopolitics and the 1926 Ibero-American Aerial Conference," to be submitted to *Geopolitics.* |
| 2008 | *The Tom Sawyer Effect: How an Organization can Implement Self-Service Solutions*, book project, with Tim Saur. |

**PRESS**

| | |
|---|---|
| 2005 | *State of the Industry Report 2005*, NACC, A Labor Survey of the Industry. |
| 2005 | *State of the Industry Report 2005*, NACC, Volumes 1 and 2, Global Markets and US Market |
| 2005 | *State of the Industry Report-Winners and Losers: Change in Call Center Location and Employment 2002-2005*, NACC White Paper #1, June. |
| 2002 | "Information Control and the United States Airline Industry," Written testimony before the *National Commission to Ensure Consumer Information and Choice in the Airline Industry*, Washington DC, July. |
| 1999 | "City Image, Corporate Relocation, and Labor Relocation," for *The Institute for Policy Research, University of Cincinnati* and The Greater Cincinnati Chamber of Commerce, with Byron Miller. |

**PRESENTATIONS**

| | |
|---|---|
| 2008 | Keynote Panelist, International Contact Center Management, Canada, October, scheduled. |
| 2008 | "Call Centers and Economic Development," at the New South Economic Development Conference, Jackson, September, scheduled. |
| 2008 | "Gazing Across the Color Line: White visitors to Southern Heritage Sites" presentation at the Association of American Geographers Annual Meeting, Boston, April, with Perry Carter and Own Dwyer. |
| 2007 | "Tourism Plantations - Racialized Spaces and Unexpected Results" Presentation at the Association for the Study of African-American Life and History, Charlotte, NC, October. |
| 2007 | "Call Centers and Development" presentation at the New South Economic Development Course, Biloxi, September. |
| 2007 | "Viewing Historical Sites through the Gaze of the 'Other'" presentation at the Association of American Geographers Annual Meeting, Chicago, April, with Perry Carter and Own Dwyer. |

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| 2007 | *I'm sorry, can you please repeat that?,* India and the call center phenomena, Presented to Mississippi University for Women's International Series, February 2007 |
| 2006 | Keynote Panelist, International Contact Center Management, Canada, October. |
| 2006 | "Call Centers and Economic Development," at the New South Economic Development Conference, Jackson, September. |
| 2006 | "Call Center Alignment with Headquarters: Bridging the Chasm," International Contact Center Management, Chicago, August. |
| 2006 | "State of the Industry Report 2006-Finding Your Center and Its Position within the Dynamic Industry," International Quality & Productivity Center Call Center Week, Las Vegas, June. |
| 2006 | "An Example of How Communities Can use Broadband to bring Employment to their communities," at the Annual Rural Development Conference, Oxford, MS, May, scheduled. |
| 2006 | "Nation-States and Sovereignty" at the Global Policy and Development Conference: Nation-State Building in the Contemporary International System, Norfolk, VA, April. |
| 2006 | "The Increasing Demand that Slavery be Represented at the Laura Plantation" at the Society for the Study of Southern Literature Conference, Birmingham, AL, March. |
| 2006 | "Virtual Doctoral Student Communities" presentation at the Association of American Geographers Annual Meeting, Chicago, March. |
| 2006 | "Virtual Learning Communities in Higher Education" panel at the Association of American Geographers Annual Meeting, Chicago, March, scheduled. |
| 2006 | Presentation at the Global Policy and Development Conference 2005: Nation Building and Sustainment Operations, Norfolk, VA, March/April, scheduled. |
| 2006 | "Call Centers and Economic Development," at the New South Economic Development Conference, Jackson, January. |
| 2005 | "State of the Industry," Invited Presentation to the Middle Tennessee Call Center Alliance, Nashville, TN, July. |
| 2005 | "Call Centers as a core competency within an organization," Invited Presentation to Omega Management Group, SCORE Conference, Boston, April. |
| 2005 | "Losing the Customer" Invited Presentation to the ASMI Call Center Performance Conference, American Strategic Management Institute, Orlando, FL, March. |
| 2004 | "Staying Competitive in a Globalizing Industry," at the Gulf South Call Center Conference, keynote address, Gulfport, October. |
| 2004 | 3 workshops at the Gulf South Call Center Conference, Gulfport, October. |
| 2004 | American Conference Institute, invited speaker, Offshore Outsourcing, New York City, October. |
| 2004 | "Report on Call Center Outsourcing," Managing Globalization: The Role of the Business and the State, Gulfport, October. |

| | |
|---|---|
| 2004 | "Losing the Customer," Invited Presentation to the National Quality Review Annual Meeting, invited speaker, Boston, September. |
| 2004 | "From the Plantation to the Chateaux: A Comparison of Cross-Atlantic Tourism Patterns" Association of American Geographers Annual Meeting, Philadelphia, PA, March. |
| 2004 | "Findings from field research at three chateaux in June 2003" to selected business and political delegations at the Abbey in Pontlevoy, France, January 28th. |
| 2003 | "The Gendered Construction of Interpersonal Power in Political Office," International Applied Business Research Conference, March, with Sara Kimmel |
| 2003 | "Tourism Plantation Research at the Laura Plantation," USM Summer Faculty Research Grant Poster Session, April. |
| 2003 | "The Tourists' Desires: De-linking Agricultural Production and Consumption at Historical U.S. Antebellum Plantations, Association of American Geographers Annual Meeting, New Orleans, LA, March |
| 2002 | "Travel Agents and US Airlines" presentation to the Commonwealth Business Travel Group, New York City, November. |
| 2002 | "Information Control and the United States Airline Industry," a presentation before the National Commission to Ensure Consumer Information and Choice in the Airline Industry, Washington DC, July. |
| 2002 | "Nature-Technology: A False Dichotomy?" Association of American Geographers Annual Meeting, Los Angeles, CA, March. |
| 2001 | "Call centers, Economic Development and Dispersed Economic Activity: A Study of Albuquerque, New Mexico," Applied Geography Conference, Fort Worth, TX, November. |
| 2001 | "Concentration, Dispersion, Networks and IT: A Case Study of Call Centers in the United States," Digital Communities 2001 Conference, Chicago, IL, November. |
| 2001 | "Pink Collar Ghettos?: Women, Call Centers and Dispersed Economic Activity," Association of American Geographers Annual Meeting, New York, NY, February. |
| 2001 | Organizer for a session on "De-Agglomeration, Dispersion, Networks, IT and the Local-Global Nexus" at the Association of American Geographers Annual Meeting, New York, NY, February. |
| 2000 | "Patience, Perseverance, Contacts and a Fax Machine: Obtaining Corporate Interviews in Research," Cincinnati Critical Conference, October. |
| 2000 | Co-Organizer for six sessions on "Race, Space, Place and Environment" at the Association of American Geographers Annual Meeting, Pittsburgh, PA, April, with Perry Carter. |
| 2000 | "Whitewashing Plantations: The Commodification and Social Creation of a Slave-Free Antebellum South," Association of American Geographers Annual Meeting, Pittsburgh, PA, April. |

| | |
|---|---|
| 1999 | "Homesteading in the New Millennium: Commercialization versus Territorial Sovereignty in Space," International Studies Conference-South Annual Meeting, Lexington, Kentucky, November. |
| 1999 | "Whitewashing Plantations: The Commodification and Social Creation of a Slave-Free Antebellum South," Cincinnati Critical Conference, October. |
| 1999 | "Telecommunications, Flexible Accumulation, and Pink Collar Ghettos," Association of American Geographers Annual Meeting, Honolulu, Hawaii, March. |
| 1998 | "Space Technogeopolitics," University of Cincinnati Colloquium, Cincinnati, OH, October. |
| 1998 | "Telecommunications in the Airline Industry," Association of American Geographers Annual Meeting, Boston, MA, March. |
| 1996 | "Civil Aviation and Technogeopolitics," Association of American Geographers Annual Meeting, Charlotte, NC, March. |

**FUNDING AWARDED**

| | |
|---|---|
| 2007 | Mississippi Department of Employment Security grant, 1 year, "Continuation of the MDES Call Center as a Virtual WIN Job Center," $100,000. |
| 2006 | Mississippi Department of Employment Security grant, 1 year, "The creation of MDES Call Center as a Virtual WIN Job Center," $70,000. |
| 2004 | Mississippi Development Authority (MDA) grant, 1 year, Development of the Call Center Study in Mississippi, $30,000, September. |
| 2004 | USM Research Foundation, 1 year, Development of the Call Center Research Laboratory, $2,000, September. |
| 2003 | US Department of Commerce, Small Business Administration, $1,987,000, June. |
| 2003 | USM Title III Laptop Faculty Technology Mentor Award, $2500 and a laptop computer. |
| 2002-2003 | USM Lucas Endowment for Faculty Excellence, $3600 |
| 2002 | USM Summer Faculty Research Grant, $8000-won but had to decline. |
| 2002 | USM Summer Grant for the Improvement of Instruction, $9250 |
| 1999-2001 | US Department of Transportation Dwight David Eisenhower Doctoral Research Fellowship, $48,000. |
| 2001 | Urban Geography Specialty Group Travel Grant Award, $50. |
| 2001 | University of Cincinnati Summer Research Fellowship, $1700. |
| 1999 | The Image of Cincinnati Project, Contract from The Institute for Policy Research, University of Cincinnati, $2250. |
| 1999 | Robert Bruce McNee Award, Outstanding Graduate Student, University of Cincinnati, $1000. |
| 1999 | Economic Geography Specialty Group Travel Grant Award, $100. |
| 1999 | Urban Geography Specialty Group Travel Grant Award, $200. |
| 1999 | Association of American Geographers Travel Grant Award, $200. |

| | |
|---|---|
| 1998 | GIS Certificate from ESRI |
| 1998 | Urban Geography Specialty Group Travel Grant Award, $50. |
| 2000-2001 | Texas A&M University Academic Excellence Scholarship, $1000 per year. |

**EXTERNAL FUNDING SCHEDULED/PENDING**

| | |
|---|---|
| 2008 | SERRI Oak Ridge, "Modeling Micro-Economic Resilience and Restoration after a Large-Scale Catastrophe: An Analysis of the Gulf Coast after Hurricane Katrina," $932,766, submitted July. |
| 2008 | US Department of Commerce, "Mapping an Industry Commerce" $10,000,000 March submission. |

**ECONOMIC DEVELOPENT**

| | |
|---|---|
| 2004-present | President, Butler and Associates, Inc. - A University of Southern Mississippi M.U.R.A. Company |

**PHD COMMITTEES**

Graduated

| | |
|---|---|
| 2008 | Greg Banach-member-graduated |
| 2008 | Tim Saur-chair of committee-graduated |
| 2007 | Billy Morehead-chair of committee-graduated |
| 2007 | Shannon Campbell-committee member-graduated |
| 2007 | Eli Biron-committee member-graduated |
| 2007 | Deena Burris-committee member-graduated |
| 2006 | Mary Catherine Colley-committee member-graduated |
| 2006 | Angie Wood-committee member-graduated |
| 2005 | Brian Mitchell-committee member-graduated |
| 2005 | Jennifer Foil-committee member-graduated |
| 2004 | Kola Garber-committee member-graduated |
| 2004 | Gerry Yaw-committee member-graduated |
| 2004 | Sue Lowe-committee member-graduated |
| 2004 | Garrett Harper-committee member-graduated |
| 2003 | Heather Annulis-committee member-graduated |
| 2003 | Bill Hettinger-chair of committee-graduated |
| 2003 | Patti Phillips-committee member-graduated |
| 2002 | Jud Edwards-committee member-graduated |
| 2002 | Sara Kimmel-committee member-graduated |

Committee Chair

| | |
|---|---|
| 2008 | Josefer Montes |
| 2008 | Wendell Robbins III |

Committee Member

| | |
|---|---|
| 2008 | Gregg Lassen |
| 2008 | Martha Norman |
| 2008 | Juanyce Deanna Taylor |

| | |
|---|---|
| 2008 | Sumesh Arora |
| 2008 | Ethan Joella |
| 2008 | Mark Turner |
| 2008 | Ranjana Srevatsan |
| 2008 | Holly Burkett |

**TEACHING**

| | |
|---|---|
| 2008 | International Development-Comparative International Political Development-fall. |
| 2008 | International Development-Qualitative Methods-fall. |
| 2008 | International Development-Colloquium: Technology and Development-Summer |
| 2008 | International Development-Field Research I-Summer |
| 2008 | International Development-Qualitative Methods-Spring |
| 2007 | International Development- Fall-Grant release time, no teaching. |
| 2007 | International Development-China Research Abroad-China, summer. |
| 2007 | International Development-Practicum, spring. |
| 2007 | International Development-Field Research I, spring. |
| 2006 | International Development-Fall-Grant release time, no teaching. |
| 2006 | International Development-Field Research II, Spring |
| 2006 | International Development-Administration and Grantsmanship, Spring |
| 2005 | International Development: Theory-Fall-2 sections |
| 2005 | International Development: Field Research I: Quantitative |
| 2005 | International Development: Research Abroad-Summer |
| 2005 | Economic Development: Special Topics/Independent Study-Summer |
| 2005 | International Development: Grantsmanship, Spring |
| 2005 | International Development: Practicum, Spring |
| 2004 | International Development: Current Issues-Fall (Team teaching with Miller, Von Herrmann, Malone, Gaudet, Lansford) |
| 2004 | International Development: Field Research-Fall |
| 2004 | International Development: Practicum-Fall |
| 2004 | International Development: Research Abroad-Summer |
| 2004 | International Development: Grantsmanship-Spring |
| 2004 | International Development: Field Research-Spring |
| 2004 | International Development: Practicum-Spring |
| 2003 | International Development: Theory and Practice |
| 2003 | International Development: Field Research |
| 2003 | International Development: Practicum |
| 2003 | International Development: Field Research |
| 2002 | Introduction to Economic Development Research |
| 2002 | International Development: Theory and Practice |
| 2002 | International Development: Field Research |
| 2002 | International Development: Field Research |
| 2002 | International Development: Research Methods |
| 2002 | International Development: Grantsmanship |
| 2001 | International Development: Theory and Practice |

| | |
|---|---|
| 2001 | International Development: Current Issues |
| 2001 | Political Geography-USM, Fall |
| 2001 | Political Geography-U of Cincinnati |
| 2001 | People and Environment: Energy- U of Cincinnati |
| 2000 | Urban Geography-Historical- U of Cincinnati |
| 2000 | Political Geography- U of Cincinnati |
| 1999 | Human Geography: Population- U of Cincinnati |
| 1999 | Human Geography: Urban-Economic- U of Cincinnati |
| 1999 | People and Environment: Agriculture and Food- U of Cincinnati |
| 1999 | Human Geography: Population- U of Cincinnati |
| 1999 | Physical Geography Lab- U of Cincinnati |
| 1998 | People and Environment: Population- U of Cincinnati |
| 1998 | Human Geography: Cultural and Political- U of Cincinnati |
| 1998 | Human Geography: Population- U of Cincinnati |
| 1998 | Physical Geography Lab- U of Cincinnati |
| 1997 | People and Environment: Population- U of Cincinnati |
| 1997 | World Regional Geography: Americas- U of Cincinnati |
| 1997 | World Regional Geography: Asia- U of Cincinnati |
| 1997 | Human Geography: Urban-Economic- U of Cincinnati |
| 1996 | Physical Geography Lab-Texas A&M |
| 1995 | Physical Geography Lab, 2 sections-Texas A&M |

**FACULTY DEVELOPMENT**

| | |
|---|---|
| 2003 | National Science Foundation New Faculty Development Workshop, Boulder, CO, June. |
| 2000-2002 | Preparing Future Faculty Program-Universities of Cincinnati and Kentucky. |
| 2007-present | Mentor for Edward Sayre, assistant professor in department |
| 2008-present | Mentor for J. J. St. Marie, assistant professor in department |

**FIELD RESEACH PROJECTS**

| | |
|---|---|
| 2007 | China Research Abroad-summer |
| 2005 | Belize Research Abroad Program-Summer. |
| 2001-2008 | Ongoing Call Center survey research projects |
| 2004 | Irish Research Abroad Program, May-June |
| 2003 | Creator and Director of the Research Abroad Program at USM. France field research data collection with graduate students, June. |
| 2002 | Field research tourism project for the Laura Plantation in Vacherie, LA, April. |

**SERVICE**

| | |
|---|---|
| 2008 | Advice to the Minority and Majority staffer on the US House of Representatives Majority Staff, Committee on Energy and Commerce, regarding HR 1776 "Call Center Right To Know" bill. |
| 2008 | Draft writer of the IDV External Review Response |
| 2008 | Member of the Department Governance Committee |

| | |
|---|---|
| 2008 | Department faculty representative on the College Advisory Committee (2008-2011). |
| 2008 | Served as department mentor for Dr. J.J. St. Marie. |
| 2007-2008 | Served as department mentor for Dr. Edward Sayre. |
| 2008 | Offered advice to Tulio and Andrew for their MURA company. |
| 2008 | Created special collections for International Development at the Southern Miss Gulfpark Library |
| 2008 | Created a marketing plan for the International Development Program including primary data collection from students and alumni |
| 2008 | Redrafted department level graduate handbook with Marek Steedman. |
| 2007 | Reviewer for the Economic and Social Research Council (UK) Fellowship Awards. |
| 2007 | Buff Blount Endowed Chair advisory board member. |
| 2007 | Department focus groups for capstone Political Science majors. |
| 2006 | Worked with the USM Foundation on the formation and development of a call center for the annual fund. |
| 2006 | Worked with the USM Athletic Department on the formation and development of a call center policy for ticket sales. |
| 2005 | Founder, journal *Horizons: The Journal of Global Policy and Development* |
| 2005-present | Founding Director, Association for Global Policy and Development-a membership organization. |
| 2005-present | Founding editor, *In Queue*: The official newsletter of the National Association of Call Centers. |
| 2004-present | Founding Executive Director, National Association of Call Centers-A not-for-profit membership organization. |
| 2004-2006 | Mississippi World Trade Center Advisor Board Member-nominated |
| 2004-2005 | Assistant Vice-President for Research and Economic Development Search Committee |
| 2004-2005 | Department Chair search committee, Department of Political Science, International Development and International Affairs. |
| 2003-2005 | Chair, International Development Curriculum Review and Revision Committee |
| 2004 | Organizer of panel session "Planning for a career in the academy I: Obtaining and excelling on job interviews" Association of American Geographers Annual Meeting, Philadelphia, PA, March. |
| 2003-2004 | Proposal Reviewer, National Science Foundation, International Research Fellowship Program |
| 2003 | Journal reviewer *Tourism Research* |
| 2002-2003 | Journal reviewer *Annals of Tourism Research* |
| 2003 | Member of the CBED AACSB committee. |
| 2003 | Member of the 2003 Honor's College Presidential Scholarship Competition interview team |
| 2003 | College of International and Continuing Education representative to the University Research Committee |
| 2003 | Member of the dean search committee-College of Business and Economic |

| | |
|---|---|
| | Development. |
| 2003 | Co-Sponsor of "River Road Plantations: Re-telling the Story of the Old South," Fieldtrip, AAG New Orleans, March. |
| 2002 | Volunteer Facilitator for Strategic Planning, Center for Community and Civic Engagement, October. |
| 2002 | Ad Hoc member of the USM Graduate Council |
| 2002-2003 | Member of the USM University Research Committee |
| 2001-2003 | Dissertation Committee Chair/Committee Member for IDV students |
| 2002 | College of International and Continuing Education representative for the USM United Way Campaign |

**MEMBERSHIP**

| | |
|---|---|
| 2005-present | Association for Global Policy and Development (AGPD) member |
| 2004-present | Founding member of the National Association of Call Centers (NACC) |
| 1993-present | Association of American Geographers (AAG) |
| 1994-2002 | National Council on Geographic Education (NCGE) |
| 1999-2001 | Society for the History of Technology (SHOT) |
| 1997-2001 | Institute of British Geographers (IBG) |
| 1997-2001 | Canadian Association of Geographers (CAG) |
| 1998-1999 | President of the Graduate Student Governance Association for Geography |
| 1996-1997 | Vice-President for the Graduate Student Governance Association for Geography |

**Appendix 1**

The data below is from a presentation of the State of the Call Center Industry from 2002-2007 specifically highlighting global trends and then US trends.

# State of the Industry Report

The National Association of Call Centers

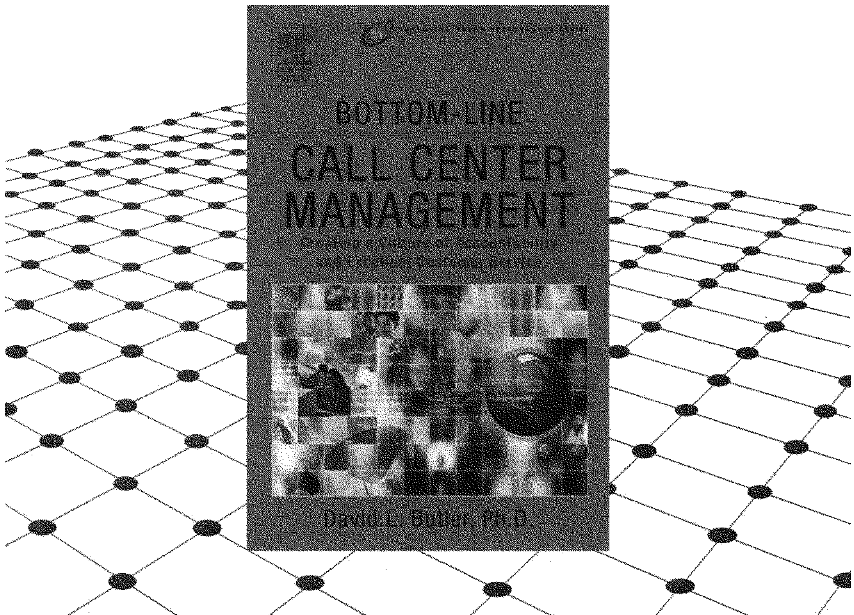
David L. Butler, Ph.D. Executive Director

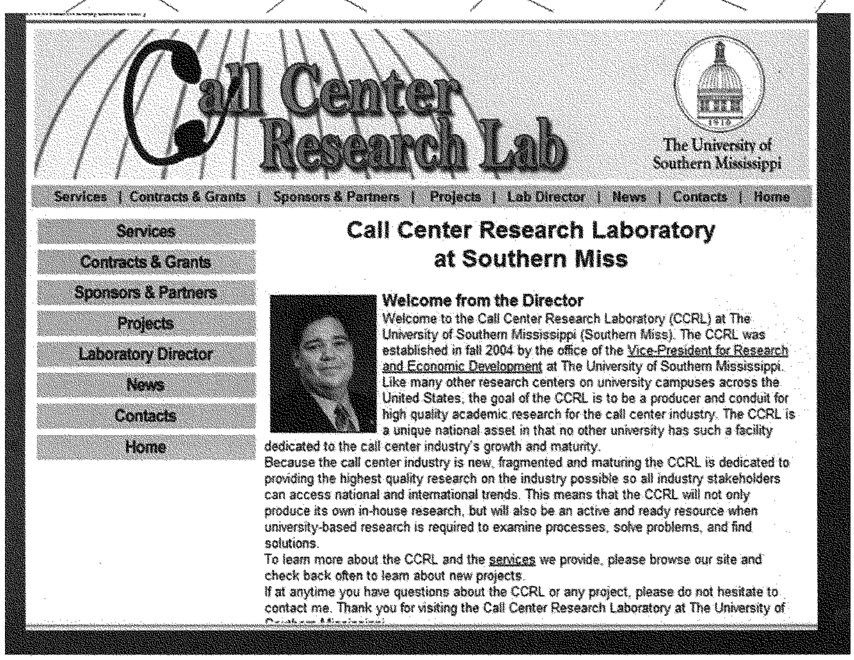
July 10, 2007



## Who am I?

- David Butler, Ph.D.
- Tenured Professor at The University of Southern Mississippi and Director of the Call Center Research Laboratory
- Executive Director, The National Association of Call Centers.
- Researching call centers for the past decade including writing academic articles and book on the call center industry




Call Center Research Laboratory
at Southern Miss

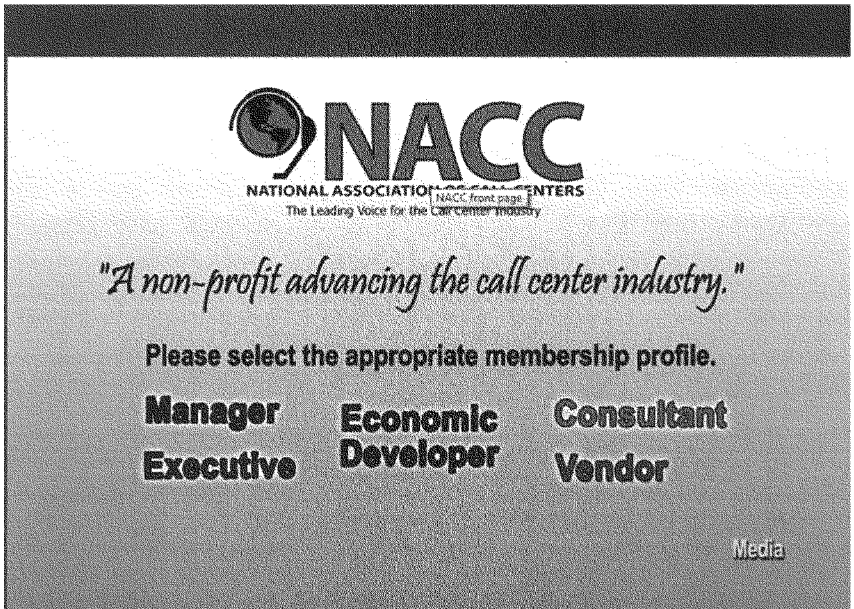
Welcome from the Director

Welcome to the Call Center Research Laboratory (CCRL) at The University of Southern Mississippi (Southern Miss). The CCRL was established in fall 2004 by the office of the Vice-President for Research and Economic Development at The University of Southern Mississippi. Like many other research centers on university campuses across the United States, the goal of the CCRL is to be a producer and conduit for high quality academic research for the call center industry. The CCRL is a unique national asset in that no other university has such a facility dedicated to the call center industry's growth and maturity.

Because the call center industry is new, fragmented and maturing the CCRL is dedicated to providing the highest quality research on the industry possible so all industry stakeholders can access national and international trends. This means that the CCRL will not only produce its own in-house research, but will also be an active and ready resource when university-based research is required to examine processes, solve problems, and find solutions.

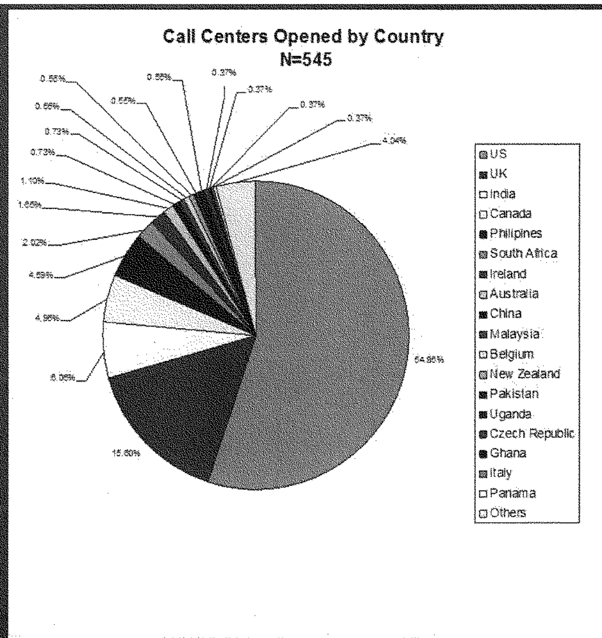
To learn more about the CCRL and the services we provide, please browse our site and check back often to learn about new projects.

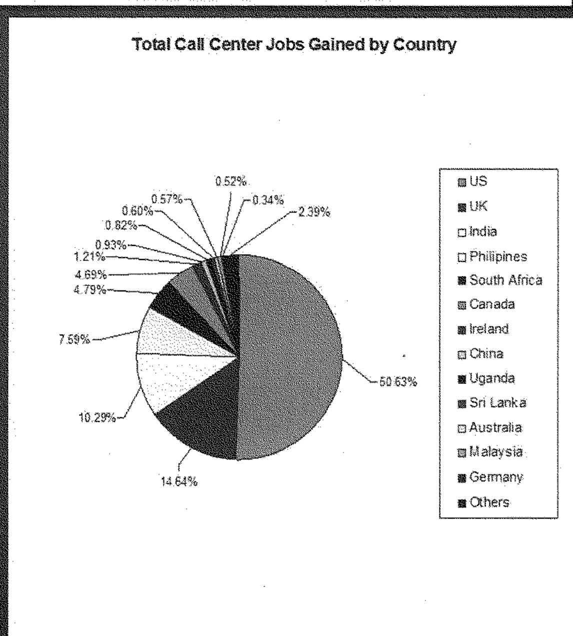
If at anytime you have questions about the CCRL or any project, please do not hesitate to contact me. Thank you for visiting the Call Center Research Laboratory at The University of

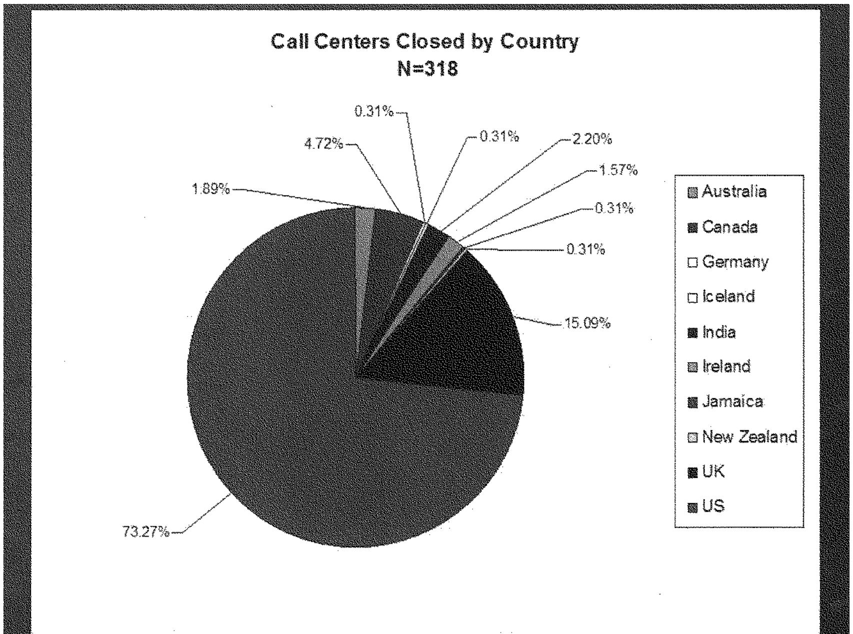


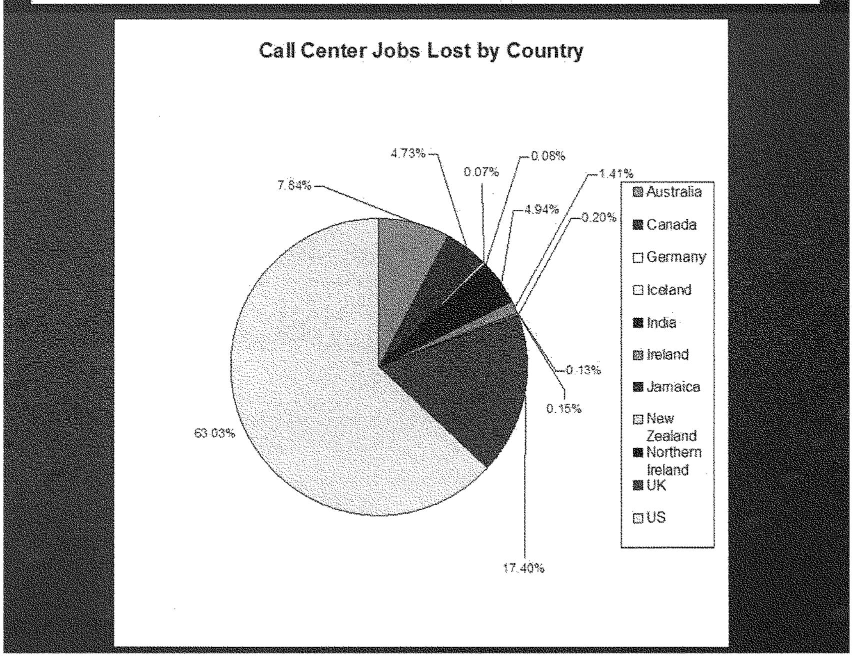

# Data from July 2002-October 2006

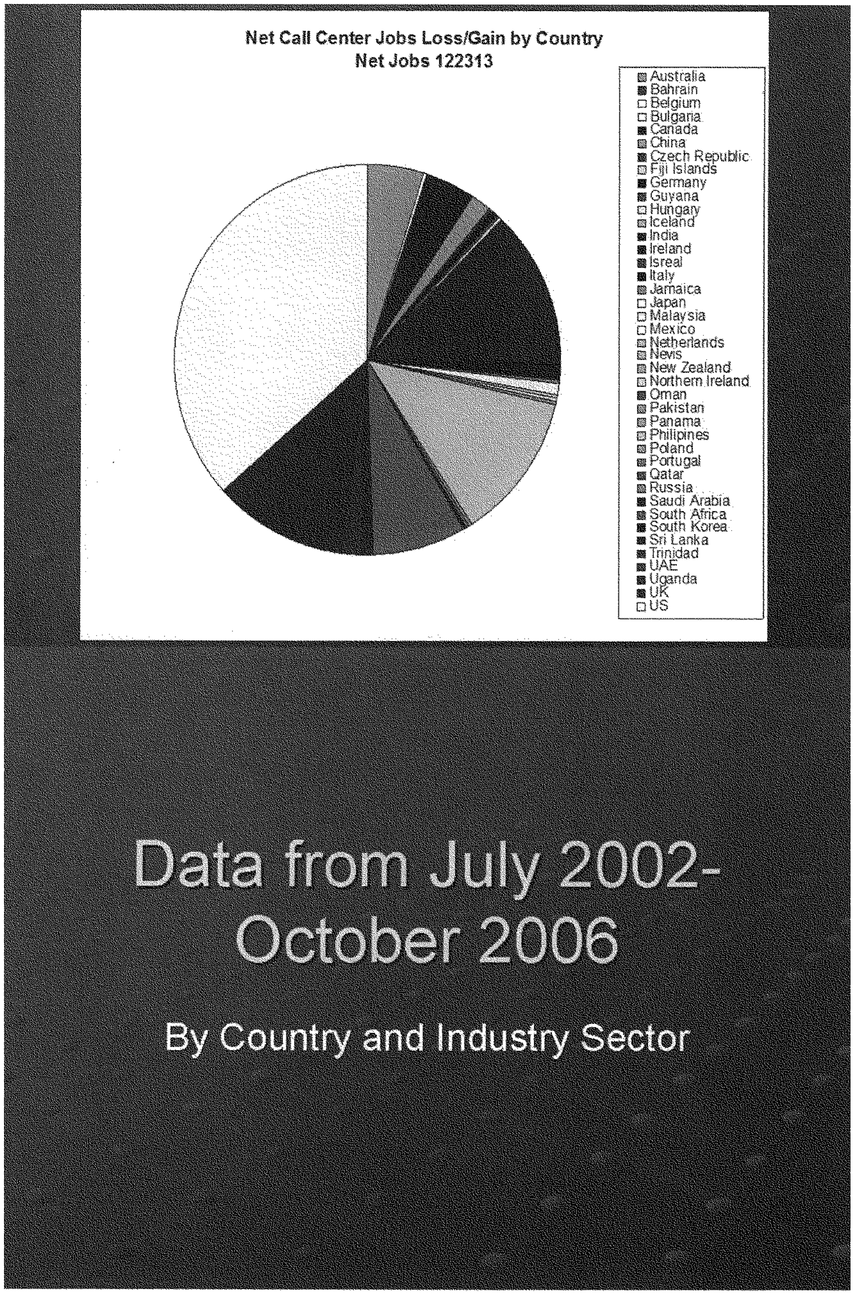
Global


Call Centers Opened by Country
N=545
0.37%
0.37%
0.37%
0.37%
4.04%
0.73%
0.73%
1.10%
2.02%
4.59%
4.95%
15.60%
US
UK
India
Canada
Philipines
South Africa
Ireland
Australia
China
Malaysia
Belgium
New Zealand
Pakistan
Uganda
Czech Republic
Ghana
Italy
Panama
Others


Total Call Center Jobs Gained by Country
0.52%
0.57%
0.34%
2.39%
0.60%
0.82%
0.93%
1.21%
4.69%
4.79%
7.59%
10.29%
14.64%
50.63%
US
UK
India
Philipines
South Africa
Canada
Ireland
China
Uganda
Sri Lanka
Australia
Malaysia
Germany
Others


Call Centers Closed by Country
N=318
0.31%
4.72%
0.31%
2.20%
1.57%
1.89%
0.31%
0.31%
15.09%
73.27%
Australia
Canada
Germany
Iceland
India
Ireland
Jamaica
New Zealand
UK
US

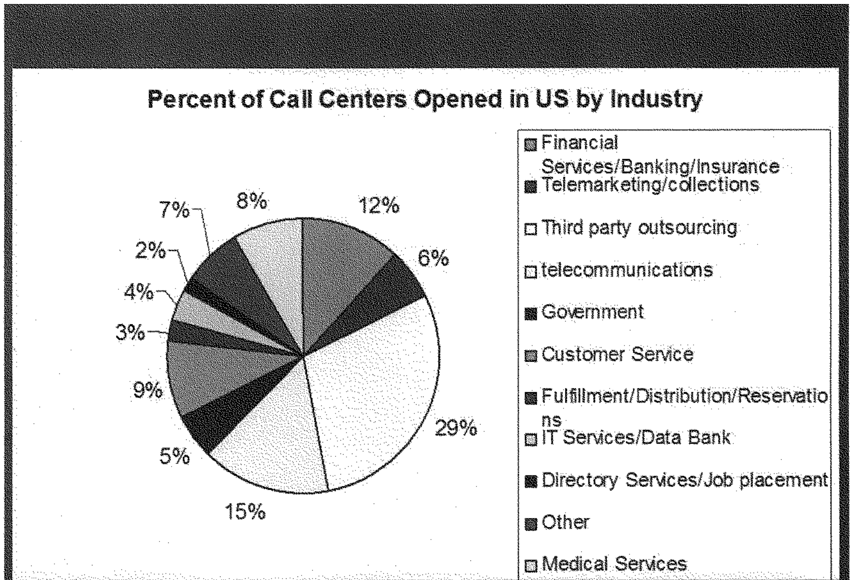

Call Center Jobs Lost by Country
4.73%
0.08%
0.07%
1.41%
7.84%
4.94%
0.20%
0.13%
0.15%
63.03%
17.40%
Australia
Canada
Germany
Iceland
India
Ireland
Jamaica
New Zealand
Northern Ireland
UK
US

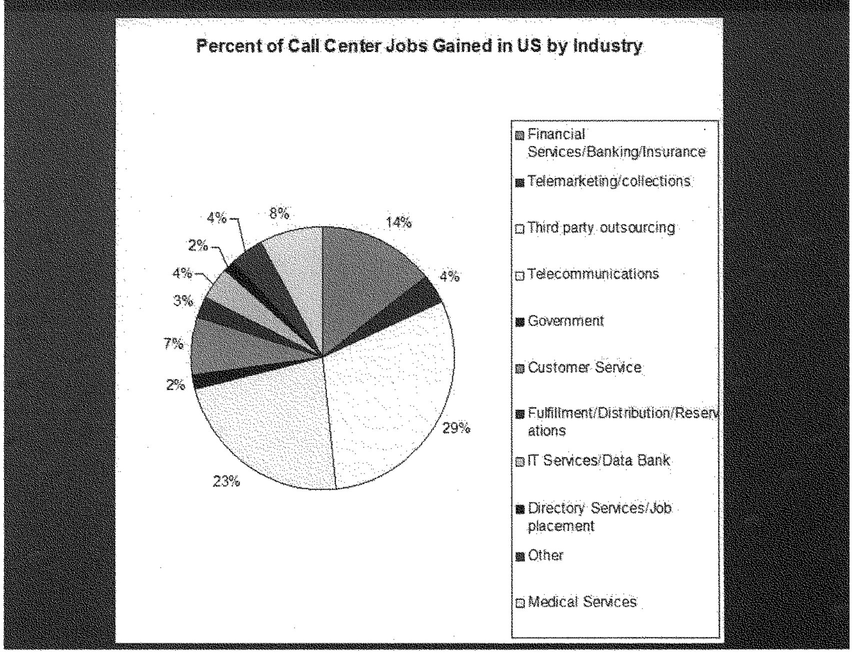

Net Call Center Jobs Loss/Gain by Country
Net Jobs 122313
Australia
Bahrain
Belgium
Bulgaria
Canada
China
Czech Republic
Fiji Islands
Germany
Guyana
Hungary
Iceland
India
Ireland
Isreal
Italy
Jamaica
Japan
Malaysia
Mexico
Netherlands
Nevis
New Zealand
Northern Ireland
Oman
Pakistan
Panama
Philipines
Poland
Portugal
Qatar
Russia
Saudi Arabia
South Africa
South Korea
Sri Lanka
Trinidad
UAE
Uganda
UK
US
Data from July 2002-
October 2006
By Country and Industry Sector

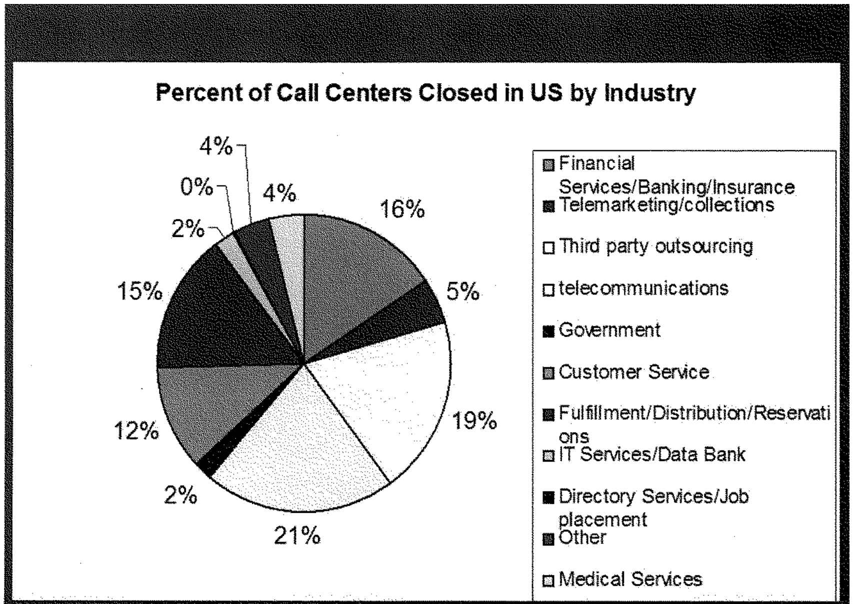
# Eleven Call Center Industries

Financial Services/Banking/Insurance
Telemarketing/Collections
Third Party Outsourcing
Telecommunications
Government
Customer Service
Fulfillment/Distribution/Reservations
IT Services/Data Bank
Directory Services/Job placement
Other
Medical Services

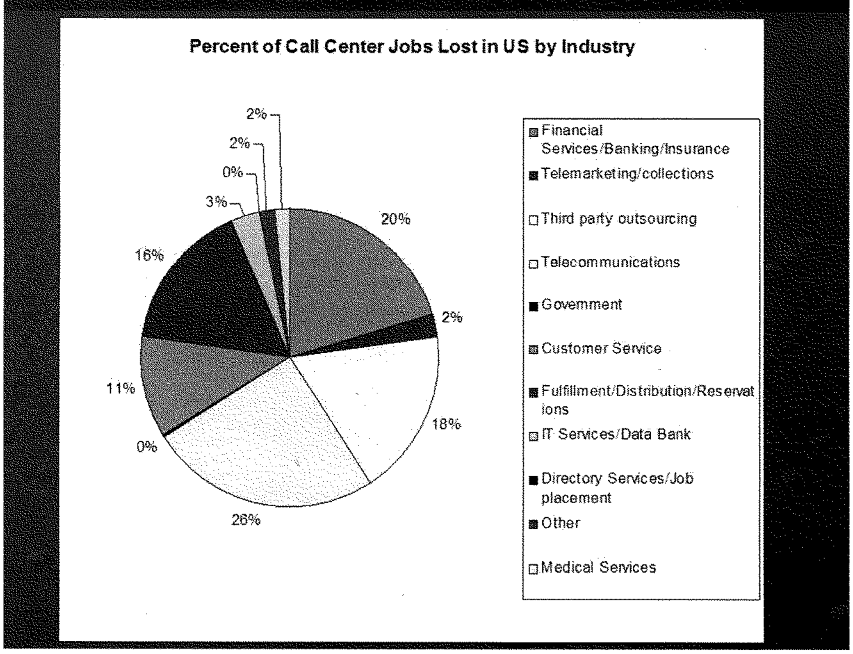
# United States


Percent of Call Centers Opened in US by Industry
12%
6%
29%
15%
5%
9%
3%
4%
2%
7%
8%
Financial Services/Banking/Insurance
Telemarketing/collections
Third party outsourcing
telecommunications
Government
Customer Service
Fulfillment/Distribution/Reservations
IT Services/Data Bank
Directory Services/Job placement
Other
Medical Services

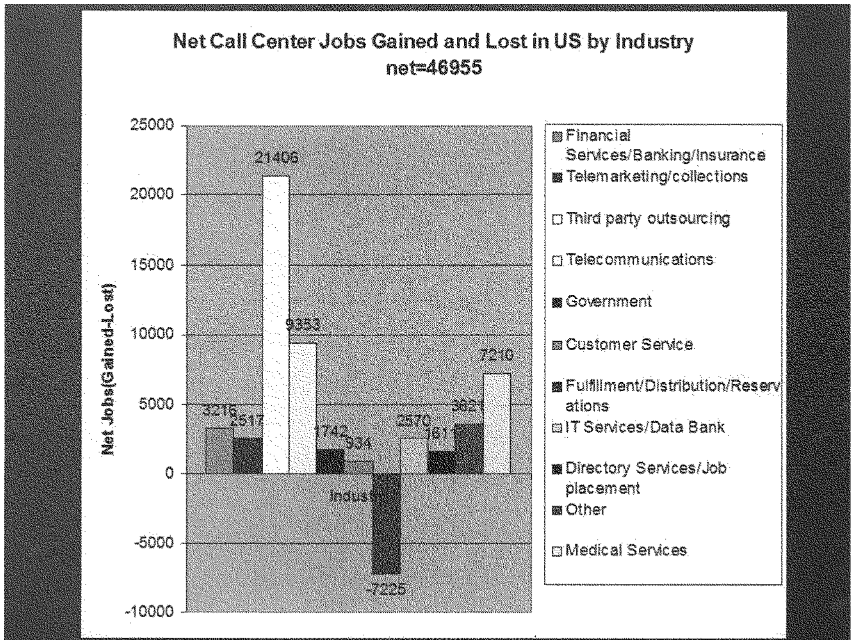

Percent of Call Center Jobs Gained in US by Industry
14%
4%
29%
23%
2%
7%
3%
4%
2%
4%
8%
Financial Services/Banking/Insurance
Telemarketing/collections
Third party outsourcing
Telecommunications
Government
Customer Service
Fulfillment/Distribution/Reservations
IT Services/Data Bank
Directory Services/Job placement
Other
Medical Services



Percent of Call Centers Closed in US by Industry
4%
0%
4%
16%
2%
15%
5%
19%
12%
2%
21%
Financial Services/Banking/Insurance
Telemarketing/collections
Third party outsourcing
telecommunications
Government
Customer Service
Fulfillment/Distribution/Reservations
IT Services/Data Bank
Directory Services/Job placement
Other
Medical Services

Percent of Call Center Jobs Lost in US by Industry
2%
2%
0%
3%
20%
16%
2%
11%
18%
0%
26%
Financial Services/Banking/Insurance
Telemarketing/collections
Third party outsourcing
Telecommunications
Government
Customer Service
Fulfillment/Distribution/Reservations
IT Services/Data Bank
Directory Services/Job placement
Other
Medical Services


Net Call Center Jobs Gained and Lost in US by Industry
net=46955
Net Jobs(Gained-Lost)
25000
20000
15000
10000
5000
0
-5000
-10000
21406
9353
3216
2517
1742
934
-7225
2570
3621
7210
Financial Services/Banking/Insurance
Telemarketing/collections
Third party outsourcing
Telecommunications
Government
Customer Service
Fulfillment/Distribution/Reservations
IT Services/Data Bank
Directory Services/Job placement
Other
Medical Services


Thank you for your time.
Questions?

Ms. SCHAKOWSKY. Thank you. I thank all of our witnesses. I am going to begin with a few questions.

Mr. Rechenbach, the suggestion that Mr. Searcy made that we codify the notion that when a person calls and they want to know the location, that they would be required to give it. Do you think that would be adequate, and if not, why not?

Mr. RECHENBACH. Well, I certainly think it would be a step in the right direction but I don't think it actually addresses the overall issue. I think many people would like to know ahead of time and wouldn't be schooled in the notion that they could ask for this information, ask for where that call is being generated from. So I think the notion of having somebody just self-identify right up front would be a much better solution to keeping that work here in the United States.

Ms. SCHAKOWSKY. And let me ask you this. Explain to me how, any one of you can, how effective you think H.R. 1776 actually would be in creating and preserving American call center jobs. Let me start again with you, Mr. Rechenbach. How does this bring the jobs home?

Mr. RECHENBACH. We think there has already been a trend among American corporations that have felt some backlash by outsourcing work overseas. We think by putting that information out front, that will encourage more of these corporations to bring this work back here to the States. You know, I can't codify that with any kind of notion of what those numbers would look like, but as you see these trends start to move this way, we saw this backlash against automated calls. A lot of people started to push back on automated calls and want to talk to a human being, and we have seen the number of those calls begin to decrease as a result of that. I think this would have that same kind of effect on American corporations, recognizing that American consumers feel more comfortable, more at ease talking with an American representative.

Ms. SCHAKOWSKY. Do you want to say something, Mr. Searcy?

Mr. SEARCY. Well, I think Mr. Rechenbach makes an interesting point, which is that the fair market is already allowing for consumers to make choices and for companies to respond to those choices. If they have been moving activity back to the United States, although I agree with Dr. Butler, there has been a net increase in jobs, not a net decrease in jobs, the reality is that businesses are making decisions that are in their best interest and in the consumers' best interest. The second thought is that the consumer wouldn't be educated necessarily to go ahead and put this into place where they would ask for the location of the contact center. Our do-not-call experience from 5 years ago indicates that very quickly consumers become aware of their rights. Otherwise we wouldn't have 168 million names on the do-not-call list. Through both press and word of mouth, I think this would be a choice that the consumer would be aware of and be able to make at their choosing.

Ms. SCHAKOWSKY. Let me ask another question. One of the issues that I raised that I may have just missed hearing addressed by the four of you is this issue of protecting personal and financial information. When we are dealing with a call center that actually may be located in another country or just contracted with an American company, how can we make these companies comply with the same kinds of laws on privacy and security that we demand from U.S. call centers? Can anybody answer that?

Ms. GREISMAN. Madam Chairman, it is my position that if a U.S. company is outsourcing certain of its servicing of contracts or other work that the outsourced entity is governed currently by U.S. laws, and that is the position of the Federal Trade Commission.

Ms. SCHAKOWSKY. So you do that regardless of the source of the call? And I am not talking about fraud and abuse that you were discussing, I am talking about just the systems that control the privacy of our data. Do you monitor that and enforce that?

Ms. GREISMAN. If the FTC has jurisdiction over the U.S. entity and that U.S. entity outsources part of the processing servicing of whatever customer functions, it is our position that we do have jurisdiction, that the outsourced entity also must comply with——

Ms. SCHAKOWSKY. And have you had any enforcement issues with that?

Ms. GREISMAN. Nothing readily comes to mind in the security context. Certainly going back to telemarketing fraud, we have taken action against entities that do business in the United States and have part of their operations outside of the United States.

Ms. SCHAKOWSKY. Does anybody else want to comment on this?

Mr. SEARCY. Madam Chair, I completely agree with Lois about this but I would also comment, it is U.S. companies who outsource and they pay for them so the jurisdiction is not so much that you would go to India to enforce, you can enforce on the company here. So consequently with the FTC, it really puts a burden on the company to make certain that the outsourcer that they are working with is in compliance because the group that is going to receive the enforcement is within our borders.

Ms. SCHAKOWSKY. Right. If I could, Mr. Ranking Member, just go on for just a minute. If the company is overseas, are there any additional enforcement barriers to making sure that the security is in place? I am assuming they may be doing some subcontracting to a call center. They may not own it outright. Is that true?

Mr. SEARCY. They do subcontract.

Ms. SCHAKOWSKY. I understand the jurisdictional question but are there any additional barriers to making sure that those subcontractors, which I imagine could be set up anywhere, are actually protecting our information with the same scrutiny as we would if they were here in the United States?

Mr. SEARCY. We absolutely do, and I would say even more so, the reason being the industry has taken a very serious look at what the implications are, the downside if that data was not protected, and for that reason, you will find there is more monitoring and more internal enforcement, meaning the companies have a much greater investigatory effort into the firms they are working with.

Ms. SCHAKOWSKY. Have there been data breaches overseas?

Mr. SEARCY. Not that have required enforcement. I know that in the last 5 years, there have been data breaches overseas but nowhere in the same category nor the same rate as we have seen here domestically, and none of which have been raised to the point of being an issue about what data should go overseas or not.

Ms. SCHAKOWSKY. You wanted to say something quickly?

Mr. RECHENBACH. Yes, just very quickly, the simple fact is our laws don't apply in foreign countries, and if it is subcontracted out to a foreign company, we won't have recourse, and I think we have all seen the WTO continues to release weak consumer protections year after year, so I think there is a very deep and genuine concern that we ought to have that our data, that our information about American citizens could be potentially exposed to being stolen or manipulated by other interests.

Ms. SCHAKOWSKY. That is actually, I would think, a matter of fact or not. Is that the case? That is the concern I am raising if they subcontract? Dr. Butler?

Dr. BUTLER. If I could speak on this, we are talking about multiple entities. Number one, U.S. corporations that house contact centers inside their own entity, that is not an issue. Number two, U.S. outsourcers. These are third-party providers housed in the United States with call centers in the United States and overseas. Their jurisdiction is in their company operations both locations.

Ms. SCHAKOWSKY. OK. I am talking about just overseas.

Dr. BUTLER. Then we are talking about third-party providers like WIPRO and other companies that are solely overseas. If they are contracting with a U.S. company and accessing their data from U.S. servers, the United States has jurisdiction because that is U.S. data, even if they are reaching over into the United States. And I think the legal piece you are trying to get around is covered under the Safe Harbor agreement that the United States has and signed with some of the EU countries. I think that is a provision, if anything you are going to get into with data protection, that is the mechanism by which you would be accessed.

Ms. SCHAKOWSKY. I think that is one of the concerns that American consumers might have.

I really feel the need to move on because we are going to have a vote in a very short time. Mr. Whitfield.

Mr. WHITFIELD. Well, even if an outsourced company in another location with a call center, we did not have jurisdiction over that call center to protect American consumers, there is nothing in this legislation that would provide that protection, is there? This legislation seems pretty simple. It wouldn't address that problem, would it?

Ms. GREISMAN. There is nothing in it that I see.

Mr. WHITFIELD. Right. Now, Ms. Greisman, does the Federal Trade Commission support this legislation?

Ms. GREISMAN. The FTC has taken the position that there probably is another agency better suited to administer and enforce it, given the jurisdictional limitations under the FTC Act.

Mr. WHITFIELD. Which agency would that be?

Ms. GREISMAN. I am really not in a position to identify one, but one better versed in labor issues and international conditions.

Mr. WHITFIELD. So Mr. Searcy, does your organization support this legislation?

Mr. SEARCY. No, sir, we do not.

Mr. WHITFIELD. Dr. Butler, do you support this legislation?

Dr. BUTLER. Actually we don't support nor do we not support it. We are trying to provide some good data to have everyone make an informed and educated decision.

Mr. WHITFIELD. Now, Mr. Rechenbach, from your testimony, it appears that you had two reasons for supporting this legislation. One was quality of service to American consumers and two was consumers have a right to know. On the quality issue, could you elaborate on quality issues that you all are concerned about?

Mr. RECHENBACH. Well, I think we have seen a drive where cost has become a higher concern than quality of service and so many providers that provide a cheaper service will opt for a lower quality and outsource this customer contact work that may have been in the past done in the United States or it may be new work that is getting generated as new industries are created. So it really is in the eye of the beholder, if you will, as to whether or not you are getting a good quality job overseas or a good quality job from a worker here in the United States. I like to think that a good-paying job here in the United States is going to be giving you a better quality of service. We found, particularly in the call centers that we have organized, where you pay somebody a decent wage, turnover rates are dramatically lower, there is much more retention of workers, and as a result, a better quality job gets provided by those individuals.

Mr. WHITFIELD. I guess the thing that I am a little bit concerned about this legislation, I mean, it is a very simple piece of legislation, it is not complicated, but if I am a Delta Airlines customer and I call about my airplane ticket and there is a call center in India and they come on the line and they say we are here to answer your questions about your airplane ticket, and by the way, we are located in India, then if they don't say that, then that gives me the right to call the FTC or some other federal agency and say hey, I made this call and they didn't tell me they were in India, and then under this legislation, that agency would have had to do a rulemaking and adopt a civil penalty for that company and so this federal agency would be running around taking complaints from people saying well, they didn't identify, and then you would have to do an investigation. I mean, it seems like a very complicated process without very many practical results from it.

With that, I yield back the balance of my time, Mr. Chairman.

Mr. WEINER [presiding]. Thank you.

Does anyone care to respond?

Mr. SEARCY. Yes, sir, I would make one comment. I completely agree with Representative Whitfield. In addition to the expense and the difficulty, you also would create a situation in which to certify this based on the fourth provision with an H.R. 1776. The only way to prove that indeed you had disclosed every time would be to tape every single phone call, which if we want to talk about privacy issues, I can assure you, this will cross that line.

Mr. WHITFIELD. Then Ms. Greisman would listen to those tapes.

Mr. SEARCY. I would imagine someone on Ms. Greisman's staff would have to listen to those tapes.

Mr. WEINER. Can I pick up on that? Mr. Searcy, very often we hear our constituents and we have all had the experience as well, have a recording at the beginning of the conversation saying that this conversation could be recorded for quality assurance. Is that a widespread practice? Is it actually recorded?

Mr. SEARCY. Actually many of the calls are recorded. It has become common in some cases because of the use of technology to record every single call and to go ahead and use technology to monitor every call. You will go through and you will do voice recognition to find out if there are errors or mistakes or something in legal disclosure that hasn't been done properly, so there is indeed a great deal of monitoring that goes on, a great deal of tape recording that goes on, on inbound calls. Those are calls coming in for customer service, not as much for outbound calls.

Mr. WEINER. So to a large degree, the concern that Mr. Whitfield raised about how you find out or how you know, how you enforce as an employer, how you make sure your employees are doing it, to a large degree, that type of taping and recording is going on already, isn't it?

Mr. SEARCY. It is a common but not prevalent business practice, meaning that not everyone does it and not most of everyone does it.

Mr. WEINER. I don't know who can answer this, perhaps you can, Mr. Searcy, when someone makes a garment or a lot of products, frankly, they have to go through the process of creating a label that says where it was made and sewing it into the garment and making sure that they have it right, that something that came from Bangladesh or from Korea or from the United States is correctly identified. It may or may not have any impact on a consumer's decisionmaking but it is there and it is so deeply ingrained in our values and in our culture that we almost expect it to be there even if we don't look at it, and maybe if someone sees something that says made in Korea, there is no real practical way to check if it was made in Japan or made in Taiwan but they have it there. It is kind of like chicken soup; it does no harm. It strikes me that this legislation is also like chicken soup, that it provides an additional piece of information. Maybe I think in the sponsors' view, it might lead more companies to say you know what, I don't want them saying I am calling from Bangalore, I want to say I am calling from Baltimore, but from the perspective of consumers and policymakers, I don't really see what harm exists to have that additional piece of information. I have seen in your testimony, and forgive me for arriving late back from New York, but I have seen your testimony about the added expense that would be involved. I am not buying it. "Hi, this is George, I am calling you from India, how can I help you with your PC today," how is it any different than a "Made in United States of America" label that some of us find on our garments or on our sporting equipment or anything else?

Mr. SEARCY. It is a very good question. We propose an alternative, which is upon request. See, it doesn't say made in India or made in China or made in Bangladesh on the front of my suit but inside where I can go find the label, if I so desire, I can find that. We believe that indeed current law does have a shortcoming. Consumers should be able to ask upon request where are you calling me from or where am I reaching you today, and the person should be obligated by law to tell them so that the consumer has the protection if they are interested but not the expense if they lack that interest. Many, many years ago, made in Japan was a very negative statement and then Japan improved its quality to the point that made in Japan was an issue of pride. I don't want to see us in a position where U.S. contact centers versus other countries. We have to take something that was built here and have other countries provide a superior level of service where consumers would possibly choose to select that contact center instead of ours. We are in a better position to let people do this upon request.

Mr. WEINER. Mr. Rechenbach.

Mr. RECHENBACH. You mentioned earlier the notion of the recording that comes on before the call, that this call be monitored for quality assurance. I don't know that it would cost any more to include in a message like that, this call is being handled by a technician in Costa Rica and may be monitored for quality assurance. So this cost issue I think really doesn't rise to the level of concern that it ought to. What really is the issue here is giving American consumers that opportunity to make an informed choice. You know, I am a union guy. I like to think I buy mostly union-made products but I will make a consumer decision from time to time that doesn't reflect that. Every now and then I will see something I want, I know it is made somewhere else, a piece of electronic gear, and I go ahead and purchase it nevertheless. Consumers would have the same option when it comes to their services here, to make that choice, but they can only make it if they have that piece of information identified for them.

Dr. BUTLER. Mr. Chairman?

Mr. WEINER. Yes, fire away, Dr. Butler.

Dr. BUTLER. If I could speak to this, a couple elements. Number one, I don't think the analogy between manufacturing and service works. If we are going to draw the analogy fully, then every piece of software that comes through which may be designed or created in multiple countries on a 24-hour rolling basis, does every piece of software when it comes up need to say made in these 15 different countries. I am not sure if the analogy works perfectly there. Secondly, you were asking what companies are going to be impacted or is this really going to do anything, the companies that are going offshore to save money aren't going to bring them back because of disclosure. I really don't believe that because they are not going to lose money by bringing it back onshore. Those that have chosen to keep them in the United States for market share purposes, for loyalty, for American pride, aren't going to move it offshore even if you tried to pay them to. It is those that are in the balance, which is a narrow group, that are thinking about maybe going offshore, this may be a deterrent or it may make them think twice, "do we want to have that label on it." So it is a very narrow group of call centers that we are talking about that may or may not be impacted, not the industry as a total group.

Mr. WEINER. You are the experts, I am not, but it could well be that as a value added, as with so many other disclosure things, people make it a point of attention for their consumers. They say our call centers stamped right on the box of a Dell computer are entirely in the United States. It may turn out to be something that becomes a source once it is disclosed and required to be disclosed. For years and years in this country, there was no real requirement to have a clear disclosure of what your credit card interest rate was until the mid-1980s or so. Then suddenly they all started competing to have lower rates or different kinds of rates and the like, so I would dispute that. I think with more information, the marketplace will decide and consumers will decide how to use that information, which gets me back to the premise of the bill, which is arm consumers with information and who knows, you might have companies that will make a decision based on the reaction to that. I can see overnight Web sites popping up with another column in the chart about what PC you buy where the call center is. I can see people saying, all right, well that is something I want to check, that is one of the boxes that I want to check, and the analogy was not about whether or not you should have disclosure everywhere but it is the relative value of it that Mr. Whitfield pointed out, like what do you do with that information. I don't know. Some people do nothing with it. Some people will create a buying club around it.

I just have one final question. I know I have gone over my time. I have had the experience frequently where I have people tell me their name and I know it is not their name. "Hi, it is Rose." "You don't sound like you are a Rose." So I think we are seeing instances in the marketplace where the pendulum is swinging in the opposite direction where there are actually subtle attempts to make it appear as if someone is calling you from next door when they probably aren't.

Mr. Whitfield, do you have any further questions?

Mr. WHITFIELD. No, sir.

Mr. WEINER. Do I have any further business I need to do?

I ask unanimous consent to insert into the record the written response of the Department of Treasury on H.R. 3232. Without objection.

[The information follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 11, 2008

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Dingell:

As requested by you and your staff please find the enclosed response by the Department of the Treasury that answers specific questions on a proposed corporation for travel promotion, H.R. 3232, "Travel Promotion Act of 2008." We appreciate the opportunity to express our views on the proposed legislation.

If you have any questions or comments, please have your staff contact Tara McDonnell (email: Tara.McDonnell@do.treas.gov: TEL: 202-622-1900).

Sincerely,

Meredith M. Broome
Deputy Assistant Secretary
Government Financial Policy

Enclosure

**Answers to Questions on a Proposed Corporation for Travel Promotion (H.R. 3232)**

**Question 1:** Will the additional entry fee proposed by H.R. 3232 serve as a disincentive for foreigners to travel to the United States?

**Answer:** The Administration believes that increasing fees on visitors could have a negative effect on consumer perception of the United States as a travel destination. The magnitude of the effect would depend upon factors such as the amount of the fee, comparative value of the dollar, and growth in incomes of prospective foreign visitors. If the fee is a large proportion of the cost of a trip to the United States it may have a larger impact. For instance, we might expect a larger impact if the fee were imposed on vehicle and foot traffic from Canada and Mexico as compared to travelers from Australia.

**Question 2:** Should the funding mechanism for the Corporation for Travel Promotion be subject to the normal appropriations process?

**Answer:** As indicated in the attached September 5, 2008 letter from Commerce to the House Energy and Commerce Committee on H.R. 3232, the Administration opposes the creation of the Corporation and the proposed funding mechanisms for the Corporation, which include borrowing from the Treasury and the partial use of fees collected by the Federal Government. The public would perceive the Corporation as a Government sponsored-enterprise because of its many statutory links and ties to the Federal Government, including the authority to borrow from the Treasury and to invest certain Federal fees. Consequently, the Corporation could be perceived by the public to be implicitly backed by the Federal Government, yet the Corporation would not be subject to the same level of oversight and control as a Federal agency or entity. In addition, Federal resources are better used to support inherently governmental efforts. Rather than creating a quasi-Governmental entity like the Corporation, the proposed tourism promotion activities should be financed and undertaken by the private sector and by States and local governments at their discretion. Subjecting the borrowing and other funding mechanisms for the Corporation to the normal appropriations process would not resolve our fundamental problems with the Corporation. If, despite Treasury's concerns, the Corporation is to be created, all of its statutory Federal links and ties to the Federal Government, including the use of Federal fees and the authority to borrow from Treasury, should be eliminated and Federal funding, if any, provided to the Corporation should be provided solely through the normal budget/appropriations process.

**Question 3:** Should the Corporation for Travel Promotion have the authority to invest its funds?

**Answer:** As noted above, Treasury opposes the proposed borrowing and investment authorities for the Corporation. If the Corporation is to be created despite our objections, at the very least, the borrowing authority should be removed, and the bill should not permit the investment of any Federal money. Moreover, to the extent non-Federal monies are collected and put in the Fund, the investment authority should be limited to "obligations of the United States" only.

**Question 4:** Who determines the fair market value of in-kind goods and services permitted by section 6(c)(2) of H.R. 3232 to be contributed by the Corporation for Travel Promotion in lieu of matching funds? Furthermore, should the Corporation be allowed to contribute up to 80 percent of required matching funds in the form of goods and services? (See section 6(c)(2)(B).)

**Answer:** Under this bill, the Corporation would determine fair market value of the in-kind receipts. With regard to the issue of the 80 percent match of goods and services, the Administration opposes the use of federal funds for this advertising purpose, and therefore does not take a position on the level of in-kind contributions proposed.

**Question 5:** Should oversight of the Corporation for Travel be expanded, for example by including reporting measures to Departments of Justice, State, the Treasury, and Homeland Security? Moreover, should the approval of the Secretary of Commerce be necessary for the Corporation to be permitted spend more than $25 million on an advertising campaign, promotion, or related effort? (See section 3(g).)

**Answer:** The Administration opposes the creation of the Corporation for Travel, since it does not fill a Federal need. The proposed structure of the Corporation also lacks the accountability structures usually found in programs that expend Federal funds. If the Corporation is to be created over the Administration's objections, Federal oversight and control should be expanded in order to minimize any perceived potential Federal financial risk.

**Question 6:** Should the initial loan granted to the Corporation for Travel Promotion for its establishment be subject to repayment with interest at a profitable rate, as opposed to a rate meant only to prevent a loss in purchasing power due to inflation for the Treasury as a result of this loan? Similarly, should non-repayment of this loan be subject to penalties?

**Answer:** As noted above, Treasury opposes the proposed borrowing authority, but if it were, nonetheless, included in the bill, such authority to borrow from Treasury should be amended to authorize the Secretary of the Treasury to determine the applicable interest rate, taking into consideration current market yields on outstanding marketable Treasury securities of comparable maturities, plus an additional charge determined by the Secretary to cover any probable losses and reasonable administrative costs. The bill should also require a penalty rate for late payments of principal or interest and other Federal credit terms designed to minimize Federal exposure to loss, consistent with the Federal Credit Reform Act and Federal credit policies.

Mr. RUSH. All witnesses should be advised that they may receive written follow-up questions from the committee.

Without objection, with the gratitude of the committee, the hearing is adjourned.

[Whereupon, at 1:50 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF HON. MICHAEL C. BURGESS

I would first to like pause and remember the men and women killed on September 11, 2001. On this the seventh anniversary of their sacrifice, I think it's important to remember the lives lost on that horrible day.

Since 9/11, our country has acted to protect our nation from any - and all - future acts of terrorism. These actions were necessary to protect this country which we all love.

While we aggressively fight terrorism, the proponents of the bills before us seem to believe that our actions in this fight are a sign the United States is not still welcoming to foreigners to legally visit or do business.

I disagree that one of the fundamental aspects of our country - its openness - has been changed as a result of our Fight against Terror. Our borders are always welcome to those who want to come here to visit our marvelous monuments and historic landmarks, study at the greatest universities and colleges in the world, and enjoy all the benefits that our country is uniquely privileged to have.

Sadly, the numbers from the Travel Industry Association show that the number of foreign visitors has decreased since September 11. And it appears that the decline has had a real economic effect. According to the TIA, the decrease in tourism has resulted in a $140 billion decline in the economy and a loss of approximately 230,000 jobs.

And it's not just foreign travel which has been deterred. American citizens also don't want to deal with the hassle of traveling and since 9/11 this has cost our economy $25 billion dollars. As someone that flies to and from my home district to Washington each week, I can't say I don't blame them.

I believe that H.R. 3232 has two features that the American taxypayer will appreciate in an attempt to spur more American tourism: zero cost to them and accountability from a non-partisan, non-political board. A fund will be set up where the private travel industry will contribute up to $100 million dollars, and a 14 member non-partisan, non-political board (comprised of one member of various industry sectors) will keep the spending of this money accountable.

I've cosponsored this bill. I look forward to this moving through our committee

While I'm not a cosponsor of H.R. 1776, I can see that this bill might have some merits. More disclosure for customers about who they are speaking with over the phone when it might relate to a private banking matter, a health issue, or any other everyday reason we use a call center is probably a good thing.

I look forward to hearing from the panelists today. Thank you.

FOCUS - 3 of 23 DOCUMENTS



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**HEADLINE:** Coming to America Congress should pass bill to promote foreign tourism

**BODY:**

America has an image problem. Ever since the 9/11 attacks, our reputation around the world has changed from vacation paradise to unwelcoming land of visa hassles, strip searches and suspicious glares. No wonder that travel to the United States since 2001 has declined 8 percent despite a 30 percent increase in global travel.

Many Americans might feel safer knowing those foreigners are staying away. But when tens of millions of desired international travelers choose somewhere else to spend their money, our economy suffers. According to the Travel Industry Association, the decline since 2001 has cost the country $137 billion in visitor spending, $22 billion in tax receipts and 229,000 jobs.

With Dallas-Fort Worth and Houston serving as two of the nation's top international hubs, this is a matter worth our legislators' attention. According to the governor's office, international travelers accounted for more than $4 billion in travel-related spending in Texas in 2006 and contributed hundreds of millions of dollars in state, local and federal taxes.

That's why Congress needs to advance a bill pending on Capitol Hill that could boost international tourism and business travel here inject billions of dollars in foreign money back into the U.S. economy without costing taxpayers a dime.

The Travel Promotion Act, which has bipartisan House and Senate support, would establish a nonprofit company to raise America's profile in 27 European and western Pacific countries whose citizens are exempt from obtaining short-term visas. It is designed to overcome fears about security procedures and to play up the advantages of U.S. travel, such as the added purchasing power resulting from a weak dollar.

The program would be funded through a $10 fee charged to visa-exempt travelers. It might seem strange to lure visitors by charging them a fee, but American travelers often pay such fees when traveling abroad. Voluntary private sector contributions would help supplement the corporation's financing.

No one is portraying this as a magic pill to cure the travel industry's economic woes, but the Travel Promotion Act is a sensible first step toward putting the welcome mat back on America's doorstep.

**LOAD-DATE:** September 6, 2008

The New York Times

September 9, 2008
ITINERARIES

# Fly Coach, Share a Room

**By PAUL BURNHAM FINNEY**

For many trans-Atlantic travelers, gasoline at $3.65 a gallon is less grating than the $1.41 or so cost for one euro, Europe's currency.

Despite its retreat from a peak of nearly $1.60 last April, the euro's muscle remains formidable, and Britain's pound sterling also has continued to be strong — one pound is now the equivalent of about $1.75. Because of those unfavorable exchange rates, cost has become a major factor in planning a European business trip.

"I fly business class to London but stay with a friend," said Jordan Ringel, a New York lawyer with international clients. In Paris, he does the same. When traveling outside Europe's euro zone, to major cities like Shanghai or Buenos Aires, he says he customarily stays in Four Seasons and other upscale hotels.

Many other American business travelers also are seeking alternatives to expensive hotels, from bed and breakfasts to the homes of long-lost relatives.

Shunning expensive taxis, some frequent business visitors to London now walk or ride bicycles to appointments — or ride the Underground, the city's aging subway system.

The game of trying to beat exchange rates takes many forms.

"American business travelers are making their European trips as short as possible, particularly to London," said Caleb Tiller, a spokesman for the 4,000-member National Business Travel Association. "I heard about one business traveler who round-trips it to Europe and back home in 30 hours without staying at a hotel" by planning flights over and back when he can sleep on the plane and still get a day's work done in Europe.

Other businesses are moving multinational meetings to the United States, significantly lowering costs based on the advantageous euro-to-dollar exchange rate, Mr. Tiller said.

One American hotelier recounts how a German businessman he knows flew to the Twin Cities, went on a spending spree at the Mall of America, got back on a plane and returned to Stuttgart loaded with bargains. Typical of the foreign invasion is a sign in the window of a boutique in East Hampton, N.Y.: We Accept Euros.

The strong euro hurts even more when coupled with the slowing economies here and in Europe. In a survey of some 125 travel managers, 49 percent said they had cut travel spending in the last year, according to Susan Gurley, executive director of the 2,500-member Association of Corporate Travel Executives, who traces the belt-tightening partly to skyrocketing oil prices.

"Most companies are getting tougher on enforcing compliance with travel rules," she said. "These days supervisors want to know exactly what a traveler expects to accomplish before signing off on a European trip." Some business travelers are even being forced to cope occasionally with a particularly unattractive form of austerity when venturing into euro territory: doubling up in hotel rooms. "It's a new thing rarely done before," said Ms. Gurley, "and not popular."

The crackdown ranges from the expected to the unpleasant. Companies encourage employees to fly on low-fare airlines, like Ryanair, and, in some cases, even forbid business class on trips to Europe.

Some companies have turned to sophisticated teleconferencing like Telepresence from Cisco and Halo from Hewlett-Packard. Frank Schnur, vice president of strategic planning at American Express, says there may be ways to cut costs painlessly. "Take advantage of advance-purchase deals," he said. "One out of two business travelers don't even ask for — or know about — preferred rates that their employer has negotiated."

He also advised business travelers to "travel like an entrepreneur rather than what I call the entitled corporate traveler."

"It's a sandwich rather than sushi for lunch," he said. "The entitled travelers want to be comfortable and do what's convenient, but that flies in the face of economic realities like the euro's strength and deteriorating business conditions."

The euro was a weakling when 11 members of the European Monetary Union began replacing French francs, Italian lire, Deutsche marks and other European currencies with euros in a sweeping currency changeover on Jan. 1, 1999. It opened at $1.17 on foreign exchange markets, and was already sinking toward $1 by April, pleasing American travelers.

But by December 2004, the euro was costing business travelers $1.36, the start of a 25 percent decline in the dollar's value over the last four years, according to the Federal Reserve.

Besides Britain, a dozen East European and Scandinavian countries still do not use the euro. An American doing business in Eastern Europe recalls how startled she was when A.T.M.'s in Budapest and Prague dispensed Hungarian forints and Czech koruna.

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## The Tourism Industry and Economic Issues Affecting It

**July 29, 2003**

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# The Tourism Industry and Economic Issues Affecting It

## Summary

The measure of a country's international tourism receipts, also referred to as travel services exports, is the total amount of spending by visitors to that country. The United States is, by far, the world's leader in tourism receipts, accounting for approximately 16% of the world's total. The measure of a country's international tourism expenditures, also referred to as travel service imports, is the amount of spending by its visitors in foreign countries. The United States also leads the world in tourism expenditures. Travel services are a significant export in the U.S. economy, accounting for 32% of all private services exports.

The September 11 attacks, the downturn in the U.S. economy, the U.S. war with Iraq, and the outbreak of the SARS virus have affected sales and profitability of a number of industries, but travel and tourism are among the most affected industries. The airline industry has been struggling since the events of September 11, with nine of the ten largest U.S. carriers experiencing heavy losses over the past two years. The hotel industry is reporting its lowest occupancy rate in more than a decade. Travel agencies have been facing difficulties since the mid-1990s, primarily due to the increase in competition from online travel sites, but also from the factors mentioned above.

After September 11, 2001, the number of global travelers decreased for the first time since the 1980s. As a result, U.S. tourism receipts decreased by nearly 12% in 2001, and U.S. expenditures abroad decreased by 7%. Employment levels in the United States have fallen by a higher percentage in travel and tourism related industries than in most other major industries. Since the end of 2000, employment in travel-related industries declined by nearly 390,000 jobs, representing over 25% of the nation's non-farm job losses in that time period.

Some analysts believe that travel-related industries will recover from these events, as they have from past events, such as the 1991 Gulf War. Others believe that the combination of factors have been very damaging to the industry for the long term. They believe that recovery could be considerably slower than it has in the past, and that recovery may be more challenging for travel-related industries than for the economy as a whole. The travel industry, for example, has voiced concerns that impending regulations on visa requirements for visitors entering the United States are being implemented too quickly and could discourage international travel to the United States.

In the 108th Congress, two measures have been passed and several bills introduced to provide assistance to the airline industry and to help promote travel and tourism. The FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) includes a one-time appropriation of $50 million for an international marketing campaign to encourage individuals to travel to the United States. The Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-011) includes a provision for $2.9 billion in assistance to the airline industry. H.R. 2002 would establish a pilot program for the promotion of travel and tourism in the United States. This report will not be updated.

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# The Tourism Industry and Economic Issues Affecting It

## Background: Importance of the U.S. Travel and Tourism Industry

The United States is by far the world leader in international tourism receipts, or the amount of spending by international travelers in a host country. The United States is also the world leader in international tourism expenditures, or the amount of spending by U.S. travelers abroad.[1] The United States accounted for approximately 16%, or $88 billion, of world international tourism receipts in 2002. In international arrivals, or the number of visitors from a foreign country, the United States ranks third in the world, after France and Spain, with a world market share of 6.6%.

The tourism industry has been facing difficulties in recent years because of a combination of factors. The September 11 attacks, the downturn in the U.S. economy, the U.S. war with Iraq, and the outbreak of the SARS virus have affected sales and profitability of a number of industries, but travel and tourism related industries are among those most severely affected. After September 11, 2001, the number of international travelers throughout the world decreased for the first time since the 1980s. Consequently, U.S. international tourism receipts decreased by nearly 12% in 2001, and U.S. expenditures abroad decreased by 7%. Employment levels in the United States have fallen by higher amounts in travel and tourism related industries than in other major industries, with a loss of nearly 400,000 jobs. Data from the first quarter of 2003 continue to show declining employment levels in travel-related industries.

In the 108th Congress, two measures have been passed and several bills have been introduced to provide assistance to tourism related industries. The FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) includes a one-time appropriation of $50 million for an international marketing campaign to encourage individuals to travel to the United States. The Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-011) includes a provision for $2.9 billion in assistance to the airline industry. H.R. 2002 would establish a pilot program for the promotion of travel and tourism in the United States.

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[1] International tourism receipts and expenditures are measured by the amount of spending by visitors in a foreign country. The measure of a country's international tourism receipts, also referred to as travel services exports, is the total amount of spending by visitors to that country. The measure of a country's international tourism expenditures, also referred to as travel service imports, is the amount of spending by its visitors to other countries.

## U.S. and World International Arrivals

The World Tourism Organization/United Nations Recommendations on Tourism Statistics[2] defines tourism as the activities of persons traveling to and staying in places outside their usual place of residence for not more than one consecutive year for leisure, business, and other purposes. This section describes recent trends in the number of international arrivals to the United States and other countries.[3]

The United States is among the top three tourism destinations in the world. In 2001, France had 76.5 million visitors, followed by Spain with 49.3 million visitors, and the United States with 45.5 million visitors.[4] International arrivals to the United States totaled nearly 42 million in 2002. The highest number of arrivals to the United States came from Canada (13 million), followed by Mexico (9.8 million), the United Kingdom (3.8 million), and Japan (3.6 million).

In 2001, international arrivals to the United States decreased by 11% from the previous year, while international arrivals worldwide decreased by only 0.6% (see Table 1). This marked the largest decline for a single year in the history of tracking arrivals to the U.S.[5] In 2002, international arrivals to the United States continued to decline, falling by 7% from the previous year. Visitation levels from Canada, the United Kingdom, Japan, Germany and France all decreased in 2002. Mexico and South Korea were the only two countries to register growth in arrivals to the U.S. in 2002, and these increments were only marginal. Total visitation from Mexico increased 0.5% in 2002, while that from South Korea increased 3.4%.[6]

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[2] The World Tourism Organization is an international organization associated with the United Nations, and serves as a global forum for tourism policy issues. Its membership includes 139 countries, seven territories and some 350 Affiliate Members. See World Tourism Organization website, [http://www.world-tourism.org].

[3] The unit of measure generally used to quantify the volume of international tourism for statistical purposes is the number of international tourist arrivals. International arrival data refer to the number of arrivals and not to the number of persons. One person who makes several trips to a certain country during a time period will be counted as a new arrival each time, and a person who travels through several countries on one trip is counted as a new arrival each time. International visitors include overnight visitors, and same-day visitors.

[4] World Tourism Organization, *Tourism Highlights: 2002.* See [http://www.world-tourism.org].

[5] U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries (OTTI), News Release, *Highlights of 2001 Data Release,* March 28, 2003.

[6] OTTI, "2002 Year End International Arrivals to the United States," April 17, 2003.

**Table 1. U.S. and World International Arrivals: 1992 - 2002**
(Millions)

| Arrivals | 1992 | 1994 | 1996 | 1998 | 2000 | 2001 | 2002[a] |
|---|---|---|---|---|---|---|---|
| U.S. | 47 | 45 | 46 | 46 | 51 | 45 | 42 |
| Rest of world | 454 | 505 | 551 | 583 | 645 | 648 | 673 |
| Total World | 501 | 550 | 597 | 629 | 696 | 693 | 715 |
| U.S. Share | 9.4% | 8.2% | 7.7% | 7.3% | 7.3% | 6.5% | 5.9% |

**Sources:** U.S. Department of Commerce, International Trade Administration, Office of Travel & Tourism Industries. World Tourism Organization.
[a] Preliminary

## U.S. International Trade in Travel Services

U.S. exports in travel services is measured by the amount of spending by foreign travelers in the United States, also referred to as U.S. travel receipts. The United States is by far the world leader in international tourism receipts (or travel services exports), followed by Spain and France. In 2001, the United States accounted for approximately 16% of world tourism receipts, well ahead of Spain (7.1% of total) and France (6.4% of total). U.S. imports in travel services is measured by the amount of spending by U.S. travelers abroad, which is also referred to as U.S. tourism expenditures. The United States is also the leader in imports in travel services, followed by Germany and the United Kingdom. In 2001, U.S. travel services imports totaled $58.9 billion, while Germany's totaled $46.2 billion, and the United Kingdom's totaled $36.5 billion.[7]

Travel services exports (tourism receipts in the United States) are a significant export in the U.S. economy, accounting for 32% of all private services exports in 2002. The share of U.S. travel services exports, as a percentage of all private services exports, however, has fallen notably since 2000. Although this trend had been taking place since the mid-1990s, the recent downturn in the tourism industry caused the share of U.S. exports to fall even further (see Table 2). Total services exports decreased 4.1% in 2001, and then increased 3.8% in 2002. In comparison, travel services exports decreased 11.6% in 2001, and continued to decrease by 3.6% in 2002.

As shown in Table 3, the United States has had a surplus in international trade in travel services since 1990. The surplus rose from $10.4 billion in 1990 to a peak of $26.3 billion in 1996. The U.S. surplus in travel services had been declining since 1996. U.S. imports and exports in travel services both increased during the 1990s, but in the last part of the decade, imports (or U.S. expenditures abroad) increased at a higher rate than exports (U.S. travel receipts). In 2001 and 2002, both U.S. imports and exports in travel services fell, but U.S. exports fell by a higher percentage,

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[7] World Tourism Organization, June 2002.

causing the surplus to fall further. The surplus in travel services decreased from $26 billion in 1996 to $7.5 billion in 2002, a 72% decrease. In comparison, the surplus in all private services trade decreased by 32% during the same time period.

**Table 2. U.S. Exports in Private Services and Travel Services (Tourism Receipts)**
($ in billions)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002[a] |
|---|---|---|---|---|---|---|
| **Export Growth Rates** | | | | | | |
| All Services | 7.4% | 2.1% | 5.2% | 8.2% | -4.1% | 3.8% |
| Travel Services[b] | 4.5% | -3.1% | 3.4% | 9.0% | -11.6% | -3.6% |
| **Travel Services Exports as % Total Services Exports** | | | | | | |
| | 39.5% | 37.5% | 36.8% | 37.1% | 34.2% | 31.8% |

**Source:** U.S. Department of Commerce, Bureau of Economic Analysis, Online U.S. International Transactions Accounts Data, 2003.
[a] Preliminary
[b] Includes Travel and Passenger fares

**Table 3. U.S. Trade in Travel Services and Passenger Fares**
($ in billions)

| Year | Exports[a] | | Imports[a] | | Trade Balance | |
|---|---|---|---|---|---|---|
| | **$Billions** | **%Change** | **$Billions** | **%Change** | **$Billions** | **%Change** |
| 1990 | $58.3 | 24.3% | $47.9 | 14.9% | $10.4 | 100.0% |
| 1991 | $64.2 | 10.1% | $45.3 | -5.4% | $18.9 | 81.7% |
| 1992 | $71.4 | 11.2% | $49.2 | 8.6% | $22.2 | 17.5% |
| 1993 | $74.4 | 4.2% | $52.1 | 5.9% | $22.3 | 0.5% |
| 1994 | $75.4 | 1.3% | $56.8 | 9.0% | $18.6 | -16.6% |
| 1995 | $82.3 | 9.2% | $59.6 | 4.9% | $22.7 | 22.0% |
| 1996 | $90.2 | 9.6% | $63.9 | 7.2% | $26.3 | 15.9% |
| 1997 | $94.3 | 4.5% | $70.2 | 9.9% | $24.1 | -8.4% |
| 1998 | $91.4 | -3.1% | $76.5 | 9.0% | $14.9 | -38.2% |
| 1999 | $94.5 | 3.4% | $80.5 | 5.2% | $14.0 | -6.0% |
| 2000 | $103.0 | 9.0% | $89.1 | 10.7% | $13.9 | -0.7% |
| 2001 | $91.1 | -11.6% | $82.5 | -7.4% | $8.6 | -38.1% |
| 2002[p] | $87.8 | -3.6% | $80.3 | -2.7% | $7.5 | -12.8% |

**Source:** U.S. Department of Commerce, Bureau of Economic Analysis, Online U.S. International Transactions Accounts Data, 2003.
[a] Includes Travel and Passenger fares.

Travel and tourism receipts have fallen in other countries as well. In the United Kingdom, for example, tourism receipts fell by $3.2 billion, or 16.7% in 2001. A small number of countries, however, such as Spain and China, had higher tourism receipts in 2001 than in 2000. China and other Asian destinations, however, have been heavily affected by the 2003 severe acute respiratory syndrome (SARS) epidemic, as well as the economic slowdown in the United States (see section below on employment).

The top five markets in 2001 which generated U.S. exports in travel and passenger fares, or expenditures in the United States by international travelers, were the following: United Kingdom ($11.9 billion, down 16% from 2000), Japan ($11.7 billion, down 16%), Canada ($8.2 billion, down 7%), Mexico ($6.3 billion, up 1%), and Germany ($3.7 billion, down 27%).[8] Mexico was the only one of these countries that increased spending on travel and passenger fares to the United States in 2001.[9]

## Employment in Travel and Tourism Industries

Travel and tourism related industries have been particularly affected by the security concerns related to the September 11 attacks, the war with Iraq, and also by the slowdown in the U.S. economy. A significant number of jobs that have been lost since 2000 are in travel-related industries. Jobs directly related to travel and tourism include those in the hotel and lodging industry, amusement and recreation services, air transportation, and travel agencies. Other travel-related sectors include passenger rail transportation, cruise lines, food service, and rental cars. According to the U.S. Travel Industry Association of America (TIA), the U.S. travel and tourism industry employs 7.9 million people, or 6% of total U.S. employment, in direct travel-generated jobs. Direct travel-generated jobs include transportation, lodging, meals, entertainment, recreation, and incidental items. In direct and induced travel-generated jobs, TIA estimates that the travel and tourism industry employs about 18 million people.[10]

The data presented in this section focus on four industries that are directly related to travel and tourism, and for which employment figures are readily available. These include hotels and lodging, amusement and recreation services, air transportation, and travel agencies. The employment numbers presented in Table 4 are lower than the TIA estimates because they do not include employment in the food service industry, entertainment, or retail stores. As of March 2003, employment in hotels and lodging, amusement and recreation, air transportation, and travel agencies totaled 4.7 million people, or about 3.6% of total U.S. employment. The hotel and lodging sector had the highest employment level, with 1.8 million jobs, followed by amusement & recreation services, with 1.6 million jobs; air transportation, with 1.1 million jobs; and travel agencies, with 133 thousand jobs (see Table 4).

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[8] ITA, Office of Travel & Tourism Industries, *Highlights of 2001 Data Release,* March 28, 2003.

[9] Data for 2002 are not available by individual country.

[10] Travel Industry Association of America (TIA), *Tourism Talking Points,* May 2003.

**Table 4. Employment in Industries Related to Travel and Tourism**
(Thousands)[a]

| | 1999 | 2000 | 2001 | 2002 | 1st qrtr 2002[b] | 1st qrtr 2003[c] |
|---|---|---|---|---|---|---|
| Hotel and Lodging | 1,848 | 1,900 | 1,870 | 1,798 | 1,811 | 1,779 |
| 12-month change | 59 | 52 | -30 | -72 | -100 | -32 |
| Amusement & Recreation Svcs | 1,651 | 1,722 | 1,722 | 1,642 | 1,635 | 1,627 |
| 12-month change | 57 | 71 | 0 | -80 | -117 | -8 |
| Air Transportation | 1,227 | 1,280 | 1,266 | 1,161 | 1,172 | 1,144 |
| 12-month change | 46 | 53 | -14 | -105 | -123 | –28 |
| Travel Agencies | 173 | 170 | 161 | 139 | 145 | 133 |
| 12-month change | 0 | -3 | -9 | -22 | -25 | -11 |
| **Total Travel and Tourism Related** | **4,899** | **5,072** | **5,019** | **4,740** | **4,763** | **4,683** |
| **12-month change** | **162** | **173** | **-53** | **-279** | **-79** | **-203** |
| **Total Nonfarm** | **128,916** | **131,720** | **131,922** | **130,791** | **130,701** | **130,396** |
| **12-month change** | **3,051** | **2,804** | **202** | **-1,131** | **-1,760** | **-305** |

**Source:** U.S. Department of Labor, Bureau of Labor Statistics.
[a] All quarterly data are seasonally adjusted, with the exception of Travel Agencies. Seasonally adjusted data for Travel Agencies were not available.
[b] Net change indicates net change from first quarter 2001.
[c] Preliminary

Total U.S. employment has fallen since 2000, but travel-related sectors have experienced some of the highest job losses in the country. Data from the Bureau of Labor Statistics (BLS) show that between 2000 and the first quarter of 2003, employment in travel and tourism related industries declined by 389,000 jobs, or about 8%. The highest losses were in the air transportation sector, which experienced a decline of 136,000 jobs, or 11%. In the same time period, the hotel and lodging sector lost 121,000 jobs (6%), and the amusement and recreation services sector has lost 95,000 jobs (6%). Travel agencies experienced the highest percentage decrease, 22%, or 37,000 jobs.[11] During the same time period, total U.S. non-farm employment declined by 1.3 million jobs, or about 1% of total employment. Employment in the travel and tourism sectors listed in Table 4 represented nearly 30% of total non-farm job losses.

[11] Technology changes (i.e., use of internet reservations) may be a major contributing factor in declining number of travel agencies and related employment.

BLS data for April of 2003 continued to show workforce reductions in travel and tourism related sectors. In April 2003, employment in amusement and recreation services declined by 41,000 jobs, while employment in hotel and other lodging places decreased by 20,000.[12] Employment in air transportation also continued to decline, with a loss of 18,000 jobs. If all tourism-related industries are taken into account, including jobs in food service and retail, total job losses would be even higher. Morgan Stanley estimated that tourism-related industries have suffered a disproportionate number of job losses in 2003, accounting for nearly half the job losses in the nation over the first few months of 2003, even though they account for only one in ten private-sector jobs.[13]

In China and other Asian countries, the SARS virus has caused even further job losses in the travel industry. The Financial Times recently reported that nearly one million travel-related jobs (direct and indirect) were lost in early 2003 in China's Guangdong Province alone due to SARS and the war with Iraq. The article is based on an International Labor Organization (ILO) report that estimates that the SARS outbreak could cause a total job loss of five million, or 6% of total travel-related jobs, in the worldwide travel and tourism industry.[14] The ILO estimates that countries directly affected by the virus will lose more than 30% of travel-related jobs. Other countries in the Asia-Pacific region could lose 15% of travel-related jobs, and countries in the rest of the world could lose 5%. Recovery from the SARS-related downturn is underway, but the net long-term effects are still unknown.

## Uncertainties in Travel and Tourism Sectors

The effect of recent political and economic uncertainties on U.S. trade in travel services and on travel-related employment highlight the vulnerability of the travel and tourism industry to external factors. These factors have taken a toll on many business activities, but travel and tourism have been particularly affected, indicating that, in times of uncertainty, spending on travel and tourism is one of the areas most affected. Some analysts believe that travel-related industries will recover from these events, as they have past events, such as the 1991 Gulf War. Others believe that the combination of factors have been very damaging to the industry. They believe that recovery could be considerably longer for travel-related industries than it has in the past, and that recovery may be more challenging for travel-related industries than for the economy as a whole.

### Declining Industry Sales and Profits

The airline industry has been struggling since the events of September 11. Nine of the ten largest major U.S. airline carriers have had heavy losses over the past two years, with one of those carriers now operating in bankruptcy. The profitability of

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[12] United States Bureau of Labor Statistics, *News,* "Employment Situation Summary," April 2003.

[13] *The Economist,* "Another Bush, Another Jobless Recovery," May 10, 2003, p. 25.

[14] *Financial Times,* "Tourist Trade Fears 5 Million Job Losses," May 15, 2003.

airline companies has been affected by the combination of factors, including lower numbers of passengers and higher fuel costs. Many air carriers have had to cut flights and reduce prices, and, consequently, reduce their earnings forecasts. In March 2003, Standard & Poor's estimated that, even without the potential effects of the war with Iraq, the top ten carriers in the United States may lose about $6.5 billion in 2003. Domestic airline capacity declined 4.4% in 2002, and 3.0% in 2001.[15] There are indications that, because of the challenges the airline industry is facing, the airline industry is potentially experiencing a period of major structural change.

The hotel industry is also facing challenges because of the decline in travel. Business travel has fallen more than 10% since 2000.[16] In 2002, preliminary data indicate that the hotel occupancy rate was expected to decline for the second consecutive year to 59.5%, the lowest level seen in more than a decade. Another key industry measure, revenue per available room, has also declined. After the September 11 attacks, the revenue per available room fell by 21.9% in September, 16% in October, and 14.7% in November 2001. For the entire year of 2001, the ratio declined by 6.9%. In 2002, the ratio declined for the second consecutive year, with a decline of 2.6%.

The American Society of Travel Agents (ASTA) recently stated that the drop in travel due to security concerns, the weak economy, and the SARS outbreak have been overwhelming for travel agents in the United States. Although the dollar volume of air sales by travel agencies still accounts for a majority of sales, it is declining considerably. Travel agency sales of air travel declined from $76 billion in 2000 to $57 billion in 2002, a 25% drop (see Table 5).[17] The SARS virus outbreak in Asia may cause sales to fall even further in 2003. Travel agency industry representatives expect a recovery in the industry, but also expect the recovery period to be considerably longer than the 18 month recovery time after the Gulf War.

The decline in travel agent sales caused by recent events comes in addition to the other challenges faced by travel agencies in recent years. Travel agencies have been facing increasing competition from online travel sites since the mid-1990s. As an example of this trend, a recent poll shows that the number of visitors who used a travel agent to plan their trip to Las Vegas declined for the fifth consecutive year in 2002. The percent of travelers using travel agent assistance for booking travel to Las Vegas decreased 15 percentage points between 1998 and 2002.[18] Another factor facing the industry is decreasing commissions. Airlines have decreased or stopped paying commissions on most tickets, which has also affected travel agency revenues. As a result of these challenges, travel agencies have taken measures such as merging to cut costs, moving from storefronts to home-based businesses, and trimming

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[15] Standard & Poor's Industry Surveys (S&P), *Airlines,* March 27, 2003.

[16] Barron's Online, "Time to Check in?," by Dimitra DeFotis, April 28, 2003.

[17] U.S. House of Representatives Subcommittee on Commerce, Trade, and Consumer Protection; Testimony by The American Society of Travel Agents (ASTA), "Travel and Tourism in America Today," April 30, 2003.

[18] *Travel Weekly,* "Visitor Poll Shows Web Influence Growing,", June 2, 2003, p. 44.

payrolls. Many travel agencies have closed altogether. The number of agencies in the United States fell 10.5% in 2002 from the previous year.[19]

**Table 5. Travel Agency Sales of Air Transportation**
($ in billions)

| Type of Sale | 2000 | 2001 | 2002 | 2000-2002 % Change |
|---|---|---|---|---|
| Domestic Air Fares | 51 | 42 | 35 | -31% |
| International Air Fares | 25 | 22 | 22 | -12% |
| Total Air Fares | 76 | 64 | 57 | -25% |

**Source:** American Society of Travel Agents, April 2003.

One area in which demand for travel agencies remains high is in the booking of cruises. Travel agents book approximately 90% of cruises. Although bookings for cruises dropped in the first quarter of 2003, the cruise industry may be the one travel-related industries in which losses have not been as significant, at least in the short term. According to the ASTA, the cruise industry reports steadily increasing embarkations from North America, but at significantly diminished yields.[20] Cruise lines responded rapidly to the September 11 attacks by repositioning vessels from other parts of the world to North and South American locations. Many U.S. cruise ships are no longer traveling to Asia, the Eastern Mediterranean or Africa because of the security concerns.[21] Cruise lines also have been offering steep discounts on passenger cruises to lure travelers back on board. Bookings fell during the first part of 2003, but have increased since May. The lower prices, however, have resulted in lower net income for the industry.

## SARS Outbreak

The SARS outbreak has significantly affected the regional economy in Asia, which subsequently could affect other regions as well, especially in the tourist and retail trade sectors. International visitor arrivals to China could continue to fall, as could intra-regional visitor arrivals to China, Hong Kong, Singapore, or Taiwan. Global Insight, an economic and financial forecasting company in the United States, analyzed the possible impact of SARS and estimated that the tourism sector in Asia was more likely to be affected than others.[22] In the long term, the outbreak will likely have effects on other sectors of the economy, but the full effect may not be known

[19] *Rocky Mountain News,* "Tripped Up; Travel Agencies Join Forces, Trim Costs, or Check Out as Tourism Woes Take a Heavy Toll," April 2003.

[20] ASTA, pp. 2-3.

[21] *Intellicruise,* "Cruising Outlook for 2003," December 2002. See [http://www2.i-cruise.com].

[22] Global Insight website, *SARS Epidemic's Economic Impact on* Asia, undated. See [http://www.globalinsight.com/Perspective].

for some time. The tourism industry is one of the areas that has often been mentioned by Chinese officials as having been hit hard by the outbreak. A government official recently quoted government estimates that the SARS outbreak will cost China up to $3.6 billion in tax revenues for 2003 and slow down the country's economic growth by at least 0.3%. The official acknowledged that the outbreak already had an "obvious negative impact" on the tourism, catering, and transportation sectors, and that the worst was yet to come.[23] Over time, the epidemic may take a toll on other business activities and may even affect investor confidence, resulting in weaker investment and a decline in foreign capital inflows.

The previously-mentioned International Labor Organization study on threats to employment in the travel and tourism industry analyzes some of the impacts of recent world events on travel-related employment. The report specifically addresses the potential impact of SARS on world travel, suggesting that, if the SARS virus is not contained, it has the potential to profoundly change the lifestyles of large populations, particularly in areas such as public transportation and retail, which are related to tourism. The report estimates that the travel and tourism business lost at least one-third of its activities in locations directly affected by SARS.[24] The threat of SARS appears to have diminished, according to newspaper accounts, but the ILO report brings attention to the vulnerability of the tourism industry if another SARS outbreak, or something similar, were to occur. Some newspapers have reported that there is a possibility of SARS reappearing next winter, which indicates that the full effects of the outbreak are yet unknown.

## Economic Performance of Major Tourism Destinations in the U.S.

The ten most visited tourism destinations in the United States are: New York, New York; Los Angeles, California; Miami, Florida; Orlando, Florida; San Francisco, California; Las Vegas, Nevada; Honolulu, Hawaii; Washington, D.C.; Chicago, Illinois; and Boston, Massachusetts. Some of these metropolitan areas, such as Orlando and Honolulu, have economies that rely more heavily on tourism because it is the major source of employment and earnings. Other metropolitan areas, such as Chicago and Washington, D.C., have more diversified economies and depend less on tourism. Nearly all of these cities experienced a decline in employment since late 2001, with recovery coming at a slower rate for some regions than others. The following paragraphs describe the recent economic performance in these metropolitan areas. The economic analysis presented below is primarily drawn from the regional economic analysis for the ten metropolitan areas reported by Global Insight, an economic and financial forecasting company in the United States.[25]

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[23] *Daily Report for Executives,* "China's SARS Outbreak Projected to Cost up to $3.6 Billion in Tax Revenues for 2003,", May 20, 2003.

[24] International Labour Organization, "New Threats to Employment in the Travel and Tourism Industry - 2003," May 13, 2003.

[25] *Global Insight,* U.S. Regional Online Analysis, [http://www.globalinsight.com], 2003.

- **New York, New York:** The major industries in the New York City metro area are finance, insurance, real estate, and business services. As a popular tourist destination, travel and tourism play an important role in the local economy. Since 2000, the metro area has experienced economic difficulties, and, consequently, decreasing employment levels. Employment in service-providing sectors, which include tourism and travel related sectors, represented a significant portion of the decline over this time period, with a loss of 37,300 jobs. Employment in the metro area is expected to improve gradually through 2005, with much of the rebound expected in service industries.

- **Los Angeles, California:** Los Angeles has a broad-based economy and ranks among the nation's top three metro areas for employment in the service industry, of which travel and tourism related sectors are a part. Other major industries in the area include aerospace, business services, and manufacturing. Entertainment services industries, such as Walt Disney and Universal Studios, are among Los Angeles' major employers. Employment in the Los Angeles metro area decreased 1% in 2002. While most service sectors have been showing a slow recovery in 2003, leisure and other services have been the source of most recent job gains in the area. In 2004, the economy is expected to grow to a more stable position.

- **Miami, Florida:** Major industries in the Miami metro area include health-care services, transportation services (airline and cruise ship companies), and biomedical manufacturing. Three of the ten largest employers in the Miami metro area - American Airlines, Royal Caribbean, and Carnival Cruise Lines - are in travel and tourism related sectors. Miami's employment levels decreased 0.7% in 2002, but have been improving in 2003. Much of the growth is due to service-producing sectors, including leisure and hospitality services. Although employment levels are expected to increase through 2004, the Miami metro area's unemployment level remains high at 7.3%.

- **Orlando, Florida:** The economy of Orlando, Florida is highly concentrated in the tourism industry. The Disney theme parks, Universal Studios, and Sea World and other attractions bring in nearly 40 million tourists a year. Travelers to the area are responsible for more than $15 billion in direct spending in the local economy every year. Tourism has contributed to a strong service sector as well. About 43% of employment in the area is in service-related jobs, including hotels and lodging, and amusement and recreation services. After a number of years of economic growth, the Orlando economy experienced a downturn in 2001 and 2002. The economy is expected to recover in 2003, with stronger growth projected for 2004. The strongest growth is expected to come from the service sector, which is expected to average 2.6% in employment growth for the period of 2003 to 2007. U.S. residents are expected to start traveling again, especially within the United States, which would benefit Orlando's economy.

- **San Francisco, California:** The primary industries in the San Francisco metro area are in multimedia, biotechnology, and financial services. The area also has a strong tourist industry. One of the ten major employers in the area is in retail trade, a tourism-related sector. The area has plans for a major terminal for cruise ships, which will include berths designed to accommodate two cruise ships simultaneously, and retail and entertainment space. In addition, the area has plans for expanding professional sporting events which is expected to increase visitors to the area. The San Francisco economy has not performed well in the last few years, mostly because of the slowdown in the high-tech industry, and not because of issues related to tourism. In the first quarter of 2003, the leisure service sector was one of the few sectors that showed signs of stability. Projections indicate that employment growth rates in the region will not return to positive numbers until 2004. Service industries are expected to be a source of economic growth in coming years.

- **Las Vegas, Nevada:** Gaming and tourism are the dominant industries in the Last Vegas economy. Over 25% of the work force is directly involved in the hotel and gaming industry. Seven of the largest employers in Las Vegas are hotels and casinos. The September 11 events resulted in a considerable decline in visitor volume. After a growth rate of 10.5% in 1999 and 6.0% in 2000, visitor volume decreased 2.3% in 2001. Recovery has been slow. In April 2003, visitor volume was 1.5% below the April 2002 levels, but up slightly since the beginning of 2003. Hotel occupancy rates in April 2003 were 86%, 1.5 percentage points below a year earlier. Despite the slowdown, expansion plans for hotel and casino operations in Las Vegas continue. In 2003, existing hotels plan to add 3,800 rooms, while several other hotel expansion projects are planned for coming years. The Las Vegas metropolitan area experienced above-average economic growth for several years, with the average annual rate for the years 1997 to 2002 registering 4.5%. Employment growth rates began to improve in the last part of 2002. In the leisure and hospitality sector, employment registered some growth in 2002, which has continued into 2003. Employment growth is expected to continue to increase in 2004. Visitor volume also is expected to increase as the economy recovers, which will increase employment in the service-providing sectors.

- **Honolulu, Hawaii:** The Honolulu metropolitan area encompasses the entire island of Oahu, and accounts for over 75% of Hawaii's non-farm jobs. Tourism is the major industry in the metro area's economy, with three of Honolulu's nine largest employers in tourism-related sectors. Two employers, Outrigger Hotels & Resorts and Kyo-ya Co., are in hotel services and retail sectors. The other, Hawaiian Airlines, is an airline company. Other industries in the metro area include food processing and commercial real estate. After 2001, Honolulu's economy experienced a slowdown, with the tourism related sectors among the most affected. Tourism sectors experienced a decline in employment after the September 11 terrorist attacks, but, since October 2002, employment growth has been recovering. In March 2003, employment levels in the service-providing sectors have increased to levels near those in late 2000 and early 2001. The unemployment rate in Honolulu was 3.2% in March, 2003, well below the national rate of 5.8%.

- **Washington, D.C.:** Washington, D.C. is a major destination for tourists and business travelers. The concentration of convention and conference locations in the metro area draws a considerable amount of activity. Washington recently completed a large convention center and opened 12 new hotels in 2002. The completion of the new Washington Convention Center is expected to provide the local economy with $1.4 billion in annual earnings. As the nation's capital, the economy in the Washington, D.C. metro area has a high number of government jobs. In addition to the government sector, service-related sectors account for a substantial portion of economic activity in the area. Service-related industries, along with the strong government sector, account for more than 75% of the metro area's non-farm employment. The September 11 terrorist attacks caused a slowdown in the Washington, D.C. metro area's economic activity immediately following the attacks, but there were some signs of recovery in the first half of 2002. The leisure and hospitality sector is one of the best performing sectors in the local economy. Employment in this sector increased 2.1% for the 12-month period ending in April 2003.

- **Chicago, Illinois:** Major industries in the Chicago metropolitan area include business and professional services, commercial real estate, finance and insurance services, and manufacturing. As a top tourist destination, the retail and transportation sectors are also major contributors to the economy. Two of the ten largest employers in the Chicago area, United Airlines and American Airlines, are in the air transportation industry. Economic growth in Chicago was slow in 2002 and has not shown any improvement in the first months of 2003. The recent problems facing the airline industry have contributed to the drop in employment in the Chicago area. However, because Chicago has a diversified economy, the region is not very vulnerable to a slowdown in one particular industry or industry cluster. The recent problems in travel and tourism sectors have likely had only mild effects on the city's economy.

- **Boston, Massachusetts:** Boston is a major tourist destination in the United States, and the service sector has been a major source of economic activity for the area. However, the area's tourism industry did not perform well in 2002, and employment in the service sector contracted by 1.6% in 2002. Other major industries in the Boston metro area include high-technology industries, educational services, financial services, health-care services, construction, and transportation services. In 2002, Boston experienced the worst economic decline in over a decade. The first quarter of 2003 continued to show contraction in employment, but at a lower rate than the last quarter of 2002. The service sector, usually a major contributor to economic activity, also experienced job losses. While the metro area's overall economy is not expected to experience employment growth in 2003, the service sector is expected to experience some job growth. In 2004, employment is expected to grow modestly.

## U.S. Travel and Tourism Outlook

The Secretary-General of the World Tourism Organization believes that, in the long run, the international tourism industry will recover from the recent downturn. He issued a statement earlier this year citing research that has shown that the tourism industry has adjusted to previous times of uncertainty. In the statement, he mentions that international tourism was resilient enough to recuperate quickly, especially in the case of a short and contained war with Iraq. He believes that the crises have led to accelerating changes in consumer habits and the growth of new low-cost airlines.[26] A research study by the World Travel and Tourism Council states that travel and tourism in the United States is expected to achieve real growth of 3.8% per annum between 2004 and 2013. The study also estimates that capital investment in travel and tourism in the United States will fall in 2003, but will increase over the next ten years. The study estimates the world tourism market to grow slightly faster than the U.S. market between 2003 and 2013.[27]

The September 11 attacks will have a long term impact on the airline industry. Airlines have faced financial difficulties in the past, but none have been as serious as the those caused by the terrorist attacks. A number of U.S. airlines are facing serious liquidity problems and may have difficulties surviving another downturn in the economy. One of the possible outcomes is a major change in how the industry operates. Airlines are under pressure to change cost structures and operational strategies. They may make significant changes in order to survive and compete with profitable low-cost carriers. At least one major carrier has launched a "low-cost" airline subsidiary to lower operational costs, while others are seriously considering this strategy. Some industry experts have called for reregulation of the U.S. airline industry because of the current crisis. Although the government has not taken any action in that direction, a few analysts believe that, in the future, federal regulators

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[26] World Tourism Organization, News Release, "War in Iraq may Postpone Tourism Growth but will not Cause Collapse," March 21, 2003.

[27] World Travel & Tourism Council, *United States: Travel & Tourism: A World of Opportunity, Executive Summary,* 2003.

may become more active in overseeing airlines.[28] Such activity, however, would require congressional action. To date, no legislation has been introduced for airline reregulation.

In the hotel industry, analysts believe that the occupancy rates and revenues per available room may improve in 2003, but are not likely to reach the peak levels of 2000 in the short term. In the long term, some analysts predict that demographic trends in the United States will have a favorable impact on the hotel and lodging industry as some baby boomers reach their peak earning years and spend more money on vacations. Also, the number of retirees will increase in coming years and they are expected to travel more.[29] According to a recent poll by Price Waterhouse-Coopers, occupancy rates in U.S. hotels are expected to go up this summer, surpassing the 2002 levels but still below the occupancy rate for the same period in 2001. The anticipated increase is based on an increase in drive travel, the end of hostilities with Iraq, and an improved economic outlook.[30]

## Legislation and Legislative Issues in the 108th Congress

The FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) includes a one-time appropriation of $50 million for an international marketing campaign to encourage individuals to travel to the United States. The appropriations act calls for the creation of the United States Travel and Tourism Promotion Advisory Board, which will be appointed by the U.S. Secretary of Commerce. The act requires the Secretary of Commerce to consult with the private sector to award grants and make direct lump sum payments in support of an international advertising and promotional campaign consisting of radio, television, and print advertising and marketing programs.

The Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-011) includes a provision for $2.9 billion in assistance to the airline industry. The Act provides grants for airline companies to reimburse them for increasing security costs; extends the War Risk Insurance Program; and provides funding for unemployed airline industry-related workers.

Bills have been introduced in the 108th Congress to provide assistance to the airline industry and also to help promote travel and tourism in the United States. One bill (H.R. 2002) would establish a pilot program for the promotion of travel and tourism in the United States through U.S. international broadcasting.

Regulatory issues regarding the travel industry that may be of interest to Congress are related to the pending rules and regulations of the State Department and the new Department of Homeland Security (DHS). Travel industry associations are

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[28] S&P, *Airlines,* p. 9.

[29] S&P Industry Surveys, *Lodging and Gaming,* February 6, 2003.

[30] *Travel Weekly,* "Poll: Summer Looks Better for Hotels," June 2 2003, p. 21

concerned that the Administration's new rules and regulations regarding visas and passports may have an effect on travel. The American Society of Travel Agents recently issued a statement that while travel industry organizations support the new security considerations, they would like to see the creation of an office within DHS to provide review and comment on the potential for serious travel disruptions that may arise from pending DHS rules and regulations.

In January 2004, DHS plans to implement the U.S. Visitor and Immigrant Status Indication Technology system (U.S. VISIT). According to DHS, the plan is designed to make entering the U.S. easier for legitimate tourists, students and business travelers, while making it more difficult to enter the U.S. illegally due to the implementation of biometrically authenticated documents. Travel industry associations have voiced concern that the program may cause delays in the movement of legitimate travelers into the United States.

Another issue that the travel industry has voiced concerns about is related to the State Department's Visa Waiver Program (VWP) which permits international travelers from 27 countries to visit the United States for up to 90 days without the need for a U.S. visa. The VWP originally required that all Visa Waiver travelers possess a machine-readable passport by October 1, 2007. The USA Patriot Act (PL 107-056) accelerated the deadline to October 1, 2003, but granted the State Department the authority to waive this requirement until the original deadline of October 2007, if the country in question is making an effort to distribute the machine-readable passports. The State Department has not waived this requirement for any of the VWP countries. Travel industry associations are concerned that the shorter deadline could disrupt travel to the United States from several countries, including several European countries.

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# Government Advertisement of Tourism: Recent Action and Longstanding Controversies

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# Government Advertisement of Tourism: Recent Action and Longstanding Controversies

## Summary

The federal government's role in promoting U.S. tourism through advertisements has waxed and waned during the past four decades. In 1961, Congress established an office within the Department of Commerce dedicated to promoting tourism to the United States, but in 1996 it abolished that office. In February 2003, in the wake of a decline in U.S. tourism, Congress established the United States Travel and Tourism Promotion Advisory Board (USTTAB) and provided $50 million for the Secretary of Commerce to use in a Visit America advertising campaign. Before the campaign began, however, Congress rescinded all but $6 million of the appropriation. In September 2003, legislation was introduced (H.R. 3164) to abolish USTTAB. P.L. 108-447 appropriated $10 million more for the Visit America campaign. P.L. 109-108 provided another $4 million.

These contrasting congressional actions demonstrate that the federal funding of tourism advertisements, like government advertising generally, is controversial. Proponents of federal tourism advertising argue that it is good economic policy. Federal tourism advertising, they say, boosts the number of foreign visitors to the United States, which brings economic benefits. Proponents make four arguments in favor of federal tourism advertising: first, federal tourism promotion is a tool for helping U.S. tourism industry firms increase sales; second, it is a necessary response to foreign nations' marketing of their own countries as tourist destinations; third, tourism advertising is a tool for reducing the United States' trade deficit with the rest of the world; and, fourth, it is a reasonable response to a tourism slump caused by extraordinary events, such as the attacks of September 11, 2001.

Critics respond that there is little evidence that federal tourism advertising policy has increased visits to the United States. Critics also take issue with federal tourism advertising on four grounds: first, there is no market failure to justify the intervention of the federal government; second, federal tourism advertising is unnecessary because the United States already is a top destination for tourists; third, the U.S. trade deficit is not a result of lagging foreign tourism to the United States; and, fourth, the U.S. tourism industry is recovering from its slump on its own and does not need federal advertising to boost it. Critics further contend that tourism promotion is not an effective policy because macroeconomic factors are far more powerful variables than advertising in affecting individuals' decisions to travel internationally.

This report concludes by considering the difficulty of assessing the results of government tourism advertising programs. Empirical evidence on the efficacy of federal tourism advertising is, surprisingly, in short supply. Many variables — such as safety, affordability, and ease of access — can affect the decision of an individual to travel, which makes it very difficult to determine the power of advertisements in those decisions. This report will be updated annually.

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## Background

The Department of Commerce has had an office or administration to promote tourism to foreign citizens through advertisements for much of the past four decades.[1] President John F. Kennedy signed P.L. 87-63, the International Travel Act of 1961 (ITA), on June 29, 1961. It required the Secretary of Commerce to "develop, plan, and carry out a comprehensive program designed to stimulate and encourage travel to the United States by residents of foreign countries."[2] Prior to the enactment of ITA, a number of federal agencies promoted tourism through advertisements and other means. These programs, however, were small and often were undertaken without explicit authorization from Congress.[3]

ITA also established the U.S. Travel Service (USTS) within the Department of Commerce and authorized appropriations of $3 million for FY1962 and $4.7 million in following years.[4] The stated objective of the legislation was to redress the balance-

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[1] Federal tourism promotion goes back at least to the 1930s. Secretary Harold L. Ickes of the Department of the Interior established the U.S. Travel Bureau on Feb. 4, 1937. P.L. 76-744 (1940) empowered the National Park Service to promote tourism. Both the U.S. Travel Bureau and the National Park Service program were shuttered in 1941 and 1942 to conserve funds for the U.S. effort in World War II. Bruce MacNamee (Director of the U.S. Travel Bureau), "U.S. to Widen 'See America' Travel Drive," *New York Times*, Oct. 15, 1939, p. A9. On the origins of the National Park Service's tourism promotion programs, see testimony of Priscilla R. Baker, Assistant to the Director for Tourism, National Park Service, Department of the Interior, in U.S. Congress, Subcommittee on Business, Trade, and Tourism, Senate Committee on Commerce, Science, and Transportation, *Promotion of Domestic Tourism*, 99th Cong., 1st sess., Nov. 19, 1985 (Washington: GPO, 1986), pp. 17-20. On government advertising generally, see CRS Report RS21746, *Government Advertising Expenditures: An Overview*, by Kevin R. Kosar.

[2] P.L. 87-63, § 2.

[3] For a dated but still useful examination of the federal role in tourism promotion, see National Tourism Review Commission, *Destination USA: Volume 4: Federal Role* (Washington: GPO, June 1973). On federal efforts to boost tourism from the United States to Europe, see Christopher Endy, *Cold War Holidays: American Tourism in France* (University of North Carolina Press, 2004), pp. 33-54.

[4] The year before, the Department of Commerce's very small tourism promotion program had a budget of just $165,000. David Halberstam, "Federal Travel Service Launched," *New York Times*, June 25, 1961, p. 1.

of-payments deficit between the United States and the rest of the world.[5] At the time, the United States was spending $3.5 billion more abroad than foreigners were spending in the United States, and $1.1 billion of that gap was attributed to Americans' travel and tourism spending abroad.[6] One consequence of the deficit was the build-up of dollar liabilities to foreigners. In the 1960s, the balance of payments was a major political issue because a lingering payments deficit raised the possibility of a "gold drain."[7] That is, foreign central banks that held U.S. dollars could exchange those dollars for gold held by the United States. Since the amount of U.S. dollars in circulation was linked to the amount of gold in U.S. reserves, a rapid outflow of gold could bring about a decline in the amount of U.S. dollars in circulation, decrease spending in the United States, and set the stage for a recession. To combat the gold drain problem, USTS (and its successor, the U.S. Travel and Tourism Administration, USTTA), aggressively promoted U.S. tour destinations in foreign countries.[8] USTS opened overseas outreach offices, provided translation services, bought advertisements in foreign newspapers and media, and, generally, worked closely with the U.S. tourism industry to draw international visitors.[9]

As a policy, federal tourism advertisement lost much of its initial *raison d'etre* in the early 1970s. Between 1971 and 1975, the United States moved from a fixed exchange rate linked to gold to a floating dollar with no linkage to gold. This meant that foreign central banks could no longer draw gold from U.S. reserves in exchange for dollars they held.[10] Thus, the gold drain problem had disappeared.

Nevertheless, federal advertisement of tourism continued because many in Congress viewed the program as a useful tool for luring international visitors (and their spending) to the United States. Appropriations for USTS climbed until 1977,

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[5] The balance of payments refers to the sum of the current account balance and the capital account balance and provides a systemic accounting of the United States' international economic tranactions. For further information, see CRS Report RL31220, *The Balance of Payments: Meaning and Significance*, by Gary J. Wells.

[6] Halberstam, "Federal Travel Service Launched," *New York Times*, June 25, 1961, p. 1.

[7] The balance of payments problem was perceived to be of sufficient magnitude that President Kennedy felt obliged to send a lengthy message to Congress in July 1963 that advocated a number of policies designed to reduce the "mounting balance of payments deficits" and stem the "large gold outflows." Five years later, President Lyndon B. Johnson did likewise. "The Text of Kennedy's Message Proposing to Cut Balance of Payments Deficits," *New York Times*, July 19, 1963, p. 30; "Text of President's Statement on Balance of Payments Problem and Steps to Meet It," *New York Times*, Jan. 2, 1968, p. 15.

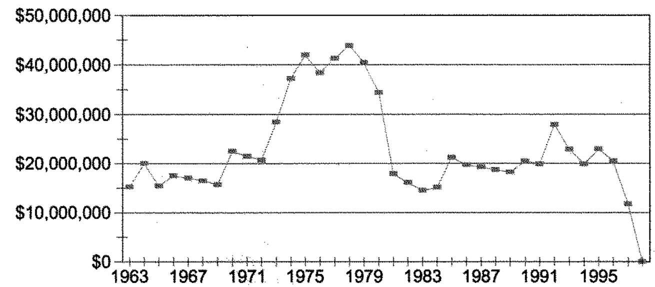
[8] In 1981, Congress replaced USTS with the USTTA (P.L. 97-63).

[9] For an introduction to some of the promotional activities undertaken, see U.S. Travel and Tourism Administration, *Marketing U.S. Tourism Abroad: A Manual of Cooperative Marketing Programs in USTTA Markets, 1993-1994-1995* (Washington: U.S. Department of Commerce, 1993.

[10] At the time, gold reserves had shrunk to about $10 billion, "not nearly enough to redeem the $35 billion believed held by foreign governments." Richard F. Janssen, "Altering the Course: Nixon Devalues Dollar; Sets 90-Day Freeze on Wages and Prices," *Wall Street Journal*, Aug. 16, 1971, pp. 1, 3.

when a series of congressional and presidential actions began to reduce the federal government's role in advertising tourism (see **Figure 1**). Congress temporarily ended the federal role in advertising tourism in 1996 when it abolished the U.S. Travel and Tourism Administration (USTTA), successor to USTS. The duty of keeping statistics on international tourism to the United States was transferred to the new Office of Travel and Tourism Industries (OTTI) within the Department of Commerce; and there were no more appropriations for tourism advertising until 2003.[11]

**Figure 1. USTS/USTTA Appropriations, 1962-1997**
(in 2003 dollars)



Source: Budget of the U.S. Government

## Recent Action

Events of the past few years have reinvigorated congressional interest in the federal advertisement of tourism. The attacks of September 11, 2001, the outbreak of the SARS virus, and other factors helped push down U.S. tourism receipts nearly 12% between 2001 and 2003. Employment in tourism related industries fell sharply, with 390,000 jobs lost.[12]

In February 2003, Congress responded.[13] The Consolidated Appropriations Resolution, 2003 (P.L. 108-7, Sec. 210) authorized the Secretary of Commerce to

> award grants and make direct lump sum payments in support of an international advertising and promotional campaign developed in consultation with the private sector to encourage individuals to travel to the United States consisting of radio, television, and print advertising and marketing programs.[14]

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[11] Anthony Faiola, "Funding Shortfall Cuts Agency's Trip Short," *Washington Post*, Feb. 7, 1996, p. A.17.

[12] CRS Report RL32016, *The Tourism Industry and Economic Issues Affecting It*, by M. Angeles Villarreal.

[13] Congress also appropriated $2.9 billion in aid to the airline industries (P.L. 108-11).

[14] P.L. 108-7, § 210.

This law also established the United States Travel and Tourism Promotion Advisory Board (USTTPAB), which would advise the Secretary on this advertising campaign, and provided a one-time $50 million appropriation (to remain available until expended) for the campaign.[15]

OTTI is responsible for overseeing this "Visit America" advertising campaign. Initially, OTTI planned to target five countries (Canada, Germany, Japan, Mexico, and the United Kingdom) with advertisements.[16] Before the campaign began, however, Congress rescinded $44 million of the appropriation.[17] OTTI scaled back its proposed campaign and refocused the $6 million campaign on the U.K. alone.[18] On March 19, 2004, Edelman, a Chicago-based public relations firm, was awarded the contract to develop and implement the Visit America campaign.[19] In late autumn of 2004, the omnibus appropriation law (P.L. 108-447, Title II) provided an additional $10 million to the program. OTTI expanded the campaign to include Japan in May 2005.[20] Congress appropriated another $4 million in December 2005 (P.L. 109-108).

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[15] USTTPAB is composed of 15 U.S. travel industries executives. Present board members are listed on the website of the Office of Travel and Tourism Industries at [http://tinet.ita.doc.gov/about/us_promo_campaign/advisory_board.html]. The law also included appropriations for other tourism related projects: $1 million for the Black Hills Rural Tourism Marketing Program and $1.5 million for the Center for Tourism Research (P.L. 108-7, §625).

[16] Chris Walsh, "U.S. Tourism Board Faces Funding Cuts," *Rocky Mountain News*, Dec. 9, 2003, p. 17B.

[17] P.L. 108-199, Title VII, enacted Jan. 23, 2004, included a $40 million rescission of funds for the advertising program in Title VII. Section 215 of the law further rescinds $100 million in unobligated Department of Commerce funding, some $4 million of which, according to OTTI, was taken from the promotional campaign, leaving $6 million for the Visit America campaign. A review of the hearing and the reports on the appropriation bills preceding the law that rescinded these funds revealed no disapproval of the advertising campaign; indeed, a number of Members and travel and tourism industry representatives voiced their enthusiasm for it. Exactly why these funds were rescinded is unclear; according to some reports, the funds were rescinded in the course of an effort to locate budget offsets. U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, Travel and Tourism in America Today, hearing, 108th Cong., 1st sess., April 30, 2003 (Washington, GPO, 2003); U.S. Congress, House Committee on Appropriations, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2004*, report to accompany H.R. 2799, 108th Cong., 1st sess., H.Rept. 108-221 (Washington, GPO, 2003); and U.S. Congress, Senate Committee on Appropriations, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2004*, report to accompany S. 1585, 108th Cong., 1st sess., S. Report 108-44 (Washington, GPO, 2003).

[18] U.S. Department of Commerce, "Status Update on U.S. Travel and Tourism Promotion Campaign," press release, Mar. 11, 2004.

[19] Office of Travel and Tourism Industries press release, "U.S. Department of Commerce Names Marketing Contractor for International Tourism Promotion Campaign," March 19, 2004, [http://tinet.ita.doc.gov/tinews/archive/20040319.html], visited May 4, 2004.

[20] U.S. Department of Commerce, "U.S. Aims to Attract Japanese Visitors for First Time," press release, May 25, 2005.

Meanwhile, congressional discomfort with government-sponsored tourism advertising remained. In September 2003, H.R. 3164 was introduced in Congress. The bill proposed abolishing a number of governmental entities and programs, including the USTTPAB. The bill, which "provide[s] for the reduction of the Federal budget deficit by reducing wasteful government spending," was referred to multiple committees on October 6, 2003, but did not receive further action.[21]

## Federal Advertisement of Tourism: Longstanding Controversies

Like other forms of government advertising, the federal advertisement of tourism has been controversial.[22] Since its inception, advocates have contended that tourism advertising is a valuable export-promotion policy that increases tourism and aids the U.S. economy. Critics, meanwhile, have argued that it is an unnecessary government intervention in the economy and is unlikely to increase visits to the United States.

### Arguments in Favor of the Federal Advertisement of Tourism

**The Need for Federal Coordination.** Proponents of federal tourism advertising have argued that the United States is not able to attract as many tourists from abroad as it might. When airlines, hoteliers, restauranteurs, and transportation providers each attempt to sell their services to the foreign consumer at a price sufficient to cover the advertising costs, the result is high-priced trips that too few foreigners are able to purchase.[23] Moreover, these disparate media messages often fail to convince the would-be traveler that the United States is easy to visit. As the national chair of the Travel Industry Association of America (TIAA) told Congress in 1994:

> [P]eople around the world know about the United States.... But they do not know that it is accessible. They do not know that it is easy to get to and that there are packages available. They see [the United States] as this huge bewildering country almost the size of Europe.... We [the United States] need to be out there

[21] Committees include the House Committees on Government Reform, Energy and Commerce, Resources, and Science.

[22] CRS Report RS21746, *Government Advertising Expenditures: An Overview*, by Kevin R. Kosar. Beyond the question of whether or not the federal government should advertise tourism, debates have arisen over distributional issues: i.e., which of the 50 states and thousands of cities and attractions should be promoted? On the disparate levels of international tourism to individual states, see the data available on OTTI's website at [http://tinet.ita.doc.gov/view/f-1996-22-001/index.html].

[23] William McPherson, "Travel Eggs Belong in One Basket: Sen. Javits Would Expand the U.S. Travel Service to 'Orchestrate Official Tourism Efforts,'" *Washington Post*, July 25, 1965, p. G9.

> in the newspapers and the television — packaging our country ... in ways that they can understand it and they can buy it.[24]

Federal tourism advertising supporters also argue that small firms, especially in less well known parts of the United States, are discouraged from tapping the international market by the complexity and cost of an international advertising campaign.[25] Due to these problems, tourism advertising proponents say, tourism industry firms, despite their ability to provide desirable attractions and services, sell far less than they might.

Thus, proponents say, the federal government can play a helpful role as coordinator and promoter. It can encourage firms to lower their prices a little, bundle them together as package plans, and market them to foreign nationals. USTS performed this function in the 1960s; it opened travel offices in a number of major foreign cities (such as London, Mexico City, Paris, and Sydney) that worked with bus, airline, hotel, and travel companies to create low-priced package plans that were advertised in foreign media.[26]

**Foreign Competition for Tourism.** Supporters of federal tourism advertising also say that in order for the United States to get its "fair share" of the international travel market, the federal government must take an active role. Other nations have national tourism bureaus that spent millions of dollars advertising tourism worldwide; the United States should do so as well.[27] The United States should provide citizens of other nations with information on where to go in the United States, what to see, and how to get there — just as it did in the past. For example, USTS distributed posters to travel agents in foreign nations that encouraged foreign travelers to visit the Statue of Liberty, the Grand Canyon, and other U.S. attractions.[28]

"In 2004, the United States ranked third behind France and Spain for world international visitors for the fourth straight year, with 5.9 percent world market

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[24] Testimony of Robert H. Dickinson, National Chairman, Travel Industry of America, in U.S. Congress, Subcommittee on Foreign Commerce and Tourism, Senate Committee on Commerce, Science, and Transportation, *Current Tourism Policy Activities*, 103rd Cong., 2nd sess., July 13, 1994 (Washington: GPO, 1995), pp. 48-49.

[25] Testimony of Richard L. Seely, Assistant Secretary of Commerce for Tourism Marketing, U.S. Travel and Tourism Administration, U.S. Congress, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, *Tourism Marketing*, hearings, 100th Cong., 1st sess., Oct. 8, 1987 (Washington, GPO, 1988), p. 6.

[26] E.g., USTS worked with Greyhound and Trailways bus companies to create an unlimited bus pass, which allowed the foreign visitor to ride as much as he pleased for 99 days for $99. "U.S. Agency Helps Aliens to Cut Rates," *Washington Post*, Dec. 28, 1963, p. B8.

[27] In 1997, Spain spent $150 million to promote itself as a tourism destination. Statement of Rep. Cliff Stearns, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., Apr. 30, 2003 (Washington: GPO, 2003), p. 2.

[28] Posters depicted in the *New York Times*, Apr. 29, 1962, p. 235.

share."[29] Advocates of federal tourism advertising also point out that the U.S. share of annual world visitors has dropped from 8.0% (1996) to 6.0% (2003), the period when federal tourism advertising was halted (see **Table 1**).

## Table 1. International Tourism: The Number of Tourists, 1984-2004[30]

| Year | World Arrivals (millions) | U.S. Arrivals (millions) | U.S. Share |
|---|---|---|---|
| 1984 | 318 | 27 | 8.5% |
| 1985 | 329 | 25 | 7.7% |
| 1986 | 341 | 26 | 7.6% |
| 1987 | 360 | 28 | 7.7% |
| 1988 | 385 | 34 | 8.8% |
| 1989 | 426 | 36 | 8.5% |
| 1990 | 456 | 39 | 8.6% |
| 1991 | 461 | 43 | 9.3% |
| 1992 | 502 | 47 | 9.4% |
| 1993 | 515 | 46 | 8.9% |
| 1994 | 536 | 45 | 8.4% |
| 1995 | 550 | 43 | 7.9% |
| 1996 | 580 | 47 | 8.0% |
| 1997 | 602 | 48 | 8.0% |
| 1998 | 621 | 46 | 7.5% |
| 1999 | 643 | 49 | 7.5% |
| 2000 | 687 | 51 | 7.5% |
| 2001 | 684 | 47 | 6.9% |
| 2002 | 703 | 44 | 6.2% |
| 2003 | 689 | 41 | 6.0% |
| 2004pr | 763 | 46 | 6.0% |

**Note:** pr = preliminary data.

**Source:** U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries & Bureau of Economic Analysis (BEA).

[29] U.S. Department of Commerce, ITA, Office of Travel & Tourism Industries, Bureau of Economic Analysis, & Travel Industry Association of America (TIA), *Key Facts About International Travel and Tourism to the United States, June 2005*, [http://tinet.ita.doc.gov/view/a-2004-403/index.html].

[30] Data available at [http://tinet.ita.doc.gov/outreachpages/inbound.world_us_intl_arrivals.html].

Unless the federal government undertakes a new tourism advertising campaign, proponents contend, the U.S. share of the tourism market may continue to fall. As a travel industry representative testified before Congress in 2002:

> [W]e face stiff competition in the global marketplace. Other countries have recognized the value of international travelers, and they are growing their market shares while our share is declining. In order to increase our share of worldwide travelers, the United States needs to engage in a tourism promotional campaign.[31]

**Table 2. U.S. International Tourism and Travel Balance, 1993-2003**

(in billions of dollars, adjusted for inflation)

| Year | Exports | Imports | Travel Surplus |
|---|---|---|---|
| 1990 | $58.305 | $47.880 | $10.425 |
| 1991 | $64.239 | $45.334 | $18.905 |
| 1992 | $71.360 | $49.155 | $22.205 |
| 1993 | $74.403 | $52.123 | $22.280 |
| 1994 | $75.414 | $56.844 | $18.570 |
| 1995 | $82.304 | $59.579 | $22.725 |
| 1996 | $90.231 | $63.887 | $26.344 |
| 1997 | $94.294 | $70.189 | $24.105 |
| 1998 | $91.423 | $76.454 | $14.969 |
| 1999 | $94.586 | $80.278 | $14.308 |
| 2000 | $103.087 | $88.979 | $14.108 |
| 2001 | $89.819 | $82.833 | $6.986 |
| 2002 | $83.651 | $78.684 | $4.967 |
| 2003 | $80.041 | $78.401 | $1.640 |
| 2004[pr] | $93.339 | $89.336 | $4.003 |

**Note:** pr = preliminary data.

**Source:** U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries & Bureau of Economic Analysis (BEA).

**The Trade Deficit.** The trade deficit — also known as the current account deficit — is the negative net measure of U.S. international transactions in goods, services, investment income, and unilateral transfers. In 2004, the trade deficit was

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[31] Statement of Fred Lounsberry, National Chair, Travel Industry of America, in U.S. Congress, Senate Commerce, Science, and Transportation Committee, Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism, *State of the Tourism Industry One Year After September 11th*, Sept. 25, 2002, 107th Cong., 1st sess., available at [http://commerce.senate.gov/hearings/092502Lounsberry.pdf], visited Aug. 27, 2004. See also Statement of Jonathan Tisch, Chairman of the Travel Business Roundtable, in U.S. Congress, Senate Commerce, Science, and Transportation Committee, Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism, *State of the Tourism Industry One Year After September 11th*, Sept. 25, 2002, 107th Cong., 1st sess., available at [http://commerce.senate.gov/hearings/092502tisch.pdf], visited Aug. 26, 2004.

$665.5 billion, and preliminary figures suggest that it will reach $700 billion for 2005.[32] In order to reduce the trade deficit, proponents have argued that the United States should increase the number of its international visitors. Since travel and tourism purchases are a portion of international trade, they reason, the federal government can reduce the trade deficit by boosting international visits to the United States. Tourism, as **Table 2** shows (above), is a positive contributor to the U.S. current account, with exports consistently outstripping payments.

Finally, proponents contend that the United States, vis-a-vis other nations, has an inherent advantage in tourism that must be maximized through governmental action. The United States is, in short, a large and very attractive place. As one Member of Congress put it:

> No other country can boast the diverse set of attractions that we are so fortunate to possess. From our coasts to our mountain ranges, from our national parks to our first-rate metropolitan cities, America has it all.... Our task now is to determine how best to lure visitors to our country's tourist attractions.[33]

Proponents say that it is a basic truth about trade that nations, in order to reap maximum economic gain, should concentrate in those industries in which they have a comparative advantage vis-a-vis other nations.[34] So smart policy means undertaking actions (such as advertising) that increase the United States' comparative advantage in tourism.

**The Need to Respond to the Tourism Industry Slump.** Advocates of tourism advertising point out that foreign tourism to the United States has declined dramatically between the years 2000 and 2003, from 51 million to 41 million. The cause was not poor performance by the companies and people in the U.S. tourism industry. Rather, the cause lies in extraordinary shocks to the tourism market, such as the SARS virus, the attacks of September 11, 2001, and the world economic slowdown.

In the face of such shocks, proponents argue that it is appropriate that the federal government take action to help the tourism industry get back on its feet. This, proponents say, is not a giveaway to corporate interests; rather, it is a program to create widespread benefits. Foreign tourism to the United States generates jobs and contributes billions in tax revenues to local, state, and federal governments.[35] In the

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[32] CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig Elwell; and Edmund L. Andrews, "Trade Deficit Hits Record, Threatening U.S. growth," *New York Times*, Dec. 15, 2005, p. C3.

[33] Statement of Rep. Gene Green, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 6.

[34] David Ricardo, *On the Principles of Political Economy and Taxation* (London: John Murray, 1821), chapter 7, at [http://www.econlib.org/library/Ricardo/ricP.html].

[35] Testimony of Rolf Lundberg, in U.S. Congress, House Committee on Energy and (continued...)

year 2000, for example, international travel was a $103 billion industry in the United States that supported 1 million jobs.[36]

## Arguments Against the Federal Advertisement of Tourism

**No Need of Federal Involvement.** Critics respond that it is unclear whether there ever was a problem that justified government intervention.[37] Government, they argue, should intervene in a market only in the event of a market failure.[38] A market failure occurs when a market does not allocate resources efficiently. The challenges the tourism industry faced (as described above by proponents), they argue, were not public good, free rider, monopoly, or asymmetric information market failures. Thus, tourism service providers should have been allowed to sort matters out themselves and to produce their own advertisements.

Moreover, critics add, even if one were to concede that a market failure exists, that still does not necessitate the need for federal intervention. Other actors, such as state governments or industry groups, can intervene if needed; indeed, market failure or not, plenty of nonfederal actors have. Every state has an office of tourism that promotes tourism. States are doing this through toll-free phone numbers for visitor inquiries, promotional tours for the press, and more.[39] The State of Texas alone appropriated almost $20 million per annum to its Department of Transportation for

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[35](...continued)
Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 8. The Travel Industry Association of America reports that tourism — both domestic and international — "directly generated more than 7.2 million jobs with over $158 billion in payroll income for Americans, as well as $94.7 billion tax revenue for federal, state and local governments." TIAA, "Economic Research: Economic Impact of Travel and Tourism," available at [http://www.tia.org/Travel/EconImpact.asp], viewed Aug. 23, 2004.

[36] Testimony of Linda M. Conlin, Assistant Secretary of Trade Development, Department of Commerce, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *The State of the U.S. Tourism Industry*, 107th Cong., 1st sess., Oct. 17, 2001 (Washington: GPO, 2001), p. 41.

[37] Critics have also called federal tourism advertising "corporate welfare." For example, see Rep. Dick Chrysler, "Why Should Government Subsidize America's Booming Tourism Industry?" *Roll Call*, Oct. 30, 1995. The pejorative term "corporate welfare" has been used to describe many different kinds of policies — subsidies, export promotion policies, tariffs, tax breaks, no-bid contracts, etc. — that benefit particular firms or industries.

[38] The Office of Management and Budget's (OMB's) guide on "good regulatory analysis" takes this position, as do many policy analysts. See OMB, *Circular A-4*, Sept. 17, 2003, pp. 4-5, available at [http://www.whitehouse.gov/omb/circulars/a004/a-4.pdf]; and, e.g., David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice* (Upper Saddle River, NJ: Pearson Prentice Hall, 2004).

[39] For example, the State of Ohio's Division of Travel and Tourism runs the "Discover Ohio" travel club, which anyone can join at no cost. Members can receive an email newsletter, get coupons for reduced rates at various Ohio destinations, and win trips to Ohio. See [http://www.ohiotourism.com/discover/join.asp].

tourism promotion in FY2004 and FY2005.[40] Industry associations, such as the Travel Industry Association of America (TIAA), also have regular, ongoing promotional activities. TIAA created the SeeAmerica.org website, at which a foreign would-be tourist may, at no cost to him, learn about destinations in the United States, search for bargain travel packages, and plan his trip. TIAA "develops and executes international marketing programs that benefit the travel industry while levering resources for all participants."[41] And travel firms themselves are competently marketing themselves to foreign consumers. They have created a plethora of packages and spend hundreds of millions each year marketing overseas.[42]

**Foreign Competition for Travel and Tourism.** Opponents of the federal advertisement of tourism argue that it is not at all clear that the United States is underperforming against other nations in the world tourism market. It might be argued that the United States already is getting a "fair share" of the world tourism market. Among nations, the United States ranks first in total tourism receipts ($65 billion in 2003).[43] As for proponents' concern that France and Spain attract more visitors, critics respond that this is not surprising: France and Spain are much closer to other European countries than the United States. For persons living in Europe or even much of Asia, traveling to France and Spain is easier and less costly than flying across the Atlantic or Pacific oceans to the United States.

Critics also argue that just because some foreign governments have tourism bureaus that undertake tourism promotional activities, that does not mean that the U.S. government should do likewise.[44] For one, critics say, there is little to suggest that the federal government could undertake tourism advertising more effectively than the private sector (which is already advertising). Moreover, any federal spending on advertising may encourage private firms to reduce their advertising expenditures, effectively shifting the cost of private sector advertising to the public.

But, more fundamentally, an economist would argue that when a nation subsidizes exports, the benefits accrue to the consumers of the exports rather than the

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[40] State of Texas, Conference Committee Report on House Bill 1, General Appropriations Act 2004 — 2005 Biennium (Austin, TX: State of Texas, Oct. 2003), pp. VII-25.

[41] TIAA website [http://www.tia.org/Marketing/intmainpage.asp].

[42] For example, in 2001, the major airlines alone spent over $160 million advertising airfares to foreign markets. Travel Industry Publishing Company Inc., *Travel Industry World Yearbook 2002: The Big Picture* (Spencertown, NY: 2002), at [http://www.travelbigpicture.com/storyboard7.htm].

[43] U.S. Department of Commerce, ITA, Office of Travel & Tourism Industries, Bureau of Economic Analysis, & Travel Industry Association of America (TIA), *Key Facts About International Travel and Tourism to the United States, June 2005*, [http://tinet.ita.doc.gov/view/a-2004-403/index.html].

[44] On other nations' spending on tourism promotion, see World Tourism Organization, *Budgets of National Tourism Administrations* (Madrid: World Tourism Organization, 2000).

producing nation. Thus, foreign nations' policies that subsidize international tourism benefit U.S. consumers while U.S. tourism subsidies benefit foreign tourists.[45]

**The Trade Deficit.** Critics note that tourism is one small factor affecting the $665.5 billion trade deficit in 2004. In 2004, travel and tourism made up about 9% ($93 billion) of over $1 trillion in U.S. exports.[46] Thus, boosting tourism to the United States, critics reason, is not the cure for the trade deficit. So, to take a hypothetical example, if one were to imagine an advertising program that doubled tourism receipts in 2004 (from $93 billion to $186 billion), the trade deficit would still be very large — $572.5 billion.

Moreover, the balance of trade consists of four categories: "goods," "services," "investment income," and "unilateral transfers." Travel and tourism imports and exports are categorized as "services." In 2004, the U.S. ran a trade surplus of $57.5 billion in services. In the trade of goods, however, the U.S. had a deficit of $565.6 billion.[47] Thus, opponents of federal tourism advertising reason, the trade deficit is not a problem of insufficient foreign consumption of U.S. airline tickets, hotel rooms, or restaurant seats. Those who want to improve the balance of trade should not turn to federal tourism advertising.[48] Indeed, any policy that did not raise taxes in order to finance an export promotion program — such as federal tourism advertising — would affect macroeconomic conditions in a way that tends to widen the trade deficit.[49]

**The Need to Respond to the Tourism Industry Slump.** Even though the federal tourism surplus has decreased between 1996 and 2003, critics of federal tourism advertisement note that the United States nevertheless retained a travel surplus with the rest of the world. Despite the attacks of September 11th, SARS, a world economic slowdown, and criticisms from abroad over U.S. foreign policy, the United States still exports billions more in tourism per year than it imports (see **Table 2**).[50]

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[45] Paul Krugman and Maurice Obstfeld, *International Economics* (Reading, MA: Addison Wesley, 1997), p. 199. Like a tariff, an export subsidy also may adversely affect a nation's terms of trade. CRS Report RL32591, *U.S. Terms of Trade: Significance, Trends, and Policy*, by Craig K. Elwell, pp. 8-9.

[46] Data derived from CRS Report RL32591, *U.S. Terms of Trade: Significance, Trends, and Policy*, by Craig K. Elwell and [http://tinet.ita.doc.gov/view/f-2004_2/index.html].

[47] CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, pp. 1-2.

[48] Indeed, most economists see trade deficits as a result of capital — not product and service — flows. The trade deficit is rooted in broader macroeconomic forces related to domestic saving and investment. It is not a result of the relative attractiveness of particular exports. On the causes of trade deficit, see CRS Report RL30534, *America's Growing Account Deficit: Its Cause and What It Means for the Economy*, by Marc Labonte and Gail E. Makinen.

[49] CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell.

[50] That is, travel receipts and exports (spending by international visitors within the United (continued...)

Moreover, critics argue that government intervention is unnecessary because the travel and tourism industry has recovered on its own. The Office of Travel and Tourism Industries, which collects statistics on travel to and from the United States, recently reported that "3.5 million international visitors traveled to the United States in September 2005, an increase of almost 9 percent over September 2004. Arrivals were also up 8 percent for the first nine months of 2005 compared to 2004."[51]

**Advertising Is Not a Powerful Variable.** Critics argue that macroeconomic and policy variables are far more powerful than advertising in affecting individuals' decisions to travel internationally. Major policy changes (such as deregulation of the airline industry) and macroeconomic forces (such as exchange rates) have helped coax more visitors to the United States by lowering the prices of air fares substantially.[52] Thus, the United States' move to a floating dollar with no linkage to gold caused a depreciation of the dollar, which made the United States a more attractive tourist destination.[53] Moreover, as the world tourism industry has grown, so have international visits to the United States (see **Table 2**).[54] Even USTTA, critics suggest, admitted the power of macroeconomic variables: it blamed the 10% drop in international tourism to the United States between 1982 and 1983 on a strong U.S. dollar and "recessionary economies in major tourism-generating

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[50](...continued)
States on travel-related expenses) have been higher than travel payments and imports (spending by U.S. citizens outside the United States on travel-related expenses).

[51] Office of Travel and Tourism Industries, "September International Visitation Levels Up Nine Percent," press release, Dec. 20, 2005, available at [http://tinet.ita.doc.gov/tinews/archive/20051220.html]. Detailed statistics on monthly arrivals to the United States can be found at OTTI's website at [http://tinet.ita.doc.gov/research/programs/i94/index.html]. A study of consumer behavior found that airline ticket purchases drop deeply after a terrorist incident but then quickly recover to previous levels. See John T. Coshall, "The Threat of Terrorism as an Intervention on International Travel Flows," *Journal of Travel Research*, vol 42, Aug. 2004, pp. 4-12.

[52] James C. May, President of the Air Transport Association (which represents passenger and cargo airlines), testified that since airline deregulation, air travelers have flown nearly 80% more miles. Testimony in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 14. A recent article estimates that airfares dropped 50% since 1978. Susan Carey and Scott McCartney, "Long Flight: How Airlines Resisted Change for 25 years, and Finally Lost," *Wall Street Journal*, Oct. 5, 2004, p. A1.

[53] There is evidence that the recent decline in the value of the dollar relative to the Euro has encouraged Europeans to fly to the United States to shop. Emily Nelson and Brooks Barnes, "As Dollar Declines, Europeans See U.S. As Big Half-Off Sale," *Wall Street Journal*, Dec. 6, 2004, p. A1.

[54] On the growth and "democratization" of tourism, see John Naisbitt, *The Global Paradox: The Bigger the World Economy, the More Powerful Its Smallest Players* (New York: William Morrow and Co., Inc., 1994), pp. 103-146.

countries," not on greatly decreased federal tourism advertising expenditures since 1980.[55]

Additionally, critics argue that not everyone travels for pleasure; some travel out of obligation or need. Business travelers and those visiting relatives made up between one-quarter and one-third of visitors to the United States over the past decade.[56] It is not at all clear, critics say, that advertising will affect these individuals' decision to travel.

## Is Federal Tourism Advertising Effective?

The debate over federal tourism advertising might be less sharp if two fundamental question could be answered: Have federal advertisements increased tourism? Have they produced more benefits than costs?

The short answer to these questions, unfortunately, is that nobody knows for certain. Surprisingly little is known about the efficacy of tourism advertisements — be they private or publicly funded.[57] Neither USTS nor USTTA included in their annual reports or testimony before Congress studies substantiating the effects of their promotional activities.[58] Some anecdotal evidence exists. For example, a USTTA representative reported that a promotion run in West Germany, coordinated by USTTA and funded by the private sector at $2 million, brought $16.3 million in tourist spending to the United States.[59]

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[55] United States Travel and Tourism Administration, *Second Annual Report* (Washington, DC: Department of Commerce, 1984), p. 5.

[56] Data available from OTTI's website at [http://ti-dev.eainet.com/view/f-2003-07-001/index.html]. USTTA expressed doubt as to its ability to affect business travelers' behavior. Testimony of Richard L. Seely, Assistant Secretary of Commerce for Tourism Marketing, U.S. Travel and Tourism Administration, in Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, *Tourism Marketing*, hearings, p. 7.

[57] For an overview of this subject, see David W. Butterfield, Atif A. Kubursi, and Kenneth R. Deal, "Measuring the Returns to Tourism Advertising," *Journal of Travel Research*, vol. 37, no. 1, Aug. 1998, pp. 12-20.

[58] See, for example, U.S. Congress, House Committee on International Relations, Subcommittee on International Economic Policy and Trade, *The Effectiveness of U.S. Overseas Programs to Promote Tourism and Travel to the United States* (Washington: GPO, 1997). Title notwithstanding, no evidence was presented as to the efficacy of federal promotional efforts at this hearing.

[59] Statement of Richard L. Seely, Assistant Secretary of Commerce for Tourism Marketing, U.S. Travel and Tourism Administration, in U.S. Congress, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, *Tourism Marketing*, p. 18. Similarly see Testimony of Senator Daniel K. Inouye, in U.S. Congress, Senate Committee on Commerce, Science, and Transportation, *National Tourism Policy Study*, hearings, 96th Cong., 1st sess., Mar. 2, 1979 (Washington: GPO, 1979), p. 125.

Apparently, only one study of federal tourism advertising has been undertaken. In 1979, the Office of Management and Budget sharply questioned USTS claims about the effects of its promotional activities and, more generally, took issue with federal tourism promotion as a public policy. Specifically, OMB said:

> [USTS] data involving the number of foreign arrivals generated through direct Federal promotional activities is highly questionable and very difficult to validate.... [F]ederal funding of promotional activities in support of tourism is just not a cost-effective expenditure of the taxpayer's money.[60]

The difficulty in discerning advertisements' effects are inherent in the nature of the phenomenon being investigated, namely, why persons choose to travel. Obviously, many considerations can be operative. For example, TIAA seeks to gauge consumer demand for leisure travel with its "traveler sentiment index." To this end, it surveys individuals' interests and their assessments of their available time, finances, and their perceptions of the affordability and service quality of travel destinations.[61] Meanwhile, studies have identified many other variables that can affect the decision of an individual to travel internationally, such as exchange rates, personal wealth and consumer confidence, price of travel and lodging, ease of visa acquisition, consumer perceptions of travel safety, weather desirability, dining quality, and more.[62] Any effort to discern the power of federal advertisements to affect foreign consumers' decisions to travel to the U.S., then, faces a considerable methodological challenge — disentangling the influences that a large number of variables may have on consumers' travel decisions.

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[60] For reasons unknown, OMB's study was not inserted into the public record. Testimony of Associate Director for Economics and Government, Office of Management and Budget, Franklin D. Raines, in U.S. Congress, Senate Committee on Commerce, Science, and Transportation, *National Tourism Policy Study*, pp. 121-122 and 125.

[61] Press Release, "TIA'S Second Quarter Traveler Sentiment Index Declines: Consumers Perceive Travel to Less Affordable," at [http://www.tia.org/Press/pressrec.asp?Item=326].

[62] See, for example, Joaquín Alegre and Llorenç Pou, "Micro-Economic Determinants of the Probability of Tourism Consumption,"*Tourism Economics*, vol. 10, no. 2, June 2004, pp. 125-144; Geoffrey I. Crouch, "The Study of International Tourism Demand: A Survey of Practice," *Journal of Travel Research*, vol. 32, no. 4, spring 1994, pp. 41-63; and Teresa Garn-Munoz and Teodosio P. Amaral, "An Econometric Model for International Tourism Flows to Spain," *Applied Economic Letters*, vol. 7, 2000, pp. 525-529.

## Table 1. International Visits to the United States

| Year | Millions of Visitors to the United States[a] |
|---|---|
| 2002 | 35.9 |
| 2003 | 34.5 |
| 2004 | 38.2 |
| 2005 | 41.2 |
| 2006 | 43.5 |
| 2007 | 48.4 |

**Source:** CRS compilation of monthly data from the Office of Travel and Tourism Industries= website [http://tinet.ita.doc.gov/research/monthly/arrivals/index.html]

a. Due to data collection limitations, these figures do not include full counts of the arrivals from Canada and Mexico. [See http://tinet.ita.doc.gov/research/programs/i94/description.html].

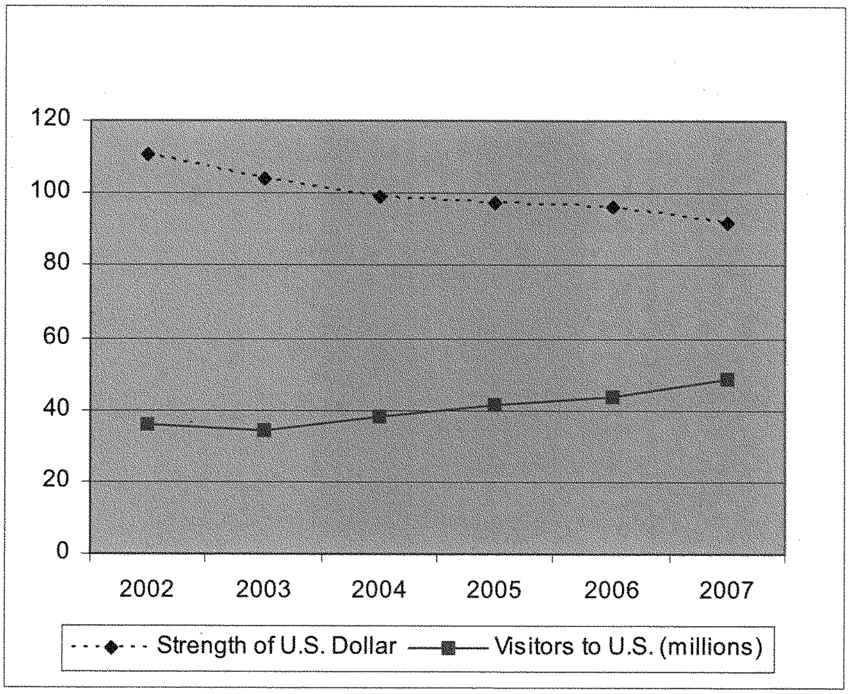
## Table 2. Value of the U.S. Dollar Relative to Other Nations= Currencies

| Year | Strength of U.S. Dollar [a] |
|---|---|
| 2002 | 110.5 |
| 2003 | 103.8 |
| 2004 | 99.2 |
| 2005 | 97.6 |
| 2006 | 96.5 |
| 2007 | 91.9 |

**Source:** CRS compilation of monthly data of the price-adjusted broad dollar index from the Federal Reserve=s website [http://www.federalreserve.gov/releases/H10/Summary/indexbc_m.txt].

a. This inflation-adjusted index provides Aa weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners.@ [See http://www.federalreserve.gov/releases/H10/Summary/ ].

**Chart 1. International Visits to the U.S. and the Value of the U.S. Dollar Relative to Other Nations' Currencies**



## GEOFFREY FREEMAN, ANSWERS TO SUBMITTED QUESTIONS

## QUESTIONS SUBMITTED BY HON. BOBBY L. RUSH

**1. Were previous government tourism advertising campaigns effective? Please explain why or why not.**

The United States government has not conducted a sustained, nationally coordinated promotion campaign. In 2005 and 2006, however, the Department of Commerce operated a pilot campaign to promote the United States as an international travel destination. Longwoods International, an economic consulting firm based in Toronto, Canada retained by the U.S. government, estimated that each dollar spent on travel promotion in the United Kingdom (UK) by the Commerce Department's campaign returned $117 in increased travel spending in United States.

Many countries around the world, and several U.S. states, operate effective travel promotion campaigns.

Longwoods International has estimated that state travel promotion campaigns in Colorado and Michigan offer a 50-to-one return on investment (ROI) in terms of increased travel spending and a ROI of nearly three-to-one in terms of increased state tax revenue.

The State of Florida estimates that its state travel promotion campaign returns three dollars in increased sales tax revenue for every dollar spent on promotion.

The Australian government credits its national travel promotion campaign with greatly increasing Australia's share of the international travel market. Australia estimates that, in 2006, its marketing program in the United States had an ROI of 64-to-one in terms of increased spending by U.S. tourists and six-to-one in terms of increased tax revenue to the Australian federal government.

Oxford Economics, an international economic consulting firm, estimates that the City of Philadelphia's travel promotion campaign directed toward Western European travelers has an ROI of 44-to-one in terms of increased travel spending and three-to-one in terms of increased city sales and hotel tax revenue.

Oxford Economics estimates that a moderately effective U.S. travel promotion program would have a 35:1 return on spending and a 6:1 return on tax revenues.

**2. Does advertising directly affect the level of international arrivals in the United States? Are there any studies or data to support this conclusion? (The Subcommittee is aware of the 2007 study published by Oxford Economics. Did the Travel Industry Association commission this study?)**

In testimony before the Senate Commerce Committee on March 20, 2007, Jamie Estrada, Deputy Assistant Secretary for Manufacturing at the Department of Commerce discussed the positive outcome temporary marketing campaigns in the United Kingdom (UK) and Japan had on the U.S.'s ability to attract more international visitors. Mr. Estrada used economic data to show that the UK campaign returned $117 in spending on travel to and within the U.S. for every $1 spent on advertising. Mr. Estrada noted for the Committee that, ″the promotion campaigns in the United Kingdom and Japan demonstrate that marketing the United States as a travel destination can be effective.″

The 2007 study by Oxford Economics and Governor Tom Ridge which shows that a modestly funded nationally coordinated travel promotion campaign, combined with visa and entry reforms enacted last year by Congress, would attract 1.6 million new visitors per year, yielding $8 billion per year in new visitor spending and $850 million per year in new federal tax revenues was commissioned by the Discover America Partnership, which included TIA and dozens of other organizations.

An earlier Oxford Economics study, commissioned by the UK government, concluded that the UK's overseas travel promotion campaign yields a ROI of 47-to-one in terms of increased travel spending and six-to-one in terms of increased national tax revenue.

Every U.S. state spends millions of dollars to attract domestic and international travelers. Every one of those states can testify that this spending leads to an increase in visitors.

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**3. According to a 2005 Congressional Research Service report, there are five main criticisms of having the Federal government involved in tourism, including:**

- Private industry can pay for it on its own;
- The U.S. is already a top international tourism destination;
- Advertising tourism will do little to reduce the U.S. trade deficit;
- Visits to the U.S. have been climbing for years; and

• Little evidence exists that advertising affects tourists' destination preferences, which are instead motivated by macro-variables, such as exchange rates.

How do you respond to these criticisms?

• The greatest deterrents to visiting the United States today are misperceptions of the American entry experience and a lack of information on American security policies. Therefore, a credible and effective promotion campaign must be devised in partnership with the U.S. government. That's why the public-private partnership, embodied in H.R. 3232, the Travel Promotion Act, makes perfect sense. The bill requires the private sector to fund 50 percent of a travel promotion program, but the government must be a partner to (a) enable the entity to effectively communicate ever-changing U.S. security and entry policies, and (b) speak overseas as ″the USA″ rather than a hodge-podge of private companies and individual destinations. Travel promotion is less of an issue of ″who pays,″ and more an issue of ″who speaks.″

• The position of the United States as a top international tourism destination has slipped steadily since 9/11. In 2000, the U.S. market share of the worldwide international arrivals stood at 7.5 percent; by 2007 that share had dropped to 6.3 percent. Where as the U.S. for many years ranked as the world's third most visited destination, the most recent data show that America has fallen to 4th place among the world's most visited destinations (behind China). Finally, in 2007 the U.S. welcomed two million fewer overseas visitors than it did in 2000 - despite an extraordinarily weak dollar.

• International travel is a significant export in our economy. As America's largest service export, travel and tourism plays a key role in the U.S. economy including helping to reduce the U.S. trade deficit. In 1996, international travel provided the United States with a $26 billion positive trade balance. The positive balance of trade fell to $18 billion in 2007. The Return on Investment (ROI) data for travel promotion campaigns in Australia and Great Britain cited in the answers to earlier questions clearly demonstrate that national travel promotion campaigns are effective. Based on those data, it is clear that a nationally coordinated U.S. travel promotion campaign would result in annual export growth for international travel to the U.S. and a reduction in America's trade deficit.

• The United States welcomed 57 million international visitors in 2007 - a 10 percent increase over 2006. Yet, ″Long-haul″ or ″overseas″ travel trends (which, by definition, exclude Canada and Mexico) reveal a significant and growing problem; the growth in U.S. overseas arrivals in the last several years is lower than the growth in global overseas travel. Here are the numbers: In 2000, the United States welcomed 51 million international visitors: 25 million from North America and 26 million from overseas. By 2007, the United States welcomed 57 million visitors, but the breakdown had shifted dramatically: 33 million from North America and only 24 million from overseas. Making matters worse, there are 35 million more people around the world traveling long-haul today than in 2000. Not only did the United States fail to capture any of these new travelers, we lost two-million long-haul visitors. The United States, through passivity and inaction, has ceded a critical market to the rest of the world.

• The ROI data cited in the answer to question 2 clearly demonstrate that nationally coordinated travel promotion campaigns are effective. Macro variables affect travel patterns, but the data show that travel promotion consistently has a very large positive impact on attracting additional travelers.

**4. H.R. 3232's findings note that the recent tightening of entry requirements to the United States has reduced the growth rate of international visits. If this is the case, why not focus our initial tourism promotion efforts on reform of entry requirements and procedures instead of chartering a non-profit advertising campaign?**

In 2007, the Discover American Partnership issued a three-point plan to strengthen America's security and fix our country's travel crisis titled A Blueprint to Discover America. The report calls on the U.S. government to:

1.Create a 21st century visa system;

2.Modernize and secure our ports of entry; and

3.Change global perceptions of America through coordinated communications.

Over the past year and a half, the travel community has worked with Congress and the Administration to meet these three objectives. Significant improvements in the visa process and various entry procedures have been achieved. Some of these improvements include:

• Expansion of the Visa Waiver Program (VWP): New countries will be added to the VWP pending compliance with new security requirements. Expansion of the VWP improves the entry process for millions of legitimate foreign travelers.

• Increased Staffing at International Airports: Two hundred more Customs and Border Protection officers will be hired at America's top 20 international airports, thereby alleviating some of the staffing constraints at the nation's busiest ports of entry.

• Authorization of the Model Ports of Entry Program: America's top 20 international airports have been designated as "model ports of entry," which means they will receive funds to increase staffing, develop better queuing procedures and improve customer service. Congress appropriated $40 million in FY 2008 for the model ports program.

• International Registered Traveler Program: Global Entry, an international registered traveler program was launched in 2008 as a pilot in seven U.S. airports to ease the flow of pre-screened frequent international visitors who pose a low security risk to the U.S.

The travel community has worked with Congress and the Administration to accomplish these first steps and will continue to press the federal government to build the most secure and efficient travel process. However, the U.S. government has no coordinated means for communicating these changes to overseas travelers nor is the U.S. promoting itself as a travel destination. Welcoming more visitors from around the world does require improving the visa system and the entry experience, but doing so is of marginal benefit if the government does not tell the rest of the world about these improvements.

**5. How does H.R. 3232 guarantee that all parts of the United States will benefit from increased tourism, not just popular destinations like Washington, D.C., and New York City? Put another way, advertisements must target a particular location. How does H.R. 3232 ensure that places like Williamston, N.C., and Milledgeville, Georgia, are mentioned in tourism promotion advertisements by the Corporation for Travel Promotion?**

The role of the Corporation for Travel Promotion is to more effectively communicate U.S. travel policies to prospective international travelers. As it relates to travel promotion specifically, the goal is to promote international travel to the United States as a whole. It is not the purpose of this program to promote any specific destination. Any scenes of America shown in such promotions will feature rural and urban America and will be geographically balanced in order to highlight all regions of the country. The places in America that stand to benefit the most from a national-level communications and promotion campaign are those that can least afford to do promotion on their own - smaller and more rural destinations.

**6. Section 5(b) of H.R. 3232 establishes a travel promotion fund to partially fund the Corporation for Travel Promotion. This section caps annual transfers from the fund at $100 million. Why was this level chosen? Why not, for example, a level of $50 million?**

Brand Architecture, one of the foremost travel promotion consulting firms in the world, built a strategic travel promotion spending plan for the United States. The purpose of this plan was to determine what the United States would need to spend per traveler to compete in top global markets for international visitors. Brand analyzed foreign competitors' marketing programs as part of its research and ultimately concluded that for the United States to run the most effective travel promotion program it would need to spend between $150 million to upwards of $200 million per year. Since the Corporation will need to devise a travel promotion campaign that will recoup significant losses in overseas travel plus communicate new and changing security programs, it is appropriate for H.R. 3232 to cap the growth of the program at the maximum recommended amount. For charts detailing Brand's spending plan see Appendix A and B.

H.R. 3232's structure enables the funds for the travel promotion program to grow to $200 million. As noted, $100 million of the total will come from transfers from the Travel Promotion Fund collected through the Treasury. However, no funds collected by the Treasury will be transferred until the private sector first invests monies in the fund. Therefore, reaching the $100 million cap in funds from the Treasury will depend largely on the private sector's ability to raise $100 million in matching funds. We believe the $100 million cap in Treasury funds provides accountability to the program by limiting its size to one that will provide the most benefits to the U.S economy. Decreasing the $100 million cap to $50 million would inhibit the Corporation's ability to meet the funding recommendations of leading marketing experts for a competitive and effective travel promotion program; ultimately, hurting the goal of giving the U.S. a competitive advantage in the global travel market.

**7. Section 5(c) requires the Corporation for Travel Promotion to contribute matching funds annually to those transferred to it from the travel promotion fund established in section 5(b) of the bill. Furthermore, section 5(c) (2) permits the Corporation to make up to 80 percent of its matching contributions in the form of goods and services, whose fair-market value the Corporation would determine. I am concerned that this would be incen-**

**tive for the Corporation to overvalue its in-kind contributions in order to contribute less in overall matching funds. What is your opinion of lowering the 80 percent level of in-kind contributions (to perhaps 20 percent) and directing a Federal agency (e.g., the Department of the Treasury) to determine the value of those contributions instead of the Corporation?**

As the private sector component of the Corporation for Travel Promotion is funded entirely on voluntary contributions, it is important to provide contributors with a variety of ways to support promotion activities. Examples of extremely valuable in-kind contributions include:

- Television, radio and/or print advertising time/space;
- Material and/or advertising production;
- Travel costs for journalists on "familiarization" trips; and
- Provision of paid consultants or staff to offer counsel to the Corporation.

Permitting significant in-kind contributions (80%) increases the likelihood of a successful travel promotion program by:

- Enabling broader (beyond the travel industry) and deeper private sector support;
- Lessening the Corporation's dependency on budget cycles or strong economic times in order to access cash contributions; and
- Unlocking greater matching funds thereby enhancing the depth and breadth of America's travel promotion efforts.

In order to provide a fair mechanism for determining the value of in-kind contributions, the Board of Directors of the Corporation could be required to provide the Secretary of Commerce with market value determination procedures that (a) define market value, and (b) provide an independent mechanism of valuing all donated goods and services.

**8. H.R. 3232 institutes a new fee for foreign travelers who use the Electronic System of Travel Authorization (ESTA), a federally administered program. Such a fee would arguably constitute Federal revenue and therefore be property of the American taxpayer. This being the case, do you believe that using these fees to fund the Corporation is an outlay of Federal revenue and therefore a cost to the American taxpayer?**

The fees transferred to the Corporation from the ESTA program should not be considered a cost to the American taxpayer. It is current practice for the Department of Homeland Security (DHS) and the Department of State to use fees collected from foreign nationals to pay for various security and immigration programs. The fee collections protect the U.S. taxpayer from paying for programs primarily utilized by foreign nationals. Instead of counting on DHS to seek appropriated funds from Congress to run ESTA, Congress afforded DHS the fee authority it needs to run the program using funds collected from foreign nationals. U.S. Customs and Border Protection (CBP) has indicated in its ESTA rule that it will implement an ESTA fee in the future, if it is necessary to operate the program. Considering that DHS did not request any newly appropriated funds from Congress to run the program in 2009, the year the program is being launched, it is likely that a fee will be necessary. H.R. 3232 would collect a nominal $10 fee above the fee DHS decides to collect from Visa Waiver Program (VWP) travelers to run the ESTA program. Aside from being the primary users of ESTA, VWP travelers will also be beneficiaries of the travel promotion campaign because they will learn about ESTA and other U.S. entry policies through the campaign.

Furthermore, the long-term viability of both ESTA and the travel promotion program is improved by using a fee mechanism that will be easy to project from year to year instead of relying on the appropriations process which can be unpredictable. A fee mechanism provides Congress with the opportunity to support the security of the VWP and increase travel and tourism without having to increase taxes on the American public to pay for the programs.

Finally, a fee-based system rather than an appropriation ensures that Congress's desire for a travel promotion program is protected against bureaucratic maneuvering or Administration lethargy. In 2003, Congress appropriated $50 million to the Department of Commerce for a modest travel promotion program. Due to Commerce's inability to spend the money, more than $40 million was rescinded and Congress's desire for a travel promotion program was not met.

**9. Section 5(b)(2) of H.R. 3232 permits the Secretary of the Treasury to transfer monies from the travel promotion fund to the Corporation for Travel Promotion at least quarterly. As these funds would come in the form of fees required of foreign travelers by a federally administered program, namely the Electronic System for Travel Authorization (ESTA), should these transfers be subject to the annual Congressional appropriations process? Please explain your opinion.**

The fees transferred to the Corporation should not be subject to the annual Congressional appropriations process. Please see the answer to question 8.

**10. Section 7 of H.R. 3232 permits the Corporation for Travel Promotion to invest funds it has received. Some of these funds would come in the form of transfers from the travel promotion fund, which would be funded by fees assessed to foreign visitors who use the Electronic System for Travel Authorization. It is likely that the Corporation would be able earn extra income from these investments and thereby have control of more funds than would otherwise have been transferred to it by the Treasury. It is also possible that the Corporation could lose money in its investment - money, it should be reiterated, that partially comes from the Treasury. This being the case, why should the Corporation be permitted to invest funds it has received from the Federal government? Second, would this authority to invest circumvent control that the Treasury might have over the Corporation's budget? Please explain your opinion.**

TIA interprets Section 7 of H.R. 3232 to be an accountability measure used to ensure that the Corporation will only invest funds it has in-hand in obligations of the United States. We do not have a position on whether or not the entity should be permitted to invest funds.

**11. Section 5 of H.R. 3232 permits the Corporation for Travel Promotion to borrow up to $10 million from the Treasury in order to establish itself. This loan would be subject to an interest rate meant only to help the Treasury recoup losses on the loan due to the effects of inflation. Instead of this rate, do you believe that the prevailing rate of interest should be charged to the Corporation, as with any other loan, so that the Treasury can earn money on its investment? Please explain your opinion.**

TIA supports the language included in Section 5 of H.R. 3232 which guarantees that the reimbursement of the $10 million loan include interest at a rate determined by the Treasury to ensure that there is no loss of real purchasing power to the Treasury. While we do not have a position on whether that rate of interest should change, we believe the current structure will allow Treasury to receive a significant return on investment on these funds. As mentioned in a previous question, Oxford Economics estimates that a moderately effective U.S. travel promotion program would have a 35:1 return on spending and a 6:1 return on tax revenues.

**12. Building on the last question, section 5 of H.R. 3232 also stipulates that the initial loan from the Treasury to the Corporation for Travel Promotion must be repaid within five years. Section 5 contemplates no penalty for non-repayment of the loan. What happens if the Corporation fails to repay this loan in time or worse, defaults? Do you believe that a penalty should be included in section 5 as a consequence of failure to repay the loan in time or defaulting on the loan?**

TIA would support inclusion of legislative language in Section 5 that would improve the accountability for the repayment of the $10 million Treasury loan either through a formalized repayment system or a penalty for failure to repay the loan.

**13. Data from the Department of Commerce's International Trade Administration show that international arrivals in the United States have steadily increased since 2007. An entry fee, such as the one proposed by H.R. 3232, may serve as a further disincentive for visitors to come to the United States, thus possibly reversing this trend. Do you think this is accurate? Please explain your opinion and provide supporting evidence.**

While total overseas travel to the United States has steadily increased since 2007, ″overseas″ travel which excludes Mexico and Canada is actually down 8 percent from 2000. This is an important distinction because overseas visitors spend an average of $4,000 per trip while, the average Canadian and Mexican visitor spends an average of $1,200 per trip. As America's economy slows, overseas visitors are a greater stimulant - driving spending, creating jobs and producing billions of tax dollars for localities, states and the federal government. Furthermore, before 9/11, the United States traditionally welcomed more overseas visitors than North American visitors.

Clearly, the travel community would not endorse a fee on international travelers if it thought it would lead to a decline in travel. To the contrary, experience and research demonstrate that a fee-funded program will have a significant return on investment. A 2007 study by Oxford Economics shows that a modestly funded nationally coordinated travel promotion campaign, combined with visa and entry reforms enacted last year by Congress, would attract 1.6 million new visitors per year, yielding $8 billion per year in new visitor spending and $850 million per year in new federal tax revenues.

Furthermore, the travelers from visa waiver countries who would pay the fee are avoiding the expense ($131) and the enormous inconvenience associated with obtaining a visa. A nominal $10 fee on travelers who, on average, spend $4,000 per person to visit the United States is a reasonable and affordable convenience charge. Lastly, other countries with fees and travel promotion campaigns have continued to see an increase in international arrivals. Please see the chart below:

| International Arrivals Grow When Fees Are Coupled With Travel Promotion | | | | |
|---|---|---|---|---|
| **Country** | **Departure Fee** | **Entry Fee** | **Amount Spent on Travel Promotion** (2005)** | **Increase in International Arrivals** (2000 - 2007) |
| Australia | $37.00 | $19- $70* | $113 million | 18% |
| Guatemala | $30.00 | | $18 million | 96% |
| Mexico | $11.50 - $38.00 | | $149 million | 8% |
| New Zealand | $16.00 - $19.00 | | $46 million | 42% |
| Philippines | $15.50 | | $17 million | 58% |
| Thailand | $14.00 | | $32 million | 44% |
| United Kingdom | $80.00 - $160.00 | | $89 million | 24% |

Sources: United Nations World Tourism Organization; national governments and tourism bureaus; other publicly-available sources. All amounts converted to U.S. dollars.

*Fee for Electronic Travel Authorization (ETA) to enter Australia from 33 ETA eligible countries.
** Based on most recent data available.

**14. Do you think that the duties assigned by H.R. 3232 to the Corporation for Travel Promotion, such as spreading information abroad about U.S. entry requirements and generally promoting tourism, could be performed by already-existing U.S. agencies? If not, please explain why.**

The Travel Promotion Act blends the best of both worlds - public sector policy expertise and accountability with private sector marketing expertise and execution.

While individual government agencies are doing what they can with their existing budgets to develop communication plans about new and changing security policies, and to increase travel, the reality is that most do not have the necessary dedicated resources and expertise to communicate security changes for each new and evolving program or to counter the misperceptions about the entry process that confuse and discourage travelers. H.R. 3232 creates a mechanism to dedicate significant resources (without increasing U.S. taxes) for a well-funded, nationally coordinated travel promotion program. This public-private partnership model has garnered strong bipartisan support from Congress because it seeks to utilize both the government and the private sector.

**15. The Corporation for Travel Promotion's board would be made up of representatives from the tourism and travel industry. One of the main duties of the Corporation would be to spread information about U.S. entry policies abroad. Should the Corporation's board be expanded to include someone competent in immigration issues, for example a representative from the American Immigration Lawyers Association?**

The goal of the Corporation for Travel Promotion is to share information with short-term, non-immigrant visitors traveling to the United States for business, pleasure and other temporary purposes. TIA encourages experts from the Departments of Homeland Security and State to provide counsel and guidance to the Board in the areas of visa and immigration policy. While we believe the current structure will include individuals competent in these areas, TIA is not opposed to the inclusion of an individual whose primary expertise is immigration.

**16. Because the Corporation for Travel Promotion would deal with issues that touch upon the jurisdiction of several Federal agencies, including the Departments of Commerce, Homeland Security, State, and Treasury, do you believe that those agencies also should have oversight authority over the Corporation?**

Yes, and these agencies and others that either have jurisdiction over travel entities or provide programs or services relating to international travel are members of the Tourism Policy Council. This Council will consult on a regular basis with the Corporation for Travel Promotion in order to provide timely information and expertise to better inform the communications and promotion activities of the Corporation.

**17. H.R. 3232 would update the membership of the Tourism Policy Council (TPC), an interagency body that seeks to ensure that U.S. policies and programs facilitate and enhance travel to the United States. Do you believe that including the Corporation in the TPC would give a private sector organization a unique and inappropriate position among government agencies responsible for the development of public policy?**

The Tourism Policy Council (TPC) was created well before the events of September 11, 2001, and its mission and work should appropriately evolve to meet the new challenge of balancing border security with international travel facilitation. By including the Corporation in the TPC, it affords the Corporation the opportunity to exchange information with all the appropriate federal agencies in order to ensure the success of the communications and promotion programs - and vice versa. H.R. 3232 simply formalizes a long tradition of the TPC to seek counsel from outside experts and dialogue with the travel community.

## QUESTIONS SUBMITTED BY HON. ED WHITFIELD

**1. The Corporation receives a $10 million loan from the Treasury for initial startup costs. How will the Corporation generate funds to repay the loan? Will the Corporation have revenues?**

The Corporation staff will lead an effort to raise money from the private sector, and entities such as the Travel Industry Association and other private sector partners will play an active role in supporting such efforts. Funds raised will be used to match dollars generated by the ESTA-related fee, but the federal government is not obligated to contribute any money unless the private sector first produces funds to be matched.

**2. The budget of the corporation could reach $200 million by the third year. How will money be used? What are the preliminary cost estimates for services necessary to fulfill the goals of the corporation?**

The activities of the corporation will be governed by the board of directors established by the Act. A survey of other large-scale national travel promotion campaigns conducted by the consulting firm Brand Architecture International suggests those programs spend 40-50 percent of their budget on advertising, 2-4 percent on market research, 10-15 percent on providing practical travel information, including information on security and entry policies, 2-3 percent on providing information via the Internet, 15 percent on fairs, trade shows and workshops, and the balance on miscellaneous other activities.

The government of Australia, with a population one-fifteenth of that of the United States, spends more than $100 million (U.S. dollars) per year on overseas travel promotion. The Australian travel promotion effort is a successful one and serves as a good benchmark for a minimum level of effort on the part of the United States.

**3. What portion of the Corporation's budget will be required to pay salaries and expenses?**

The Board of the Corporation will be responsible for hiring staff and setting salaries. Accountability measures in the bill require the Corporation to submit a report with a comprehensive and detailed inventory of amounts obligated or expended by the Corporation during the preceding fiscal year to the Commerce Secretary and Congress. Furthermore, the Corporation must also submit a copy of its forthcoming budget to the Commerce Secretary together with an explanation of any expenditure provided for by the budget in excess of $5,000,000 for the fiscal year. Finally, the Corporation shall make its budget information available to the public and shall provide public access to the budget and explanation on the Corporation's website.

**4. What mechanisms are there to ensure the private sector fulfills its matching funds requirement?**

Section 5 of H.R. 3232 requires that no funds be made available for travel promotion until non-Federal sources have provided an amount in the aggregate equal to 50 percent or more of the funds made available from Federal Sources. In subsequent fiscal years, non-Federal sources must provide an amount equal to 100 percent of the amount made available from Federal sources.

The private sector will be motivated to contribute matching funds by their desire to see a nationally coordinated promotion campaign succeed, the leverage they will achieve by participating in the campaign and the ROI they will receive (in the aggregate) for their contributions.

The benefits of increased international travel to the United States are too great for the private sector to ignore.

**5. Under the legislation, the corporation can use up to 80% of in-kind goods and services from industry for its required matching funds. What type of goods and service do you anticipate will be provided that could total $80 million dollars per year?**

As the private sector component of the Corporation for Travel Promotion is funded entirely on voluntary contributions, it is important to provide contributors with a variety of ways to support promotion activities. Examples of extremely valuable in-kind contributions include:

- Television, radio and/or print advertising time/space;
- Material and/or advertising production;
- Travel costs for journalists on "familiarization" trips; and
- Provision of paid consultants or staff to offer counsel to the Corporation.

Permitting significant in-kind contributions (80%) increases the likelihood of a successful travel promotion program by:

- Enabling broader (beyond the travel industry) and deeper private sector support;
- Lessening the Corporation's dependency on budget cycles or strong economic times in order to access cash contributions; and
- Unlocking greater matching funds thereby enhancing the depth and breadth of America's travel promotion efforts.

In order to provide a fair mechanism for determining the value of in-kind contributions, the Board of Directors of the Corporation could be required to provide the Secretary of Commerce with market value determination procedures that (a) define market value, and (b) provide an independent mechanism of valuing all donated goods and services.

**6. How will the corporation ensure that its matching fund obligation is honored fairly among all the interested parties?**

All contributions to the Corporation for Travel Promotion are completely voluntary. There is no obligation to contribute or ensure that contributions are "fairly" distributed among entities.

**7. Is there a penalty for private sector entities that fail to contribute to the annual private sector matching fund?**

The funds raised by the private sector for purposes of financing the Corporation for Travel Promotion are purely voluntary in nature; it would not be appropriate or legal for there to be penalties assessed on specific travel organizations that does not contribute. Knowing that if the U.S. had kept pace with global overseas travel since 2001, it would have had an additional 46 million visitors, $140 billion in visitor spending, $23 billion in tax receipt is proper incentive for the private sector to contribute to the travel promotion program.

## Question Submitted by Hon. Cliff Stearns

**1.In your opinion, to what extent, if any, will the initiation of a fee (tax) on foreign travelers from Visa Waiver Program countries have on the Corporation's attempt to improve America's image abroad? Do you anticipate a negative reaction?**

The best mechanism the United States has for improving its image in the world is by increasing the number of international visitors to our country. A study by the Discover America Partnership revealed that those who have visited the United States are 74% more likely to have a favorable opinion of the country. A travel promotion program is imperative to welcoming more visitors to the country.

Clearly, the travel community would not endorse a fee on international travelers if it thought it would lead to a decline in travel. To the contrary, experience and research demonstrate that a fee-funded program will have a significant return on investment. A 2007 study by Oxford Economics shows that a modestly funded nationally coordinated travel promotion campaign, combined with visa and entry reforms enacted last year by Congress, would attract 1.6 million new visitors per year, yielding $8 billion per year in new visitor spending and $850 million per year in new federal tax revenues.

Furthermore, the travelers from visa waiver countries who would pay the fee are avoiding the expense ($131) and the enormous inconvenience associated with obtaining a visa. A nominal $10 fee on travelers who, on average, spend $4,000 per person to visit the United States is a reasonable and affordable convenience charge. Lastly, other countries with fees and travel promotion campaigns have continued to see an increase in international arrivals. Please see the chart below:

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** Based on most recent data available.

## PATRICK LONG, RESPONSES TO QUESTION FROM HON. BOBBY L. RUSH

This current discussion of federal tourism policy and the appropriate role of the federal government specific to tourism, as well as the questions below, in my mind fall into the categories of function, structure, and funding. In absence of a federal office that would provide oversight of all federal tourism functions and coordinate all federal programs that support tourism and which could be the public partner in any comprehensive public-private partnership, the debate centers around if and how best, to craft a private-sector promotional program, how to fund it, and how to position it for oversight within the Federal system..

With any proposed promotional program such as the one being considered there will be differences of opinion and hopefully, healthy debate. It appears in this case that such is happening although already substantial support has been shown for this legislation with 236 members of Congress signing on as co-sponsors. H.R. 3232 does not propose a federal tourism office; its scope is narrowed to a travel promotion component. But, sanction and oversight from the federal government is still necessary for this promotional effort in order to insure a funding mechanism sufficient to make the whole effort worthwhile as well as to ensure the integrity of its implementation.

Tourism is clearly an important economic engine for the U.S.-at all levels of geopolitical jurisdictions. In most cases, state governments have found a mechanism to allow for the expenditure of public funds for the management and promotion of tourism; they typically do so within the framework of a designated state office. The questions you have posed below are important and thoughtful questions; hopefully they can be resolved within the available timeframe.

**1. Were previous government tourism advertising campaigns effective? Please explain why or why not.**

There have been a number of effective international advertising campaigns, particularly the ″America! Catch the Spirit″ effort in the mid 80's under the then, USTTA. The existence of the international regional offices to support tourism provided additional support. States like Illinois and Florida and cities like Chicago and Las Vegas seem to find acceptable return on their advertising dollars.

**2. Does advertising directly affect the level of international arrivals in the United States? Are there any studies or data to support this conclusion? (The Subcommittee is aware of the 2007 study published by Oxford Economics. Did the Travel Industry Association commission this study?)**

I am not familiar with the Oxford Economics study but the most acceptable government sources for data on this matter seem to come from the Bureau of Economic Analysis and the OTTI. It would be best to ask them to conduct a trend analysis on arrivals and match that with factors which have affected these arrivals.

**3. According to a 2005 Congressional Research Service report, there are five main criticisms of having the Federal government involved in tourism, including:**

- **Private industry can pay for it on its own;**
- **The U.S. is already a top international tourism destination;**
- **Advertising tourism will do little to reduce the U.S. trade deficit;**
- **Visits to the U.S. have been climbing for years; and**
- **Little evidence exists that advertising affects tourists' destination preferences, which are instead motivated by macro-variables, such as exchange rates.**

**How do you respond to these criticisms?**

I would question whether visits to the US have been climbing for years as available data indicates a steady decline from 2001 to last year. Arrivals to my knowledge have improved percentage-wise recently but that is calculated off a declining number. Many major US industries (e.g. agriculture, forestry, manufacturing, fishing, energy) receive some type of government support/investment and have some type of public-private partnership even though they do not have the positive balance of trade results that tourism can report. It is not quite clear why the hesitation by congress to support the tourism industry in some minimal fashion. Suggesting that the exchange rate is the only force that affects arrivals does not take into consideration that the tourism research literature seems to indicate an effective marketing (not simply advertising) program can make a difference. Canada and New Zealand both appear to have effective public-private funding models which should be analyzed in light of our country's needs.

**4. H.R. 3232's findings note that the recent tightening of entry requirements to the United States has reduced the growth rate of international visits. If this is the case, why not focus our initial tourism promotion efforts on reform of entry requirements and procedures instead of chartering a non-profit advertising campaign?**

A multiple prong approach here would seem to make sense as with many situations. Making it efficient and easier to enter the US is an important step; in addition, regularly reminding potential travelers that we have an incredible array of products and services would seem to make for a nice combined effort.

**5. How does H.R. 3232 guarantee that all parts of the United States will benefit from increased tourism, not just popular destinations like Washington, D.C., and New York City? Put another way, advertisements must target a particular location. How does H.R. 3232 ensure that places like Williamston, N.C., and Milledgeville, Georgia, are mentioned in tourism promotion advertisements by the Corporation for Travel Promotion?**

There is no guarantee at this point and that should be a consideration in crafting this bill. Options might include a geographically-balanced regional distribution of the proposed corporation board or a balance of representation of small, medium and large tourism entities. It could be that national travel regions or themes be identified each year (rural, cultural, sports, family, etc.). I personally feel there needs to be representation of truly rural-based communities on this board, not simply recognized, although smaller, high end resort destinations. The reality is that if those who are the potential private sector large financial supporters do not feel represented on this proposed corporation board and thus not feel they have an active voice, it could be a deterrent to their full participation.

**6. Section 5(b) of H.R. 3232 establishes a travel promotion fund to partially fund the Corporation for Travel Promotion. This section caps annual transfers from the fund at $100 million. Why was this level chosen? Why not, for example, a level of $50 million?**

I am not aware why the $100 million figure was selected but suspect whoever chose that figure thought it was reasonable in light of the amounts being spent by our competitors, both close and distant. That amount is not unreasonable, particularly if the revenue projections from the visa waiver fee can support this level of funding. This figure can be adjusted at some later point depending upon emerging factors or new information; a sliding scale might even be considered which could be implemented over time.

**7. Section 5(c) requires the Corporation for Travel Promotion to contribute matching funds annually to those transferred to it from the travel promotion fund established in section 5(b) of the bill. Furthermore, section 5(c)(2) permits the Corporation to make up to 80 percent of its matching contributions in the form of goods and services, whose fair-market value the Corporation would determine. I am concerned that this would be incentive for the Corporation to overvalue its in-kind contributions in order to contribute less in overall matching funds. What is your opinion of lowering the 80 percent level of in-kind contributions (to perhaps 20 percent) and directing a Federal agency (e.g., the Department of the Treasury) to determine the value of those contributions instead of the Corporation?**

To maintain integrity with taxpayers it probably is best to have a third-party determination or a designated government agency make this call. Such oversight also might deter a bit the criticism that any geographically dominant major tourism company or destination would only be thinking about its immediate region in determining its level of donation whether cash or in-kind. The industry would appear to be receptive to an adjustment of the balance of in-kind and cash contributions.

**8. H.R. 3232 institutes a new fee for foreign travelers who use the Electronic System of Travel Authorization, a federally administered program. Such a fee would arguably constitute Federal revenue and therefore be property of the American taxpayer. This being the case, do you believe that using these fees to fund the Corporation is an outlay of Federal revenue and therefore a cost to the American taxpayer?**

The argument can be made that this effort is funded by new dollars generated by non-US residents but if such revenue flows through a government agency that should be acknowledged and dealt with appropriately for the integrity of the process. If I am correct, all 50 states have publicly funded tourism marketing programs and these programs and the manner in which they are publicly funded, seem to be acceptable. One should be thoughtful how a financial audit would present this and how such would be interpreted.

**9. Section 5(b)(2) of H.R. 3232 permits the Secretary of the Treasury to transfer monies from the travel promotion fund to the Corporation for**

**Travel Promotion at least quarterly. As these funds would come from in the form of fees required of foreign travelers by a federally administered program, namely the Electronic System for Travel Authorization (ESTA), should these transfers be subject to the annual Congressional appropriations process? Please explain your opinion.**

I am not familiar enough with the appropriations process in this case to respond to this question. The guide here should be maintaining full integrity of the process and full disclosure in whatever decision is made. There is too much at stake for this program to appear that it is not fully above board.

**10. Section 7 of H.R. 3232 permits the Corporation for Travel Promotion to invest funds it has received. Some of these funds would come in the form of transfers from the travel promotion fund, which would be funded by fees assessed to foreign visitors who use the Electronic System for Travel Authorization. It is likely that the Corporation would be able earn extra income from these investments and thereby have control of more funds than would otherwise have been transferred to it by the Treasury. It is also possible that the Corporation could lose money in its investment - money, it should be reiterated, that partially comes from the Treasury. This being the case, why should the Corporation be permitted to invest funds it has received from the Federal government? Second, would this authority to invest circumvent control that the Treasury might have over the Corporation's budget? Please explain your opinion.**

I see the argument and concern here but not sure how to recommend this issue be best handled. The issues of investment, potential losses, oversight authority and penalties take a good deal more thought than current timing allows. I suppose one way to handle this would be to deduct any loses from investments from future yearly allocations.

**11. Section 5 of H.R. 3232 permits the Corporation for Travel Promotion to borrow up to $10 million from the Treasury in order to establish itself. This loan would be subject to an interest rate meant only to help the Treasury recoup losses on the loan due to the effects of inflation. Instead of this rate, do you believe that the prevailing rate of interest should be charged to the Corporation, as with any other loan, so that the Treasury can earn money on its investment? Please explain your opinion.**

Providing a preferential rate of interest makes it more difficult to justify this whole endeavor to the American public. If such a rate were provided it would be in the best interests of the Corporation Board to add to its charge educating the American public on how international tourist expenditures positively affect the countries revenue flow, taxes, business development, etc., both nationally and on a more local basis.

**12. Building on the last question, section 5 of H.R. 3232 also stipulates that the initial loan from the Treasury to the Corporation for Travel Promotion must be repaid within five years. Section 5 contemplates no penalty for non-repayment of the loan. What happens if the Corporation fails to repay this loan in time or worse, defaults? Do you believe that a penalty should be included in section 5 as a consequence of failure to repay the loan in time or defaulting on the loan?**

Not quite sure how a penalty would be collected should the situation arise if payment could not be made in the first place. The industry will have its reputation on the line here and I doubt would want the negative publicity that would go with a ″foreclosure″ as it would affect any public-private partnership or support from government for many years to come.

**13. Data from the Department of Commerce's International Trade Administration show that international arrivals in the United States have steadily increased since 2007. An entry fee, such as the one proposed by H.R. 3232, may serve as a further disincentive for visitors to come to the United States, thus possibly reversing this trend. Do you think this is accurate? Please explain your opinion and provide supporting evidence.**

I do not feel that a fee of up to $10 would be a deterrent particularly when such fees are common in so many other countries we travel to. Regarding the increase in 2007 of international arrivals, after so many years of decline, one year ″doth not a trend make″.

**14. Do you think that the duties assigned by H.R. 3232 to the Corporation for Travel Promotion, such as spreading information abroad about U.S. entry requirements and generally promoting tourism could be performed by already-existing U.S. agencies? If not, please explain why.**

I suppose an agency such as the U.S. Foreign Commercial Services could do so to some degree where they are located. The reality is what agency would it be assigned to do this and how good a job would they do? What potentially could be lost is a concentrated, targeted, coordinated, sustained effort of promotion within the context of the travel experience by people trained and highly motivated to do so. The federal government does not have a great track record recently of providing such service and it can so easily become politicized.

**15. The Corporation for Travel Promotion's board would be made up of representatives from the tourism and travel industry. One of the main duties of the Corporation would be to spread information about U.S. entry policies abroad. Should the Corporation's board be expanded to include someone competent in immigration issues, for example a representative from the American Immigration Lawyers Association?**

I see no reason why not--the number of Corporation Board members should be dictated by reason and in a manner that ensures having the best representation to make this whole effort work. I would argue there needs to be representation from rural areas which typically attract immigrant workers for agriculture, landscaping and tourism, and badly need assistance in the planning, implementation and promotion of their tourism industry.

**16. Because the Corporation for Travel Promotion would deal with issues that touch upon the jurisdiction of several Federal agencies, including the Departments of Commerce, Homeland Security, State, and Treasury, do you believe that those agencies also should have oversight authority over the Corporation?**

There may be legal reasons that I am not aware of that would dictate the reporting relationship. Additionally, the proposed legislation identifies a number of government departments which I suspect anticipate substantial involvement. That being said, it becomes increasingly complex the more departments this corporation would be required to report to. I would look to the most streamlined but acceptable reporting process that meets the needs of these various departments. I suspect there are models in other situations within the federal government from which to draw from to address this dilemma.

**17. H.R. 3232 would update the membership of the Tourism Policy Council (TPC), an interagency body that seeks to ensure that U.S. policies and programs facilitate and enhance travel to the United States. Do you believe that including the Corporation in the TPC would give a private sector organization a unique and inappropriate position among government agencies responsible for the development of public policy?**

On-going communication with the major federal agencies (TPC) is absolutely critical to success but likely could be accomplished by naming the Corporation to an ex-official member status.

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