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TRADE PROMOTION AUTHORITY AND TRADE ADJUSTMENT ASSISTANCE: HOW WILL SMALL BUSINESS EXPORTERS AND FARMERS BENEFIT?

HEARING

BEFORE THE

SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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TRADE PROMOTION AUTHORITY AND TRADE ADJUSTMENT ASSISTANCE: HOW WILL SMALL BUSINESS EXPORTERS AND FARMERS BENEFIT?

TUESDAY, JULY 24, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m., in Room 2360, Rayburn House Office Building, Hon. Patrick J. Toomey [chairman of the subcommittee] presiding.

Chairman TOOMEY. The hearing will come to order. This afternoon the Small Business Subcommittee on Tax, Finance and Exports convenes to conduct a hearing on Trade Promotion Authority, the reauthorization of the Trade Adjustment Assistance Program and their respective impacts on small business exporters and farmers.

One of the major issues of the 107th Congress is approval of TPA. The President was granted fast track authority, as it was formerly known, almost continuously from 1974 to 1994. The authority lapsed after the passage of Uruguay Round legislation that established the WTO, and it has not been renewed since. America's competitors have clearly taken advantage of this situation in the interim by developing market share in countries with which the United States does not yet have favorable trade agreements.

On May 10, 2001, President Bush outlined his 2001 legislative agenda, and TPA was a top priority. The President intends to use TPA for a new round of negotiations under the WTO, a Free Trade Area of the Americas agreement, and other regional and bilateral negotiations. The President said that he wants the authority by the end of the year. I hope we can deliver this authority to him before we adjourn for the August recess.

Our training partners need to know the President's negotiators speak for the entire United States. U.S. Trade Promotion Authority tells other governments that there will be no more negotiation once they reach an agreement with the President. Because Congress has the final authority to approve or disapprove, the President will work closely in collaboration with Congress during the negotiations.

In my district in the Lehigh Valley, Pennsylvania, and throughout the United States, international trade is creating new economic opportunities in our cities and on our farms. American-made goods

and services are recognized for their high quality, and they are in demand all around the world. From large companies like Air Products and Chemicals to small businesses like Olson Technologies in downtown Allentown, both employees and employers benefit from expanding trade opportunities.

Export firms employ 42 percent of all workers engaged in manufacturing and wholesaling in my district, and employees working for exporters, such as those in my district, earn higher wages and better benefits.

Further, trade has a particularly strong impact on the survival of our Nation's farmers. Export markets are critical to U.S. farmers' prosperity. According to the U.S. Department of Agriculture, agricultural export value is equivalent to about 20 percent of the value of farm production and 25 percent of farm income.

In our second panel today, the Subcommittee will examine the reauthorization of the Trade Adjustment Assistance Program. The TAA program has two components, trade assistance for workers, which is administered through the Department of Labor, and trade assistance to farms, which is administered by the Economic Development Administration at the U.S. Department of Commerce. Authorization for the TAA program is set to expire September 30th of this year.

My colleague from Pennsylvania, Phil English, has introduced H.R. 85, which would extend the authorization of the TAA program through 2006. H.R. 85 would increase the time available for dislocated workers to apply for benefits from 1 year to 2 years. The bill also provides authorization for technical assistance to qualifying firms who are seeking relief from lost jobs and sales due to foreign imports. In a more open trade environment, some firms and industries will grow; others will contract, merge or perhaps fail. And while adjusting to freer trade may be a healthy process from a macroeconomic perspective, which I believe it is, much like nonmarket—many other factors absent trade, such as changing technology, can have a rather harsh reality for the firms that experience the detrimental effect. So I want to commend Representative English, our Ranking Member Bill Pascrell, who is a cosponsor of this legislation, for recognizing and addressing the needs of our workers and businesses.

I look forward to the testimony of the witnesses before us today and to a spirited discussion concerning these important issues. I want particularly to thank those who have traveled a long distance to be with us, including Mr. Paul Hartman, a farmer of my own home State of Pennsylvania, who clearly understands how TPA will benefit farmers throughout the Nation.

And now I will yield to my friend from New Jersey, the Ranking Member Bill Pascrell.

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

Mr. PASCRELL. Thank you, Mr. Chairman. I would like to welcome all of our guests who have taken the time to testify before this Subcommittee.

Most of the world, there is an image that large multinational corporations dominate the world of international trade. We know that perception certainly does not match reality within the import-export sector. Small firms represent 97 percent of all companies

working with the United States import-export marketplace. In fact, 88 percent of the U.S. companies in the trade industry are small companies with 100 or fewer employees. As the Ranking Member of the Subcommittee on Tax, Finance and Exports, ensuring that these companies and their employees receive fair and balanced treatment in the world marketplace is of critical importance to me.

I think it is important, Mr. Chairman, that we do stress that this is not a debate over trade or not to trade. We all believe in trade. This is a question of how far we extend ourselves. This is a question of how far we extend ourselves. And we know that in the past 7 years, there have been 200 trade agreements without fast track. Many of those trade agreements have been a benefit to the Nation. Many of those trade agreements are still in effect.

We are going to discuss two important programs concerning trade, as the Chairman outlined today: the trade adjustment assistance and fast track. One of these, I think, is of major benefit to small businesses. The latter, I have reservations about. The reality is that the issue of trade is not always industry- or business-specific. Whether it is large or, in this case, small business, trade authority can have varied effects. Many believe that the textile industry in America fell victim to trade agreements that resulted in the United States textile companies shifting their U.S. jobs to Central and South America where wages, where labor laws and environmental requirements are weak at best.

I have my reservations about fast track. Of course, I see that the President has made it a trade priority to ensure that labor and environmental standards will not be included in our trade agreements. I feel that by ignoring international workers' rights, we are not allowing but assisting in the mistreatment of millions of workers in sweatshops around the globe. Meeting the bottom line is apparently worth the cost of inhumane conditions.

We are repeating the same mistakes that the U.S. remedied decades ago. If we can place issues such as copyright protection, fair trade protection and not allowing unfair subsidies and antidumping protections to be among the requirements, why can we not add decent labor and environmental standards? Why can we not also decide to pay out the average working folks?

Any gain in expanded free trade must be weighed against the serious prospect of the loss of U.S. capital resources and, more importantly, jobs being sent overseas and to cheaper labor cost markets in the wake of NAFTA.

And I might add, Mr. Chairman, that when we look at pre-NAFTA to the present moment, we have an imbalance—we have an imbalance in 1994 of $121 billion, and now it is $435 billion. And whether we are talking about goods balance or talking about service balance, that imbalance does not speak well for trade. And we need to be aware of which jobs are being lost and whether we are sacrificing them up on the altar of free trade or, as William Jennings Bryant might say, crucified to the cross of gold; in this case, crucified to the cross of trade.

I am vociferously supporting the trade adjustment assistance. TAA Program provides assistance to eligible businesses and workers that have been disadvantaged by U.S. trade agreements.

And on conclusion, Mr. Chairman, as I always refer to in any trade discussions, article 1, section 8 empowers the Congress to regulate commerce and foreign—with foreign nations and to lay and collect taxes, duties and impose excises. For 145 years Congress exercised this power through frequent enactment of tariff acts setting in detail duty rates for individual imports. I am not in the Congress, but he is. I have not been elected to surrender the constitutional responsibilities.

Thank you, Mr. Chairman.

Chairman TOOMEY. Thank you, Mr. Pascrell.

Mr. Schrock, do you have an opening you would like to make?

Mr. SCHROCK. No, sir, I don't, but thank you, Mr. Chairman. I just want to welcome everybody, and it is rather timely we are talking about this. I just had folks in my office talking about this subject in the last hour, so I have a few questions that I am going to ask and am looking forward to your testimony.

Chairman TOOMEY. Thank you.

At this time I will recognize the Honorable Grant Aldonas, Under Secretary for International Trade, International Trade Administration. Thank you very much for being with us, and I welcome your testimony.

STATEMENT OF GRANT D. ALDONAS, UNDER SECRETARY FOR INTERNATIONAL TRADE, INTERNATIONAL TRADE ADMINISTRATION, WASHINGTON, DC

Mr. ALDONAS. Thank you, Mr. Chairman, Congressman Pascrell, and members of the Committee. Thank you for the invitation to testify. With your permission, I would like to make a brief opening statement and submit the balance of my testimony for the record.

First of all, I want to say I was talking with Secretary Evans before coming down here, and he wanted me to reiterate his interest in working with the Committee and your staffs on trade issues, both sides of the aisle, for Trade Promotional Authority, but also what we do in terms of trade promotion generally at Commerce on behalf of our exporters. Most of our programs are dedicated to small and medium-sized exporters. That is where he has asked me to focus most of my attention in terms of my job, and we look forward to working with you in terms of that common effort.

It would be difficult to overstate the importance of small business to our economy. Twenty-five million plus small companies create 75 percent of the new jobs in our country. They generate more than half of the Nation's GDP, which amounts to $5 trillion. And international trade is more critical than ever to the future of American small businesses. We now live in a global marketplace. It is here. It is not something that is coming in the future. Our small businesses need the ability to engage in that market and find access to those markets overseas.

As Congressman Pascrell noted, 97 percent of all U.S. exporters are, in fact, small businesses. Many of the critics of trade have pointed to the fact that it is only large multinational corporations that benefit from this process. In fact, more often than not, small businesses receive benefits from the removal of trade barriers overseas, and there is a simple reason for that. For the big guys, they have more than one option. They can export out of the United

States. They can invest overseas behind a tariff wall and manufacture there. They have a number of ways around that problem. For the small guys, there is only one option. That is exporting. That means the President has to be at the negotiating table trying to break down trade barriers on behalf of small business. Ultimately things like—very simple things like customs procedures, the red tape that goes along with trying to get into a market, the Customs official at the overseas border, those are very practical things that are real obstacles for small business exporters that larger companies do not confront. That is where a lot of the work has to be done.

My view is we have to have a primary set of negotiating objectives that serve small businesses' interest in terms of trade facilitation, in terms of the actual negotiating objectives that we take to the table.

Last week I had the chance firsthand to see some of the ingenuity and innovation that is going on among America's small businesses. I was in Los Angeles to speak at a conference put on by the Commerce Department's Minority Business Development Agency. Part of my goal and my mission, along with Ron Langston, who is the Director of MBDA, is to try and create opportunities for small businesses. What was most remarkable about that experience was the energy in the room, the interest in exporting, the questions that we had, and the interest in having the Commerce Department's help in terms of accessing new markets, mostly in terms of information. It was more of a question of "how to" than it was necessarily about trade barriers.

But when they did talk about the troubles they have getting into markets, it came back to the same sort of practical thing: Higher tariffs on auto parts going into Europe than they face coming into the United States; agricultural subsidies in Europe; the same sorts of barriers that are part of the American trade agenda that they need broken down. To do that, of course, the President has to be at the negotiating table. What that boils down to is some very practical considerations.

For example, I met with Joe and Jack Nalgian, who produce auto vehicle safety, and security systems in Congressman Berman's district. They started out with a real good idea. What they found was there were, in fact, intellectual property problems. They needed the support of the U.S. Government trying to break into a variety of markets. Now they export as close as Mexico and as far away as Mongolia, oftentimes with the support of the United States Government being at their shoulder not only in opening the markets, but also in terms of providing assistance and financing along the way.

Same thing with Maria Sorveno, who produces high-quality gelatin desserts in East Los Angeles. There you have somebody who started out in her kitchen. Through NAFTA she has gained access to the Mexican market. It has created a business not only regional, national, but also international, exporting as far away as New Zealand. Again, it just underscored for me the importance of external markets to the future of our small businesses.

That leads me to my two final points, the answer, really, to the question of how best our Government can help small businesses. First and foremost is the topic of the hearing, Mr. Chairman, which is Trade Promotion Authority. My own view, although its often-

times said you don't need TPA until the end, frankly, I view TPA as a way Congress and the President get on the same page in terms of trade. I agree with Congressman Pascrell about where the power resides in the Constitution with respect to the regulation of our foreign commerce, and ultimately, the President has to be the sole voice of the Nation at the negotiating table. What this is about is trying to find a way to accommodate those two interests, to make sure that Congress is in the driver's seat in terms of setting the objectives and has an opportunity fully throughout the process to be involved as a part of it; and also at the end to have the up or down vote as to whether or not the United States is actually going to enter into an agreement and implement it.

In my view, it is essential to have Congress and the President on the same page. You can imagine if you are in negotiations, and you don't feel like you have the full power of the U.S. Government behind you, it is difficult to make choices. It is difficult to know where to draw the lines. It is difficult to know whether you have a deal that will pass muster. One of the most important things about Congress setting the negotiating objectives is defining the parameters within which American negotiators can pursue an American trade agenda. It is also the united U.S. Government telling our trading partners what we have to have at the negotiating table.

The second of my two points is what we do after an agreement is in place. One thing we have not done with our trade promotion budget is think strategically about it. We negotiate trade agreements. We do not necessarily coordinate. What we do in terms of trade promotion activities is to fill in behind those trade agreements and secure the markets that we have bargained for in negotiations.

So one of the things that Secretary Evans has asked me to focus on is what we do in terms of our trade promotion activities once agreements are in place. Now, a good share of that is compliance. We have seen a significant increase in the Commerce Department's compliance budget. We have hired 28 new people to contribute to that effort. But more fundamentally, we have launched the Trade Promotion Coordinating Committee, which is a statutory body that the Secretary chairs, to find efficiencies in how we go about trade promotion; to try and encourage a more strategic vision about how we approach trade agreements and fill in behind the market initiatives that we secure.

As a part of that, we have had significant help on both Trade Promotion Authority and trade promotion policies from small businesses. We have a very active Industry Sector Advisory Committee that has contributed a great deal to our understanding of the barriers that small businesses face. They have done a great job of advising us, along with our district export councils, in terms of where we should be going with our trade promotion activities.

Let me close there, and I welcome your questions.

Chairman TOOMEY. Thank you very much, Mr. Aldonas.

[Mr. Aldonas' statement may be found in appendix.]

Chairman TOOMEY. At this time, I would welcome Mr. Don Lloyd Williams from Marietta, Georgia. Thank you for being with us today.

STATEMENT OF DON LLOYD WILLIAMS, PRESIDENT AND CEO, PRINCETON MEDICAL ENTERPRISES, MARIETTA, GA

Mr. WILLIAMS. Good afternoon, Mr. Patrick Toomey, Honorable Chairman, Congressmen, Congresswomen, Representatives and staff, distinguished guests and fellow international exporters and businesses. My name is Don Lloyd Williams, and I am president of Princeton Healthcare, an international healthcare consulting and integration company doing business in both Latin America and Africa. We provide USA-manufactured medical and information technology products and support services to hospitals and clinics worldwide. Our mission is to improve the quality of healthcare in emerging markets in undeveloped countries through the use of new technology.

Princeton Healthcare is classified as both a small business and minority-owned business and operating company, or SME, if you will. And again, as you mentioned, my firm is located and based in the metropolitan area of Atlanta, Georgia.

I have come today to Washington, D.C., to speak to you in support of both the Trade Promotion Authority and Trade Adjustment Assistance Program. And I speak to you from a perspective of not only many years of international experience, but from a perspective unique to small firms that have to work in the trenches against fierce international competition in a global community. This is how we create business opportunities, revenues for our companies and jobs for U.S. citizens.

You see, I was blessed with the opportunity to start my business career working with several U.S. major companies, and which later afforded me an opportunity to work for several major international companies. The experiences and the perspectives that I gained from these firms were beneficial because it helped me to gain the expertise and knowledge to create business opportunities in these foreign markets and to transact business successfully. However, my firm, similar to most small businesses, have all the challenges that the larger firms have, but typically have to operate without the support systems and resources that the larger firms can invest in to support their internationally-based business development programs.

U.S. small businesses in general have a wide array of challenges to overcome in developing market-entry strategies in foreign markets. My firm has had to work effectively to overcome the barriers associated with the commercial risk of doing business in Latin America and Africa. This includes currency and exchange rate dynamics and payment and performance issues with customers. We have had to manage risks associated with logistics, freight forwarding, cargo insurance and completing the appropriate documentation to clear Customs. To date, and to our credit, we have been able to manage these issues rather successfully.

Two major areas, however, continue to present problems for my firm: One, getting our projects financed for the foreign buyer or customer; and two, dealing with the trade policies which may further disadvantage our exports to that region.

Let us take a look at the financing scenario. My firm, similar to most small businesses, is in a better position to secure a contract with a foreign buyer if we can provide low-interest financing. Fi-

nancing provided by Ex-Im Bank's Medium Term Foreign Buyer Programs has helped to level the playing field for small exporters. For example, my firm was recently approved by Ex-Im Bank to provide $400,000 in medical and laboratory equipment to a diagnostic testing laboratory in Ghana. This testing laboratory supports the clinical testing of patients that are treated at surrounding hospitals in the region.

Last year we were also able to secure financing for a hospital in the Ivory Coast through Ex-Im Bank financing. And this region has been a stronghold for Francophone-based European companies, yet we were able to secure the contract and gain export revenues. In both instances, by providing both competitive financing and financing for these customers, we were able to beat out several major European and Asian companies that were clearly in a better position in the market. Without Ex-Im Bank's support, these transactions would have been impossible. So from our perspective, it is important to increase the funding for Ex-Im Bank so that smaller firms have a shot to secure business in these emerging markets.

Aside from financing, Princeton Healthcare's most significant challenge lies within the constraints of the U.S. trade policy and number of free trade agreements. Clearly the U.S. seems to be behind in the number of bilateral trade agreements established in these emerging markets. My firm is at a significant disadvantage in markets where host countries of European and Asian competitors have established free trade agreements. You see, in many instances, being competitive on a transaction can make the difference in deciding if you will win a contract or lose a contract. Therefore, any cost differential that may be artificially created can put us at a disadvantage.

An example of this is in the Brazil marketplace. My firm is currently developing programs to establish business in this region. However, the U.S. does not have a free trade agreement for this market. This could put us at a major disadvantage to our European competitors if the European Union establishes a free trade agreement in this market before the U.S. And as you are aware, the U.S. is currently negotiating an FTA with the Mercosur Customs Union to cover the Latin American countries of Argentina, Brazil, Paraguay and Uruguay. We also are aware that many other countries in Asia are establishing bilateral FTAs to expand their economies and increase their number of trading partners.

Therefore, from my perspective, the U.S. represents the largest economy and most competitive Nation in the free world. We must take a leadership position towards the development of international trade programs. We must be proactive rather than reactive. We must be innovative on multiple fronts when dealing with trade matters and find effective solutions that can impact the trade deficit.

Small businesses will continue to play an important role in the growth of international trade by opening up new markets. However, we need your support to help create the tools that can minimize the trade barriers to allow us to be successful in these markets. We feel that through proactive legislation, for example, reestablishing the TPA and developing and expanding the TTA pro-

grams are positive steps which will help level the playing field for U.S. small businesses pursuing opportunities in these markets.

We encourage you and challenge you as Congress to continue to take giant steps towards legislation that promotes international trade development. I thank you for your time and consideration.

Chairman TOOMEY. Thank you for your testimony.

[Mr. Williams' statement may be found in appendix.]

Chairman TOOMEY. At this time, I would like to introduce Paul Hartman from Pennsylvania.

Thank you for being with us today.

STATEMENT OF PAUL HARTMAN, LEESPORT, PA

Mr. HARTMAN. Good afternoon. My name is Paul Hartman. I am an eighth-generation farmer from Reading, Pennsylvania.

I want to thank Congressman Toomey and the entire Committee for this opportunity to testify before you on behalf of the Pennsylvania Farm Bureau and the American Farm Bureau Federation regarding our strong support for H.R. 2149, the Trade Promotion Authority Act of 2001.

My family owns and operates an 800-head dairy farm. We grow crops on approximately 500 acres, which is used entirely to feed the cows and replacement young stock. Our dairy produces about 9 million pounds of milk per year.

U.S. agriculture continues to be increasingly reliant on access to export markets. The agricultural industry in this country can only continue to grow and prosper by reaching the 96 percent of consumers who live outside this country. Our ability to export continues to be hampered by significant barriers to trade. Given continued low commodity prices, access to world markets is now more important than ever. U.S. leadership in international trade has languished since negotiating authority for the President lapsed. Other countries have struck new trade deals that place our producers at a disadvantage relative to their competitors. We need to arm President Bush and his team of negotiators with the tools that are necessary to open new markets for our commodities. Granting this authority without trade restrictions or sanctions governing environment and labor is essential. Employing trade-restraining measures to address these important societal goals will serve only to hamper, not promote, trade without achieving the desired policy result.

The lack of Trade Promotion Authority is hindering the United States' ability to be taken seriously as a trade negotiating partner. Meanwhile, other countries are moving forward without us. The European Union, Canada, Mexico and Latin American countries are negotiating new free trade agreements and preferential arrangements that do not include the United States. Over 130 preferential trade agreements exist today. Only two of them include the United States. The preferential access given to European Union producers on a number of commodities, including dairy, has enabled them to better compete with U.S. Exports. On subsidies, the European Union outspends the United States nearly 4 to 1 on domestic supports and uses over 90 percent of the world's agricultural export subsidies. World agricultural tariffs today average about 62 percent, while U.S. agricultural tariffs average 12 percent. These

farm barriers to U.S. agricultural exports can only be eliminated by trade agreements, and without Trade Promotion Authority, we are unlikely to achieve these goals.

Economic studies show that the most significant growth in demand for agricultural products, and, in particular, for value-added foods, is in societies with emerging middle classes. As families and households move into the economic middle classes, they spend an increasing portion of their discretionary income on food. It is estimated that in the next decade, nearly 250 million Indians and more than 200 million Chinese will attain middle class status. Growth of demand for food will be strongest in these emerging markets. To maximize our opportunities to supply these markets, we must get tariff and nontariff barriers down.

A wider range of U.S. agricultural products now depend on export markets. Corn, wheat, soybeans and other bulk commodities used to dominate the trade picture, accounting for two-thirds or more of total U.S. agricultural exports. No more. Since the 1980s, the most rapid and consistent growth has been in consumer-oriented products, everything from meats to snacks and fruits and vegetables to pet foods. This category ranked third in 1985 after bulk and intermediate products. By 1989, for the first time ever, consumer-oriented exports captured the lead. This means that a wider range of jobs and economic activity in the agricultural sector depends on trade than ever before. An estimated 750,000 full-time U.S. jobs in 1999 were related to the production, assembly, processing and distribution of U.S. agricultural exports. Of this total, the majority, 470,000 jobs, were off the farm.

World market prices for many agricultural products are depressed in part because of high levels of trade-distorting subsidies and protected home markets. Strengthening of world prices which helps incomes of U.S. producers and exporters can only happen with effective international disciplines on unfair trading practices and trade barriers. Other countries are unlikely to agree to such disciplines except through a comprehensive round at the World Trade Organization negotiations that Trade Promotion Authority would authorize.

We can no longer afford to stand idly by while other nations' governments improve trading opportunities for their citizens and industries. Securing Trade Promotional Authority for the President will make launching a round in the World Trade Organization where the greatest gains will made in agricultural trade more likely. Leadership and action by Congress must no longer be delayed. The time to act is now. Congressional passage of Trade Promotional Authority is essential this year. Thank you.

Chairman TOOMEY. Thank you very much, Mr. Hartman.

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

Chairman TOOMEY. At this time, I would like to recognize Mr. Suresh Gursahaney from MicroAutomation in Chantilly, Virginia.

Thank you for being with us.

STATEMENT OF SURESH K. GURSAHANEY, MICROAUTOMATION, INC., CHANTILLY, VA

Mr. GURSAHANEY. Thank you for giving me an opportunity to testify today before the House Small Business Committee, Subcommittee on Tax, Finance and Exports.

My name is Suresh Gursahaney, and I am the president and CEO of MicroAutomation, Incorporated, located in Chantilly, Virginia. We are a small, disadvantaged business, certified minority business enterprise. We currently have a work force of 20 employees.

MicroAutomation designs and implements product sets for call center environments. We consider ourselves to be one of the industry's pioneers and are quite pleased that our products and applications are used in organizations renowned for their customer service, such as Hilton Reservations Worldwide, Maytag and Baltimore County 911.

In the last several years, we have brought a variety of ways for consumers to reach customer contact centers. Advances in technologies have allowed customers access to service via the fax, Web, e-mail, chat sessions and telephone. MicroAutomation helps businesses and organizations develop one integrated point of customer service contact that is accessible from these diverse media.

Based on the statistics available from the U.S. Government, and based upon my own experience, the opportunities for small firms to participate in the global marketplace are quite exciting. Small businesses with less than 20 employees made up two-thirds of all U.S. exporting firms in 1998, which has been a significant increase from 1992 when these small business exporters stood at 59 percent. In 2000, the U.S. information technology sector alone exported $134 billion in products. This sector contributed one-third to real U.S. GDP growth from 1997 to the year 2000, according to the Department of Commerce. Small businesses dominate the IT sector and many of them, like MicroAutomation, work in these technologies and markets. The growth of the innovative IT sector can only be sustained through expanding markets, and much of these opportunities will occur abroad. MicroAutomation is so pleased by our expanding opportunities, and we are hopeful that more U.S.-based small businesses will have an opportunity to pursue markets abroad as well.

MicroAutomation's successful work in implementing solutions for Hilton Reservations Worldwide in five U.S. reservation centers has led to an expansion of our work overseas. We most recently completed a call center project in Glasgow, Scotland Reservation center, and there are plans for four additional international call centers. Our international portfolio also includes work via prime contractor for South Korea Telecom, Samsung Life Insurance, Citibank using IBM, and Hong Kong Telephone via Mosaix. Indeed, there are many opportunities for MicroAutomation to conduct business abroad for a variety of clients, and we are thrilled by these opportunities for growth. However, as we have also learned from our overseas work, there are risks for small businesses also.

While MicroAutomation's experience participating in overseas markets has been largely positive, our experience in South Korea served as a wake-up call to the prospective perils faced by small

firms in the world marketplace. Through a local South Korean subcontractor, MicroAutomation implemented our call center solution for SK Telecom and Samsung just prior to the fall of the Korean economy. Unfortunately, we fell victim to an economic slump, and invoices totaling $100,000 are still outstanding, which is a significant amount of revenue for a small company.

While larger companies have the resources to dispatch legal teams when such circumstances arise, the recourse small firms have, such as MicroAutomation, are really rather limited. It would require enormous sums of money for our firm to pursue collection of those outstanding bills, and, quite frankly, we are less powerful and politically connected than larger firms. Our experience in Korea did not dampen our pursuit of overseas work, but it has altered our international strategy for pursuing such opportunities.

MicroAutomation's current plans are to work with companies that are headquartered in the United States with contracting and invoicing performed domestically. The current prerequisites that we have established for ourselves in conducting work abroad only underscores the importance of expanding trading opportunities for all American business abroad. Clearly there are many small businesses that successfully export their products and services on their own, and expanding favorable trade agreements with a variety of countries will give small businesses a broader market to sell those products and services.

In the case of MicroAutomation, it is also clear that when all businesses have increased access to overseas markets, small, medium and large businesses alike, all sizes of business and their work force, will benefit from increased global opportunities.

As mentioned, it is quite risky and difficult to transact overseas as a smaller business entity. Competing with businesses around the globe in unfamiliar environments is a big step for a small firm. Any steps that our Government can take to lay the groundwork for better trading relationships with countries abroad, including favorable trade agreements that create more certainty and lower tariffs, I believe, is beneficial for all small businesses.

Trade Promotion Authority is a positive tool that will not only expand our market opportunities for small firms, but help establish favorable parameters for doing business in foreign countries. Thank you very much.

Chairman TOOMEY. Thank you very much for your testimony.

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

Chairman TOOMEY. Thank you all.

Let me explain something briefly about how our light system works, and we are going to try to follow that system here. We have got three lights in front of you. The green light is set for 5 minutes. As the clock ticks down, with 1 minute remaining, the light switches to yellow to warn us there is only a minute left. And when the 5 minutes expire, the light goes red. I explain this not so much for your benefit, but for the benefit of myself and my colleagues. And I would like to stick to the clock because we have a number of folks here who have a number of questions, and we have another panel coming afterward. So with that having been said, if people could try to address questions as succinctly as they can, it would be very helpful.

And I have a couple of questions for Under Secretary Aldonas. Thanks again for being here.

My first question is that some would suggest that certain past trade agreements—NAFTA is one that comes up periodically—have been a failure because we have a trade deficit with the countries in question. Of course, United States has a large trade deficit in general, but certainly we have experienced the greatest economic expansion in American history during a period of time in which we have had increasing trade deficits. Could you address the question of whether we ought to be measuring the success of trade by the extent to which we have either a surplus or deficit?

Mr. ALDONAS. Trade deficits in and of themselves generally reflect differences in growth rates between economies rather than necessarily barriers to trade.

For example, right now, if you take a look, the trade deficit is narrowing. It is not because there has been any recent market opening initiative or any change in the barriers we face. It is because the economy started to slow relative to other economies. Interestingly enough, the last time that we really closed the trade deficit that we had with Japan was the 1991 recession, and again, nobody would argue that Japan was opening its market in 1991 to us. That was well in advance of the conclusion of the Uruguay Round agreement. So generally, that is what drives the deficits.

Another way to look at it is that we benefit in a way from a capital surplus and that gives us the ability to buy more abroad or investing in our country. There was a period in the 1980s where that surplus was going to current consumption. Now generally that comes to us in the form of foreign direct investment. We have been running a capital surplus in this country since 1975. In fact, people are investing their money in the U.S. to make it productive. The return on that exceeds the cost of the capital, so that foreign direct investment here in the United States is the net benefit.

Chairman TOOMEY. Thank you, yes. I would just—further to that point, I would suggest it is not a coincidence that we have the freest trading environment in the United States, and we are the most attractive place in the world for people to invest capital as manifested by huge capital inflows that we have had that have kept the dollar strong despite large trade deficits.

One of the objections that people frequently raise or will want to address with TPA is whether or not and to what extent labor and environmental considerations should be part of those agreements. It is my understanding that the position of the administration is that those should be addressed separately, not as part of the trade agreement per se. Could you address that issue, and how do we—I should say not as part of the Trade Promotion Authority per se—how do we address labor issues and environmental issues in a constructive way?

Mr. ALDONAS. Well, there is a trade component to this debate. For example, on the environmental front, there are plainly things we can be doing that would be helpful to the environment. First of all, trade in and of itself helps conserve resources. What you are doing is making our economy more efficient, economies more efficient. That puts less weight on the environment generally.

Second, if you think about the most serious problem in terms of overproduction, things that are damaging to the environment, the common agricultural policy in Europe would have to rank number one. Going after the CAP, frankly, at the negotiating table at WTO is one of the most helpful things we can do for the environment at this stage. In addition, opening up new markets for our environmental goods and services would also be a great benefit.

Now, is the WTO the best place to try and negotiate labor standards or environmental standards? I would argue it is a difficult place just to negotiate trade standards much less to actually enforce those standards. There are other places where we can go. I agree, however, we need an active agenda on that front. Certainly there is a consensus that we need to be more aggressive on the international labor front which was reflected in the United States agreement to the 1998 ILO declaration, and there is a venue to do that. The real question is whether you might undercut the real benefit of trade for labor and the environment, which is raising living standards abroad, if you include things that result in sanctions that would block trade, and that is the hard nut to crack.

I think we say in order to use trade as a powerful tool to raise living standards and raise labor and environmental standards overall, there needs to be component pieces that work those issues separately. But at the end of the day, you don't want to undercut the real value of trade.

Chairman TOOMEY. Mr. Hartman, I had a question for you. Many parts of Pennsylvania, my district included, there is significant crops in corn and soybeans, but not a large amount of that is exported today. Nevertheless, I think one could argue that greater exports of American agricultural products will help Pennsylvania farmers. Do you share that view? And if so, how is it that expanding trade can help all the farmers in America and especially in Pennsylvania?

Mr. HARTMAN. Corn and soybeans are commodities that are priced based on the marketplace, and if you open up trade in other marketplaces around the world—if you open up trade around the world, you are going to have more markets, and hopefully your commodity prices would rise because there would be more demand for your product.

Chairman TOOMEY. Well, in the interest of observing my own rule, I will at this time yield to the gentleman from New Jersey Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman.

Agreeing with the agenda, the objective to broaden market opportunities, wouldn't you agree that one of the major problems we have is—Mr. Under Secretary, is making these broadened opportunities reciprocal? Isn't that a major problem that we are facing in terms—and which brings about imbalance in trade?

Mr. ALDONAS. Yes. We face trade imbalance and as well as opportunities. The United States has been a leader in world trade, really, since the end of the Second World War, and my view is there have been times when we have "paid more at the office" than others. So this time around I think what we have to do is say, look, on tariffs, for example, we are not going to tolerate the fact that Europe continues to impose a 10 percent tariff on our automobiles

when we only impose 2½ percent on imports. We can't let that stand.

Mr. PASCRELL. But the problem is if we have fast track, and the Congress is not able to modify the agreement that the President comes to, thereby surrendering our constitutional obligations and responsibilities, that is what I am concerned about, not with the fact that we do not want to trade with other countries. We do. We live in a global economy. When you see six or seven countries in the worst fiscal condition, whether we are talking about Turkey, Argentina, Indonesia, Brazil, when you look at those countries, we have had trade agreements with those countries, and other European countries have trade agreements. That isn't what is the cohesive force in whether the economy moves forward or backwards. It is important. I am not downplaying it. But the more reciprocal the trade agreement is, the better off both nations are. That is what I am saying.

Mr. ALDONAS. I agree with that completely. Part of it, what we need to do with our trade policy—I mean, these remarkable stories that you hear about small business people—that ought to be the focus of where we go in terms of our trade negotiating objectives. In some respects you have to look back at the past and say, who paid the last time around? That means you have to be aggressive on that front. At the end of the day, we have to have our best salesperson at the table.

Mr. PASCRELL. When you look at the commitments and promises that were made concerning NAFTA—I mean, we have Mexican farmers going south. We have Mexicans that are involved in the factories that we built losing their jobs. And so one has to wonder not only what NAFTA did to our economy, but what did it do to the Mexican economy.

Now there is a report coming out next week that is going to state in stark terms just before we debate, I guess, some issues—in stark terms what really the fallout was of NAFTA.

You know, China-U.S. Business and Industry Council claims that a 1996 report by the National Association of Manufacturers show that a mere eight United States companies generated more than one-third of all the U.S. goods exported to China. Opponents of China's participation in the WTO argue that open trade with China will therefore only benefit a few large companies and expand the gap between the large companies and the small business exporters, which we do not want. What we are here to do is help primarily the small business company in the United States of America, and I think if we can agree on that and look at the facts and see what mistakes we made in the past, I think we can move forward on a lot of trade agreements. Wouldn't you say that?

Mr. ALDONAS. I think the essence of it, like with China, goes back to the point I was making in my oral remarks, which is, you know, the big guys have more options in terms of how they get into that market. When you look at what our auto industry faced in the way of tariffs in China—still faces until the WTO agreement goes forward—it is a surprise that there is one American vehicle in China. Now you see a number of them, and you wonder how they got there.

But the bottom line is the agreement. Reducing those initial barriers at the negotiating table helps small and medium-sized enterprises by reducing tariff levels. It is also helpful, I think, in China in particular to introduce disciplines on Customs procedures and transparency because that is a lot of what the obstacles are for small business. So the WTO is a good vehicle to go after that. It is also going to require us to follow up very, very hard on compliance with the Chinese.

Mr. PASCRELL. Well, you bring up the issue. Who is going to force anyone to comply? There is no compliance with NAFTA. There is no follow-up. Who is supposed to be there to enforce the rules? The rules are not being enforced. And this is what I fear about fast track. And we all would like to have reciprocal trade agreements, and we don't have.

I am not going to ask any more questions, Mr. Chairman. Mr. Williams, I listened very closely to your testimony, and I read it. I can't find where fast track would assist you. I don't understand the barriers that exist with our trade agreements that you were citing and how that would be assisted directly by fast track.

And, Mr. Hartman, interestingly enough, a lot of folks that we trade with in terms of—in different trading agreements that we have had, farmers are getting hurt most of all in very different, very specific commodity products, and we have got to look at this very carefully. Small farmers in this country are being hurt.

Chairman TOOMEY. Thank you.

Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman.

Let me follow up on what Mr. Pascrell said, and I address my question first to Mr. Hartman. If we do not get this act—the Trade Promotion Authority, if it doesn't pass, how will it impact your ability to enter foreign markets?

Mr. HARTMAN. I believe now to get into these markets, we need to have a force at the negotiating table. And right now I feel without fast track and having a strong voice at the negotiating table, we are limiting our opportunities. And there is some trade going on, which Mr. Pascrell mentioned, that perhaps with better negotiating procedures and regulations that could be set up at the table, then maybe some of this distortion in certain products could be avoided.

Mr. SCHROCK. Mr. Secretary, the Chairman of the Federal Reserve seems to indicate that the economy is slowing down. I hope that is not the case, but that is what he is indicating. What impact do you believe Trade Promotion Authority will have in jump-starting the economy not only here in America, but throughout the world?

Mr. ALDONAS. Well, passage of TPA is something that is basically procedural, isn't going to do anything economically. What you do, though, is send a strong signal when our negotiators are going off to Doha, for example, in the fall, to launch a new trade round of trade negotiations that were back at the table.

Last time we saw this was 75 years ago when you had the major economies of the world slowing down. Traditionally what you do in those circumstances, you try to move the trading system along. Liberalization then starts to move the forces forward, so you affect the

psychology and eventually the market. But you need that first step so that people understand that the President is back at the table, and the United States is going to assert its leadership on trade.

Mr. SCHROCK. Mr. Williams and Mr. Gursahaney, how do you expect your businesses will expand if this authority passes, and what will happen if it does not?

Mr. WILLIAMS. I would like to say I think it is—we need the leadership, first of all, when we are fighting against competition in these particular markets. It is very clear to us that in many instances, they have, one, the support and a little more incentive to get into these markets because they are—the trade arrangements that they have actually promote certain products that are now coming into these markets.

We are, in fact, hampered by, as I was alluding to, some differentials with tariffs and the Customs issues if it becomes, in certain markets that we compete against, a pricing issue. And so any differential, any barrier that we deal with in that regard can prevent us from being as competitive as we need to be. And if we do not have all of our ducks lined up, it makes it very difficult for us to win, and many of these companies that we are competing against are lining up all of their—positioning themselves and lining up all of their strategies to make sure that the financing and trade barriers and everything is working in sync for them to win these contracts and opportunities in the markets. And we do not have that sync. That it is going to be very difficult, and I have encountered that in certain markets, and I think this fast track program can really help us.

Mr. GURSAHANEY. From my perspective—I suspect I represent the IT the portion of the industry—as we go and attempt to secure opportunities in international countries, we are always faced with the laws of the local country.

Our experience in South Korea is a prime example of that. We went in and implemented a solution, and we were never paid because of the fall in the economy. There was no trade agreement with South Korea that the government had established that we could leverage. From our perspective, if there were trade agreements that were authorized by the United States Government, we could leverage those as a small company and essentially be able to go out and trade to these companies with some sort of security that they would abide by the laws and such that we see in the United States.

Mr. SCHROCK. But you heard one of the Members ask how do you make sure the laws are being adhered to—I guess my time is up.

Chairman TOOMEY. Thank you.

Mrs. Napolitano.

Mrs. NAPOLITANO. Thank you, Mr. Chair. There are a number of questions, and I am afraid 5 minutes is not going to get to everybody.

I have been involved in international trade for a number of years, and small business specifically, particularly. I have been to China or to Thailand where I found that the government had set up a panel of judges to be able to help American businesses resolve differences, but it had no enforcement, no teeth.

So while it looks good, it is really not helpful to American businesses. How do you see the working in the enforcement, even though there is already trade agreements, there is already in place the ability to be able to do it and yet it is not being done? Somehow it just escapes me.

Mr. ALDONAS. Part of the explanation is the fact that two sovereign states are using one enforcement tool. That is always going to be difficult, but one thing I have found in my own experience, both working with clients when I was in the private sector and when I was in government before, is that a lot of these things can be resolved on a practical basis if you have the U.S. Government on the ground. That means that—and it is my responsibility to do that—is to ensure that our foreign commercial services really try and rectify the problems there so that the problem stops with the customs officer in Shanghai rather than becoming a political issue.

Mrs. NAPOLITANO. Then the question becomes is the agency that should be involved doing the outreach to the MCHMS because they are the ones who are telling us this is not happening and I have had MCHMS come to me and try to get workshops in our area, anywhere in the United States for that matter, with American business to help them do outreach, to help them set up in those different countries, but I am kind of leery because I don't know what is happening in those areas. I don't know how well they will be protected. I don't know how much their product is going to be able to get reimbursed, and as he says, whether that country is going to be able to help our American business get paid back. That is of concern to me because if I am putting something out in my area and it turns sour, I am the one that is going to get blamed, not the government, me.

The other is the SBA, since I sit not only on SBA but I also sit on International relations is—and I find sometimes that agencies don't talk to each other. How well does ITA work with SBA and any of the other agencies that have to do with small business? Because I find that sometimes when you are questioned there is a very small segment that works on small business and the rest is general.

Mr. ALDONAS. The answer is not as well as I would like. One of the reasons——

Mrs. NAPOLITANO. What are you going to do to make it better?

Mr. ALDONAS. Secretary Evans and I have launched, through the Trade Promotion Coordinating Committee which he chairs and oversees all of the committees involved in export promotion, a benchmarking exercise, where what we are going to look at is our own performance, first of all, relative to our own customers' expectations. We have gone out to our District Export Councils to muster the small businesses involved currently through ISAC–14, as well as the other ISACs, the Industry Sector Advisory Committees, and we are going to be asking them for their input, A, on what their expectations are and, B, where we are now relative to those expectations.

Second, we are going to be looking at our foreign competition—what a foreign government is doing. If they are doing it better, I am going to be an absolute thief about the ideas and we will use those.

Finally, we are going to be looking at where our business processes, for example, like Eximbank lending, mirrors things that go on in the private sector and try and benchmark against those practices to determine how we can gain efficiencies. We live in a time of tight budgets. We need to find ways to do more with what we have, in effect, but the principal thing is getting everybody communicating so that my foreign commercial service officer in country, when they have a customer in front of them, is capable not only of explaining the "how to" of how to get a letter of credit, who to talk to here to get your goods in, how do you deal with the Customs officers; but they can also tell them here is where Eximbank can help, here is where the Overseas Private Investment Corporation can help, here is where SBA can help.

Mrs. NAPOLITANO. But the unfortunate part is that sometimes your budget does not allow for that outreach. Now, how do you handle your Web site, do you hit on the SBA and on the other agencies so that a business can go in and actually know where to go?

Mr. ALDONAS. The answer is there is—export.gov, which is essentially a one-stop shop that then links you to other Web sites.

Mrs. NAPOLITANO. But who knows about it? That is my point.

Mr. ALDONAS. I understand.

Mrs. NAPOLITANO. And for me to go tell my businesses I can only reach a certain segment of them, but what are the agencies doing to educate the business that might not be doing export but may be in the process of developing something that is exportable, if they have no way of knowing and, beyond that, if they have no way of getting the capital to be able to expand it other than maybe some State help and no Federal because they are too small and our agents are too busy dealing with the big guys and forget the little guys?

Mr. ALDONAS. What we try to do, and again, I would love to be able to do this much, much better, but what we try to do is leverage our resources by relying on District Export Councils. Those are businesses who have been exporting in communities. So our local officials in the U.S. commercial service work closely with the DECs as a way of trying to communicate to other people in the business about export opportunities. Also, those DECs serve as mentors for new companies that are in the business of exporting so they can say, look, if you are going into the Mexican market here was my experience, here is how I did a letter of credit, here is the banking relationship I established. Not all stuff we can provide but certainly ways we can do outreach through other folks who have succeeded with the help of our services.

Mrs. NAPOLITANO. Thank you for your answers, and I am hoping somehow we will be able to get more of that for a bigger audience.

Mr. ALDONAS. I would love your advice about how to do more on that because we really need to. There is no doubt about it.

Mrs. NAPOLITANO. Thank you, Mr. Chairman.

Chairman TOOMEY. Thank you. Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. Mr. Under Secretary, last time this came up of course it was called fast track back then and trade promotion authority now, and it didn't have the votes to pass then and of course that was during the Clinton administra-

tion, and a lot of my Democratic colleagues, not all but a lot of them, were against it principally because the unions were against it, and it was the chicken and egg thing, but the bottom line is that is where the opposition came from.

On the Republican side there were various reasons, but one of the reasons some of my colleagues—they oftentimes didn't say this on the record but their opposition was because they didn't trust Clinton or they didn't like Clinton or whatever. I supported it because I thought it was the right thing to do regardless of what my feelings might have been relative to our President, but I really felt it was the right thing to do, and the union opposition I think there is a number of reasons, but principally is because they felt jobs would leave this country and go offshore where wages could be lower and all the rest.

And you have addressed it to some extent already, but could you address again the numbers of jobs that go offshore versus the jobs that are created here because we are trading more and businesses are created in this country and that sort of thing?

Mr. ALDONAS. One of the things that was striking about the last decade, of course, is you had the significant market openings with both NAFTA and the WTO, and during that time the U.S. economy created 20 million new jobs since the early 1990s. Jobs don't literally leave the United States. Some jobs are lost. In certain sectors, new jobs are created. Overall 20 million new jobs during that period of time were created in the United States after a very significant opening in both NAFTA and in terms of the WTO. Real wages are up, private sector productivity increased by 3 percent annually and our exports supported approximately 12 million jobs. Wages in export jobs are higher, between 13 and 18 percent higher.

So the value of trade for workers in the United States is extremely high, not only in terms of real wages, because we are moving in the direction where we are more efficient and more productive so you would expect to see wages be higher, but also as consumers in terms of the range of goods that are available to them. So it reduces their costs while their wages are rising.

Mr. CHABOT. Thank you. Secondly, another argument for free trade or for trade promotion authority is that the consumer, the folks in this country who are actually going to the store, going to the markets, going to the department store, wherever they might shop, are able to purchase more goods, more variety of goods at a price that they can afford which they might not otherwise be able to afford if we just threw up walls around this country and just traded amongst ourselves or made it more difficult for other products to come in.

Could you address that issue relative to goods that are available to folks here, the actual consumer, how the consumer benefits?

Mr. ALDONAS. Yes. Certainly there is a wider range of consumer goods available and there is a heck of a lot of competition in those products, whether it is automobiles on whether it is electronics. I also want to make the point that in addition to consumers, when we think about the individual, the people at the table here are consumers as well, and when they have to remain competitive globally, what they have to be able to do is manage their costs, and what they need in front of them are the lowest cost inputs possible.

So you want the competition that international trade brings because what it means, inputs for these products that we then export, are kept at a manageable level and they can remain cost competitive globally.

So it is not just for the individual consumer that faces a wider range of higher quality goods at lower prices, but from the point of view of small businesses, it helps to manage their costs also, and that is the bottom line.

Mr. CHABOT. Okay. And finally, my time is wrapping up here, so I will make it real quick. The G–8 just met recently. It seems whenever our leaders get together now we are seeing turmoil in the streets and you know it might be the death penalty or it might be the environment, a whole range of issues, anarchists I guess as well, too. But it seems that globalization and trade seems to be one of their pet peeves and something that they are against, and I would certainly argue that people all around the world, if you are trying to help folks that are poor or disadvantaged, they are going to be helped by trade.

Can you make an argument, you know, for that particular point of view?

Mr. ALDONAS. Well, there is no doubt based on the evidence that economies that open their markets increase their rate of economic growth and raise their living standards. That is the strongest and most powerful tool that we have in fact in terms of economic development, but I would say one other thing, which is that those countries with closed markets are often those countries with the worst labor practices that literally shackle their people in poverty. Some of that is because the markets are closed and at the end of the day that is why you will hear the President and you will hear Secretary Evans and you will certainly hear me say that we view this as a moral issue on those grounds. We really believe that freedom is indivisible and ultimately that is our strongest export, and that goes with American business when it goes overseas. That is the real value at the end of the day.

Mr. CHABOT. Thank you very much.

Chairman TOOMEY. I will yield a couple of minutes to the ranking member here.

Mr. PASCRELL. Since we are talking about morality, I can't miss the point here. Do you want me to believe—let's take an example, about trade, final questions that the gentleman asked are really I think on point. I might not have agreed with the preface, but I think they are excellent questions. The average dress at Macy's in the Liz Claiborne department is between 125 and 145 bucks. I have bought a few for my wife there, that is why I know, and when you go back in the history, I know where it is made, how it is made, I know where it is patterned, I know how much it costs to transport the dress. Maybe it costs somewhere between $15 and $18, including all of those things. Everybody has got to make a profit, they are not going in business for charity. At best that dress should cost no more than forty bucks, no more than that, with a 200 percent profit.

Do you want me to believe that because we aren't involved in these trade agreements that the consumer in America is paying

less for products? Is that what you want me to believe? Because you can't prove it.

Mr. ALDONAS. My sense is you are paying a lot less for products in a number of different categories and you are getting higher quality out of those and innovation out of those industries in part because of competition. Now a lot of that is here but a lot of it comes from overseas as well.

Chairman TOOMEY. Thank you, and I would like to thank all the witnesses who provided testimony, the first panel here. Your input has been very helpful and constructive. Thank you for being with us today.

At this time I would like to invite the witnesses from the second panel to approach the table.

Okay. Why don't we get started with our second panel. We have joining us today Mr. William Bujalos, the Mid-Atlantic TAA Center Director from Philadelphia, Pennsylvania, and Ms. Denise Froning, Policy Analyst with the Heritage Foundation, and I want to thank you both very much for joining us.

We will be using the clocks, as I think you were here for the first panel, so you saw that. So if you could keep your comments to about 5 minutes, we would appreciate that and we would have more time for questions, and with that I would like to welcome you both and recognize Mr. Bujalos.

STATEMENT OF WILLIAM BUJALOS, MID-ATLANTIC TAA CENTER DIRECTOR

Mr. BUJALOS. Thank you, Mr. Chairman. My remarks have been supplied, and I will just be paraphrasing them and they will stand on their own.

I want to first off thank the Committee for giving me this opportunity to discuss the effects of TPA on the small business manufacturer in at least my region and the effects that TAA and its firms have on such an event.

When I was invited to speak here today I was asked to do two things very simply: One, explain what it is we do, and number two, offer some examples of the results of what we do. It is better for me to do that if I ask you to step into the shoes of a typical client of mine.

You are a small businessman. You have invested just about all of your savings into starting up, mainly because banks weren't going to give you everything you needed because they are not willing to take as much of a risk as you are. You have very few employees. Chances are your facility or your business is somewhere in a semirural area, you are not in a very big city, although some of them are, but chances are you are not. You find yourself on any given day being the CEO, the CFO, the COO, the plant manager, the purchasing manager, the quality assurance manager and any other manager you can think of, including sometimes the janitor. You are going to work 10, 12, 13 hours a day 6, 7 days a week, maybe more. And you are not going to be concerned about things like free trade agreements, inventory procedures that are more improved, productivity improvements that may be available, technology improvements that may be available. What you are concerned about is making your payroll by Thursday afternoon. You

haven't got time to read junk mail, let alone be worried about what we are talking about today.

Now, you will probably come in contact with one of our trade centers. I am the Director of the Mid-Atlantic Trade Center. There are 12 of them spread all over the United States. My responsibilities include the firms in Virginia, West Virginia, Maryland, Delaware, Pennsylvania and the District of Columbia. There are three phases that you will be faced with if you start a relationship with us, and let me mention to you first off our relationship will span years. It will not be fast. Our relationship will be very, very detailed. It will not be a quick broad stroke.

The first thing that will happen is you will be visited by one of our project managers. That individual will spend probably half of a day trying to understand how we can certify you as being bona fide negatively impacted by imports. We will interview several of your customers so they can confirm to us that they have reduced their purchases or even stopped their purchasing from you because they can get it cheaper from imports. We will take a look at your business volume over the last 2 years and your employee head count of the last 2 years to confirm that they are on their way down or that there is an imminent catastrophic loss of jobs in the next month or two that we can verify.

In the second phase is you will be visited again by another member of our staff or me personally for a day or two or more, depending on the size of the organization, how many levels in the organizational chart and what the learning curve probably is. What we want to know is every single function within your business, your marketing, your sales, your financial management, your computer systems, your management development, your human resources, your quality assurance, all of those things and more that I can't list right now. I want to know how they got where they are, where are they weak and why. But I also want to know where are they strong and also why.

After that is done, that is a diagnostic phase, another phase starts, same day, where we will sit down with the ownership, employees and management, sometimes individually and sometimes in groups, depending on what we have to discuss, to try to understand what do we have to do specifically in terms of projects to take every one of those weaknesses and turn them into strengths, and take every one of those strengths and try to make them bulletproof and what it is going to cost and how long it is going to take and how it is going to be done specifically by listing the number of specific projects that have to be done and trying to think of a logical means, a logical progression of making this take place.

Once that is done, it is all put together in this kind of a book. This is an AP. This is, for lack of a better expression, a business plan and it may be, if you are a typical small business, the first time you have ever done one, except maybe the first one you did for a bank, but we all know that bankers don't ask really, tough questions. This one is really detailed. This is sent to Washington and we get concurrence from EDA.

Third phase is the implementation phase. We will sit down with you again and try to come to an understanding of what we have agreed to do on the plan, and get it started. We want to make sure

we start within the first 6 months. Then our relationship may span 1, 2, maybe even 3 or more years where we are implementing these projects, one after the other.

When it came to creating this document, you paid one quarter of the cost. When it comes to actually implementing you are going to pay a half of the cost, not all at once because as we are invoiced by professional providers in the private sector every 30 days, two invoices will be issued, one to me and one to you, and we will split the costs as we go through from project to project.

That in essence is what we do. There are some nuances but not too many. The thing I want to emphasize is that TAA for firms is unique in the sense that it is not one size fits all. That is one of the reasons, for instance, we don't have any people on our staff that are professional consultants. We don't go out and sell their talents to keep them busy. Our job is to see what is necessary to turn the corner with your company. Our job is to work with you so that you will think differently about the way you distribute, manufacture, develop and sell your products. Maybe even consider different products than you make now.

If you think that perhaps this is just another form of corporate welfare, consider several things. One, if you are the client you are going to pay for it. Two, it is really tiny. The Mid-Atlantic region is serviced by four people Three, most of the time when a client and I work together, they determine what they want to do and we determine how to do it with them, but it is only a small part of a much larger strategy they have in mind. In many cases they are buying more equipment, they are putting in more powerful software, they are putting in more technology and they are creating larger buildings all on their dime.

And finally, the kicker is this. We have taken your company, and it is now quicker, faster, smarter, brighter and better than it was before in many ways. Your jobs now are more productive, stronger, more positive than before. It was less costly for us, to save your job than try to put something on the table after you had lost it and try to retrain you to get you a new one.

I understand we have to stop. So I will be glad to take any questions later on.

[Mr. Bujalos' statement may be found in appendix.]

Chairman TOOMEY. Thank you for your testimony. Ms. Froning.

STATEMENT OF DENISE FRONING, POLICY ANALYST, THE HERITAGE FOUNDATION

Ms. FRONING. I would like to thank the chairman and members of the Subcommittee for the opportunity to speak here today. I would really like to address today not so much whether we should have compensation for workers who have lost their jobs because I think a number of people feel strongly about that, but rather whether the TAA program itself is delivering the benefits that it is meant to do, and the answer to that is by and large it is not.

There are several problems with the current program. I am going to highlight just two and then mention what many have floated as an alternative.

The first problem is that there is insufficient monitoring of the program's effectiveness. Specifically, criticism is focused on the pro-

gram's inadequate attention to performance measures and failure to conduct proper evaluations on what results program participants achieve. The TAA program does not measure results. Instead the Department of Labor sets goals for the number of assistance programs each center implements per year, not whether the aid proves successful.

While the Department of Labor tightened controls after a 1993 Inspector General's report found that the system was subjected to a number of abuses, the controls themselves have not been evaluated for their effectiveness.

Second, TAA has largely turned into a cash payout program. The TAA program has become a mere compensation procedure, effectively acting as a disincentive for workers to quickly find new jobs. This is possible under the TAA program because workers are allowed to obtain a training waiver which allows them to collect the cash payouts, the trade readjustment allowances, without enrolling in any classes.

According to the Department of Labor, 38 percent of TAA participants who left the program in 1999 received some type of training waiver, more than the number of displaced workers that enrolled in those training courses. The numbers bear out this fact. Between 1995 and 1999 TAA spent over $900 million for basic and additional allowances to displaced workers. Meanwhile, only a third as much went to training costs in the same time period, and only $9 million, or one-hundredth, as much over those 5 years went to job search and relocation costs, in part because so few of the TAA eligible workers chose to use these elements of the benefits program.

According to the GAO October 2000 report, most State officials we surveyed said job search and relocation benefits have not been heavily utilized because workers are reluctant to move to new areas primarily because of family commitments or ties to the community.

If more funds had gone to training aspects of the TAA program, the Institute for International Economics, among others, criticized the training programs themselves for lack of effectiveness. It points out that, quote, workers have no guarantees of employment when they finish the training programs. For this reason, there is broad consensus that the best training is delivered on the job or if workers are already at a job, then in supplemental programs that workers help pay for themselves and choose to attend at night or other off hours.

Thus, the TAA program does not work as it is designed. The current TAA program has failed to provide effective assistance, one of the crucial factors for a successful adjustment program.

If the aim of such programs is to help workers find new jobs, then we should eliminate TAA over time and fund a program that provides incentives, not disincentives, for workers to do just that. Wage insurance is one such proposal that has won widespread support.

Robert Litan of the Brookings Institute and Lori Kletzer of IIE proposed putting wage insurance at the center of a more effective adjustment program. Wage insurance would allow qualifying displaced workers to receive benefits upon reemployment, protecting workers from the loss of income that can result from finding a new

job that does not pay as well. The program would provide benefits to full-time workers who have been dislocated for any reason, not just trade, from jobs they had held for a minimum of at least 2 years.

Most importantly, Litan and Kletzer argue that wage insurance would fix a deficiency in the current program. Unlike TAA, which works as a disincentive for rapid reemployment, the proposed wage insurance program would strongly encourage workers to quickly find new jobs since they would not receive the assistance until this takes place.

A central issue in this reauthorization debate is the question of what is the proper role of government in the United States. If we decide that among government duties is to give money to workers who have lost their job for whatever reason then we should do it efficiently and effectively, ensuring the existence of an effective program to fulfill our responsibility to all Americans whose livelihoods are affected through the taxes they have to pay in order to make any such program possible. It is a betrayal of this responsibility to continue to fund a program that has been proven ineffective and which cannot even measure its own results or lack thereof.

Thank you.

[Ms. Froning's statement may be found in appendix.]

Chairman TOOMEY. Thank you. I think it is fair to say we have somewhat different perspectives on the trade adjustment assistance. See how astute I am. But let me start by pointing something out which is probably obvious to everyone, but there are two different aspects of the Trade Adjustment Assistance Program, and Mr. Bujalos was referring primarily to the program that assists small businesses through what strikes me as a consulting process, while Ms. Froning was describing the assistance that goes indirectly through States to workers.

So these are two different aspects, but it might be helpful, Mr. Bujalos, if you feel comfortable doing so in commenting on the other aspects of the TAA, but first, if you could, my first question to you is, help us a little bit more to understand the structure of this organization. There are 12 regional centers. Are the people who work there, are you a Federal employee? Do you work for a private company that contracts with the Federal Government to provide these services? They do sound as consulting services. Do you not compete against fully private sector consulting services? Maybe you could address some of those structural issues for me.

Mr. BUJALOS. Good question. To answer the question in reverse, no, we don't compete. As a matter of fact, we hire them. None of the people who work in trade centers are government employees. As a matter of fact, to my knowledge none of them ever have. Most of them have had pretty high level executive experience. Some of them have even owned their own businesses at various times in their career. Some of them have been management consultants at various times in the private sector. As I said before, we do not consider ourselves in competition with them. We consider ourselves to be those who, through a competitive bidding hire consultants from the private sector.

Remember now, our client is a very hard working individual who if he hasn't got time to read his junk mail hasn't got an awful lot

of time to evaluate consultants—matter of fact he probably doesn't even like the word "consultant". He or she needs someone who has the wherewithal and the capability of evaluating as his advocate what is available, who is qualified and who can do the work. The only thing we can't do is we can't determine the chemistry. So when we do a bidding process we always try to have three, four or five possible candidates meet personally with the client so they can take the measure of each other and so they can conclude whether or not they can work together, but whether or not they are qualified, yes, we can determine that.

Chairman TOOMEY. Now, the services you provide are paid in part by the company, paid in part by the Federal Government; is that correct?

Mr. BUJALOS. Yes.

Chairman TOOMEY. The total budget that you operate with is how large?

Mr. BUJALOS. $10.5 million. The total budget that I personally work with for the Mid-Atlantic region is $718,000.

Chairman TOOMEY. Okay. So the 12 offices split in some fashion the $10 million odd, and the criteria for being eligible for what amounts to a federally subsidized consulting service is that your business had to have an adverse impact from trade, but there is no other criteria. If, for instance, technology leapfrogged ahead of the product that you made as a company, that would not qualify you for this service?

Mr. BUJALOS. No. In fact, your business probably could be suffering because of that, but no, you would not be certified as being negatively impacted by the importation of goods.

Chairman TOOMEY. Okay. Thank you. Since my time is running out, Ms. Froning, I wanted to ask you, you have suggested that a wage insurance program might be a better alternative than the current regime for paying displaced workers. I am not entirely clear on how that would work. Specifically, would this contemplate making up the difference between the income earned at a new job and the income a worker used to earn at his previous trade impacted job?

Ms. FRONING. Well, the proposal that I mentioned by Litan from Brookings suggests that it could either replace part or fully the amount lost by changing to a job that pays less, and they suggest that perhaps you can consider such things as age and occupation that go into that. It is one of the better known wage insurance proposals out there, and it seems to be a more pragmatic approach to addressing the issue. I think the details could be worked out.

Chairman TOOMEY. The idea being it diminishes the incentive not to work, to simply remain unemployed so you can collect this payment?

Ms. FRONING. And I am not suggesting that it is because people are lazy. I think it is human nature. You do what you have to do. And sometimes it takes time and, you know, it is a little bit easier to go out and find a job if you don't have the money coming.

Chairman TOOMEY. You have made the comment if I understood you correctly, if I can paraphrase, that we don't have a valid assessment of the effectiveness of the program. Do we not have statistics as to how many people participating, how much they have

benefited, how long they are on for, what kind of wage change they have experienced, those kind of basic figures; are they not available?

Ms. FRONING. Well, what the GAO recorded was that while there is information on the number of people that have taken part in this program, there is more on what results were achieved or how many people found new jobs. Those are areas where it is harder to quantify. Studies that have actually tried to measure how well it has worked have not also compared it to other workers that have not used this program. So the bases for measurement are not the same.

Chairman TOOMEY. I am going to finish there, but I am going to instruct our Committee staff to get the reports from the TAA to find out exactly how they evaluate their own effectiveness because that is part of our role as oversight.

Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman. I would like to start with Ms. Froning if I may. I want to take exception on the second page of your testimony. Of course I think it goes to the very core of what you were saying and I think what you said was very valuable.

Second paragraph that based on the, third sentence, based on the rationale that job displacements caused by foreign competition are no different from job displacements caused by any other form of competition, the Reagan and first Bush administrations each attempted, et cetera, et cetera, et cetera.

I would contend and I would like your reaction and response if I may, that there is a very big essential, not quantified or qualifiable difference but an essential difference between a person who loses their job in an industry or be it service or whatever, where that job is eliminated because of national policy, compared to a job that is lost, for instance, in the domestic market. I think there is a large deep difference between the two. You disagree?

Ms. FRONING. No, I don't disagree, but I think I was looking at it from the perspective of the worker who loses their job. To them they are out of a job regardless whether it is due to trade or not. They are not having the income coming in anymore. I was kind of looking at it from that perspective, how can we help those people, and I understand there are different ideas about trade, and we might disagree there, but fundamentally also you can lose your job from domestic competition because the government chooses to protect one industry over another, say steel over a steel using industry such as the automobile.

So that is also national policy that could affect the worker's job, and so all I am saying is that to the worker they would rather just get another job, they would rather have that income.

Mr. PASCRELL. These are the companies, Ms. Froning, that have been helped in my District, about 14 of them, going back from 1998 to the present moment, and they are varying manufacturing companies that have been certified on the TAA. I understand your criticism, that if there is no monitoring obviously this is not going to work. We talked about that just a little while ago. If there was better monitoring, it probably would work a lot better, but I think the TAAs are doing a great job out there, could do a lot better, and I think your criticisms are really on target.

I am very interested in the wage insurance proposal that you put forward. What you are saying, correct me if I am wrong, is that in this program the worker would have to wait till he gets another job and that difference would be paid only after he got the second job. I think that is an interesting idea. It might provide an incentive, and I think this is part of what you are talking about. How do you see that being initiated, through which program, Federal program or would it be a Federal program?

Ms. FRONING. It is not my proposal specifically but Litan and Kletzer's that I cite, through the Department of Labor, and they have the details. And I have the report, but I would be happy to send it to you, that that they offer.

Mr. PASCRELL. I think it is a pretty decent idea. We ought to explore it, but I wouldn't explore it without and at the same time eliminate the TAA program.

Mr. Bujalos, many critics of the TAA for businesses argue that the free market should be allowed to run its course, and if a few businesses have to be shut down as a result of free trade or whatever, so be it. We should not be providing government assistance to private corporations. How would you respond to that argument?

Mr. BUJALOS. I forget the number of businesses there are in the United States, it is in the millions. Every single one of those once upon a time was in a garage or a car or someone's basement. Every single one of them had some sort of assistance somewhere along the way, not all of it always government assistance, but I would bet my next paycheck it was more than 50 percent of them. Every single business we had and have now goes through some sort of help.

Consider 30, 40 years ago. At the end of the Second World War the United States was king of the hill. If you were an American businessman in the United States at the end of the Second World War, you had to work at failure because nobody was out there to compete with you. Things change. This is now, that was then. The world is different today.

Today, the U.S. isn't just the only king of the hill. Today the average businessperson has to compete with the huge wave of change in technology that is taking place that we don't even address. These are other things that are in his universe that weren't there 30 or 40 years ago.

Mr. PASCRELL. And you know what you say makes a lot of sense because a lot of the companies that have folded in my district, a lot of the manufacturing companies, be it small machinery parts or fabric, textile, folded not because the workers weren't up to snuff, the boss was not up to snuff, did not produce the state of the art in that particular industry, but can't compete with a factory in Honduras where that factory owner does not have to deal with any environmental standards, can pay his workers whatever the heck he wants, doesn't have to worry about sick time or leave or anything like that. We can't compete against that. But we can compete on a level playing field.

Mr. BUJALOS. But I would extend the argument even further. We are going to pay for it one way or the other. If, God forbid, your business closes, it gets hammered and it cannot respond for a variety of reasons, well, the other side of TAA is going to be there to

help. We will be paying for it. My argument is it just makes sense because it is cheaper to do it before the job is lost and before the closure takes place.

Mr. PASCRELL. Thank you.

Chairman TOOMEY. Thank you. Mr. Schrock.

Mr. SCHROCK. I have no questions.

Chairman TOOMEY. Thank you. Mrs. Napolitano.

Mrs. NAPOLITANO. Quite a few interesting points that both of you have brought up, and I am intrigued by the worker assistance, but when you look at that viewpoint specific in there, like mine, when there is people with families that will have no income, that is crucial, I mean that hurts. So you know it is going to have a lot of tweaking before something specific to an initial problem is addressed via—I don't know what the report says but I would certainly like to have a copy of it.

Mr. Bujalos, I am wondering how big is your staff.

Mr. BUJALOS. Four people, including me.

Mrs. NAPOLITANO. And you are able to spend time, a whole day with a business?

Mr. BUJALOS. Without exception. We just make sure we do it. We have to—see, put yourself in my shoes.

Mrs. NAPOLITANO. No, I understand, and I totally agree. I wish there were more of you.

Mr. BUJALOS. I wanted to make one point though. TAA, one of the things we are paid to do is improve the productivity of the clients we work with. How can we possibly not be as productive as we possibly can ourselves if we are doing that?

Mrs. NAPOLITANO. Then the question is, how many clients do you get? How many people apply? How many can you help? How many do you find are justifiable clients or clients that you may be able to pick up legitimately and how many of those you actually save? I mean there is a question there, with four people for that many States, it begs the question of how thin are you spread.

Mr. BUJALOS. Well, we are spread thin, I won't argue that point at all, and you raise a very good point. Consider, I said that my yearly budget now is, $718,000. My backlog, that is, the dollar amount of approved assistance that I can't do, is over $1.8 million.

Mrs. NAPOLITANO. And why can't you do it?

Mr. BUJALOS. I don't have the money to do it. I barely have enough money to take care of the clients that are coming into our doorway now.

Mrs. NAPOLITANO. Are you translating hours into dollars for helping business or is it personnel that you can't hire to get the job done?

Mr. BUJALOS. No, no. I am not being clear here. That $1.8 million is the value of just the amount of grants that we would use in hiring professionals to help companies. It has nothing to do with our salaries, which of course should be added.

Mrs. NAPOLITANO. That is hiring professionals, I am sorry, that is the same thing. Having personnel is somebody to work and do the job, the outreach, the assistance to the small business.

Mr. BUJALOS. That is right.

Mrs. NAPOLITANO. In other words, you are short-handed.

Mr. BUJALOS. Well, yes and no. For instance, last week.

Mrs. NAPOLITANO. You have got a backlog, you have got to be——

Mr. BUJALOS. I know, I know, but listen to me for a second. There is a point to be made. I get invited to make speeches all the over the place by a lot of different organizations. The last time was 2½ weeks ago in Erie, Pennsylvania, where I got a chance to stand in front of about 200 and some odd tool and die manufacturers. I gave remarks that did not exceed 6 minutes. Yesterday I was given a fax containing eight clients, eight companies who within that short period of time want to become part of this program from that one event, and that happens all the time.

Mrs. NAPOLITANO. I don't argue that. That is my point, is that four people in as many States are not capable of handling what is out there that can be helped.

Mr. BUJALOS. You are absolutely right.

Mrs. NAPOLITANO. So how do we remedy that?

Mr. BUJALOS. The obvious way to remedy it is to change the way it is funded.

Mrs. NAPOLITANO. What way is that?

Mr. BUJALOS. I would—if you were asking me——

Mrs. NAPOLITANO. I am asking you.

Mr. BUJALOS. I would make it a stand-alone program, and I would fund it out of funds, say from tariffs or other means, so that we don't have to worry about this appropriation every 12 months year in and year out. That is if I were doing it.

Mrs. NAPOLITANO. Okay. Tariffs based on what, on the people you help or on the overall general tariff?

Mr. BUJALOS. Some thought would have to be given to that. I am not sure which one or the other. I do know that the government now has a very, very tight budgetary situation and I understand that, and virtually every dollar that goes to one thing has to come from something else. I am only proposing that a separate way of handling this might exist.

Mrs. NAPOLITANO. I don't mean to be disrespectful, but we were in a flush year and we are not able to do some of the programs we want. Never mind getting into the whys and wherefores, but somehow we are missing the point in helping small business, and that has been my gripe for many years, is that we put into programs that help mega business, they can take care of themselves, but the small business that is the backbone of our economy keeps getting shafted, and my support to you for TAA is to do more outreach, because I see what it does, and I agree with Mr. Pascrell, businesses might have been helped, but how do we help expand the program to help more small business that can help our economy grow, and that is one of my biggest concerns.

Mr. BUJALOS. The only way to do that is to increase our budget. There is no other way.

Chairman TOOMEY. Thank you both very much for your testimony. The hearing is adjourned.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned.]

PAT TOOMEY, PENNSYLVANIA
CHAIRMAN

WILLIAM PASCRELL, JR., NEW JERSEY
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
Subcommittee on Tax, Finance and Exports
2361 Rayburn House Office Building
Washington, DC 20515-6315

Remarks of Subcommittee Chairman Patrick J. Toomey

"Trade Promotion Authority and Trade Adjustment Assistance: How Will Small Business Exporters and Farmers Benefit?"

July 24, 2001

This afternoon, the Small Business Subcommittee on Tax, Finance, and Exports convenes to conduct a hearing on Trade Promotion Authority (TPA), the reauthorization of the Trade Adjustment Assistance (TAA) program, and their respective impacts on small business exporters and farmers.

One of the major issues of the 107th Congress is approval of TPA. The President was granted fast-track authority almost continuously from 1974 to 1994. The

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authority lapsed after the 1994 passage of the Uruguay Round legislation that established the World Trade Organization (WTO), and has not been renewed. America's competitors have clearly taken advantage in the interim.

On May 10, 2001, President Bush outlined his 2001 legislative agenda, and TPA was the top priority. The President intends to use TPA for a new round of negotiations under the World Trade Organization (WTO), a Free Trade Area of the Americas agreement, and other regional and bilateral negotiations. The President said that he wants the authority by the end of the year. I hope we can deliver this authority to him before we adjourn for the August recess.

Our trading partners need to know the President's negotiators speak for the entire United States. U.S. trade

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promotion authority tells other governments that there will be no more negotiation once they reach an agreement with the President. It also ensures close collaboration with Congress.

In the Lehigh Valley, across Pennsylvania, and throughout the United States, international trade is creating new economic opportunities in our cities and on our farms. American made goods and services are recognized for their high quality and are in demand around the world. From large companies like Air Products and Chemicals, Inc., to small businesses like Olson Technologies, both employees and employers benefit from expanded trade opportunities.

Export firms employ 42 percent of all workers engaged in manufacturing and wholesaling in the Lehigh Valley. Employees working for exporters such as those in my District earn higher wages and better benefits. On

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average, export firms pay 15 percent higher wages than non-exporters. According to the Department of Commerce, this equates to a wage gap of $4,900 in current dollars.

Further, trade has a particularly strong impact on the survival of our nation's farmers. Export markets are critical to U.S. farmers' prosperity. According to the U.S. Department of Agriculture (USDA), agricultural export value is equivalent to about 20% of the value of farm production and 25% of farm income. It is estimated that major crops planted on one out of every three acres are exported. In my home state of Pennsylvania, farmers export more than $580 million of high quality commodities each year, including dairy products, corn, and soybeans.

In our second panel today, the Subcommittee will examine the reauthorization of the Trade Adjustment Assistance (TAA) program. The TAA program has two

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components. Trade assistance for workers, which is administered through the Department of Labor, and trade assistance to firms, which is administered by the Economic Development Administration (EDA) at the U.S. Department of Commerce. Authorization for the TAA program is set to expire September 30, 2001.

My colleague from Pennsylvania, Phil English has introduced H.R. 85, which would extend the authorization for the TAA program through 2006. H.R. 85 would increase the time available for dislocated workers to apply for benefits from one year to two years. The bill also provides authorization for technical assistance to qualifying firms who are seeking relief from lost jobs and sales due to foreign imports.

In a more open trade environment, some firms and industries will grow, others will contract, merge, or perhaps

fail. While adjusting to freer trade may be a healthy process from a macroeconomic perspective, much like market-driven adjustments that occur in the absence of trade (e.g. changing technology), it can be a rather harsh reality for some firms. I want to commend Representative English, and our Ranking Member, Bill Pascrell, who is a cosponsor of this legislation, for recognizing and addressing the needs of our workers and businesses.

I look forward to the testimony of the witnesses before us today, and to a spirited discussion concerning these important issues. I want to particularly thank those who have traveled a long distance to be with us, including Mr. Paul Hartman, a farmer in my home state of Pennsylvania, who clearly understands how TPA will benefit farmers throughout the nation. I now yield to my friend from New Jersey, the Ranking Member, Bill Pascrell.

Testimony of
Under Secretary of Commerce for International Trade
Grant D. Aldonas
"How TPA Will Benefit Small Businesses"
U.S. House of Representatives
Committee on Small Business
Subcommittee on Tax, Finance, and Exports
July 24, 2001

Thank you, Mr. Chairman, Congressman Pascrell, and Members of the Committee, for inviting me to testify before the Committee on Small Business. I look forward to establishing an effective working relationship with you and your staff. Secretary Evans asked me personally to convey his interest in your advice and counsel as we represent all sizes of U.S. businesses abroad. I understand that when Ambassador Zoellick testified before your committee he expressed interest in hosting, with Secretary Evans, a roundtable listening session with small businesses this fall. I would like to underscore our interest in doing so. Ambassador Zoellick also called for congressional recommendations for appointees from U.S. small businesses to the various ISACs, and we likewise would be interested in having your recommendations.

Our 25 million-plus small companies form the backbone of our economy. They create three of every four new jobs, generate more than half of the nation's gross domestic product, and account for nearly 97 percent of all U.S. exporters. Trade is essential to their future and to all they employ.

Mr. Chairman, I appreciate your holding this hearing to enable us to discuss the importance of our trade policy agenda to small businesses. It is often mistakenly assumed that our trade policy only benefits the large multinational companies when, in fact, small businesses hold an increasingly large stake in markets where we have trade liberalizing agreements.

I look forward to hearing the Committee's views on how we should shape the U.S. negotiating agenda to meet the needs of small businesses and farmers. To start that discussion, I would like to emphasize two points. First, I welcome the opportunity to discuss the importance of granting the President Trade Promotion Authority (TPA) to our agenda for small business. Second, I would like to explain the important role that the Commerce Department plays as an advocate for our exporters and tell you about the "benchmarking" exercise that we are undertaking to ensure that we provide world-class export promotion services, particularly to U.S. small- and medium-sized businesses..

The Importance of Trade Promotion Authority to Small Business

Critics as diverse as Ralph Nader and Pat Buchanan argue that trade only benefits larger multinational corporations. They assert that trade destroys American

manufacturing and impoverishes American workers. They maintain that trade encourages a race to the bottom that would erode America's labor and environmental protections.

The truth is just the opposite. Over the last decade, while the United States was negotiating and implementing the North American Free Trade Agreement (NAFTA) and the Uruguay Round, the U.S. economy achieved the highest rate of sustained economic growth we have seen in a generation. During this period inflation and unemployment fell to their lowest sustained levels since the 1960's.

America's manufacturing sector maintained its share of GDP, holding steady at slightly over 17 percent between 1987 and 1999. Significantly, between 1992 and 2000, while NAFTA and the Uruguay Round were opening new markets for our exporters, the overall economy grew by 35.4 percent, but manufacturing output outpaced that growth, increasing by 54 percent. Productivity in manufacturing has grown at an average rate of 4.3 percent during the current business cycle, and it accelerated to a 5.3 percent pace in 1996-2000. Liberalized trade is a boon to the small U.S. manufacturers, which benefit from a greater supply of inputs at lower prices, enabling them to remain globally competitive.

Given that small firms comprise most of the U.S. service sector, I'd like to point out that global services trade was valued at $1.4 trillion in 1999. We estimate that some $296 billion in U.S. services exports supported 4.4 million jobs in 2000, up significantly from 1994 when $185.4 billion in services exports supported an estimated 3.4 million jobs.

Did trade hurt the American worker during the last decade? The U.S. economy created more than 20 million new jobs since the early 1990s. Since 1995, total U.S. private sector productivity has increased 3 percent a year and real wages are up. Exports supported some 12 million U.S. jobs this past year. Workers in jobs supported by these exports receive wages 13-18 percent higher than the national average.

Now, were big companies the only ones to profit from trade liberalization? Absolutely not. As I noted earlier, 97 percent of U.S. merchandise exporters are small- and medium-sized companies. Their exports accounted for $161.7 billion in 1998, or 29 percent of the total dollar value of our exports that we can trace back to specific companies. Companies with fewer than 20 employees made up two-thirds of all U.S. exporting firms in 1998.

Please bear in mind that these figures count only firms that export goods directly, and do not include suppliers whose inputs are exported in final products or services. While we do not have an exact count of such "indirect exporters," companies like CaseNewHolland, Inc., and Boeing have reported that their suppliers number in the hundreds. For example, one Case IH MX Magnum tractor has nearly 200 companies in

27 states, representing about 75,000 other jobs, all providing parts for a tractor that is exported from the CaseNewHolland plant in Racine, Wisconsin.

More importantly, lowering trade barriers abroad helps small business exporters, more than large companies in one fundamental way. Large companies benefit from economies of scale and have the resources either to export or to invest abroad on the other side of trade barriers erected by foreign governments. Small business generally only has the one option – to export.

What that means in practical terms is that, the more we lower trade barriers abroad, the more we benefit small businesses relative to their larger competitors for foreign markets.

A recent study by Robert Stern at the Gerald R. Ford School of Public Policy at the University of Michigan underscores that point. Professor Stern estimates that a one-third reduction in global barriers to trade in agriculture, services, and manufacturing would yield $613 billion in world economic growth, the equivalent of an economy the size of Canada. Eliminating all trade barriers would boost global growth by $1.9 trillion, the equivalent of adding two Chinas.

Those are markets that would be open to our small businesses. And our small businesses are ready to take advantage of the markets we open for them.

Trade liberalization would help the small- and medium-sized enterprises (SMEs) achieve greater market access in international markets. Sixty-three percent of all SME exporters posted sales to only one foreign market in 1998. Canada and Mexico account for nearly one-third of total exports from SMEs. This is due to both proximity and to the benefits brought about by NAFTA. New free trade agreements would streamline and facilitate the export process, enabling SMEs to take full advantage of new markets and opportunities.

Let me give you a few examples of how our small exporters have taken advantage of NAFTA.

- Die Tech Industries of Providence, RI, has increased its exports of die casting machinery to Mexico dramatically as a result of NAFTA. The company touts improved customs procedures under the NAFTA and increased competitiveness vis-a-vis its competitors in Mexico as the reason for their success.

- Enviro Marine of Greenville, SC, is a small manufacturer of absorbent and bio-remediation devices used to prevent pollution. As a result of NAFTA, the company has successfully entered Canadian market and has located a distributor in two cities. The company plans to further increase its exports to Canada and

other world markets. But before doing so, Enviro Marine - like many other companies - first determines the success of the bilateral trade relationship and the existence of trade agreements.

- Sioux Steam Cleaner Corporation of Beresford, SD, exports industrial cleaning equipment duty-free to Canada and Mexico as a result of NAFTA. In 1999, the company expanded its operations by adding six new distributing locations in Canada and its first distributor in Mexico. In addition, as a result of NAFTA, three of Sioux Steam's U.S. distributors have been able to break into the Mexican market for the first time. Sioux Steam's management feels strongly that the elimination of duties under NAFTA has given the company an advantage over its competitors.

That said, a key element is missing. That is the renewal of the Trade Promotion Authority.

It is often stated that we do not need Trade Promotion Authority until an agreement is concluded and Congress has to vote on its implementation. What that argument ignores is the fundamental role that Congress was intended to play in setting our trade policies under the Constitution.

In fact, what Trade Promotion Authority really provides is a vehicle to ensure that the Congress and the President have agreed on our objectives and on how they will work together to achieve them. President Bush recently observed that, "Free trade agreements are being negotiated all over the world, and we're not party to them." There are more than 130 preferential trade agreements in the world today. The United States belongs to only two. The President's point is that we have to get off the sidelines and back into the game, and Trade Promotion Authority is essential to that effort.

That explains the "what" of Trade Promotion Authority, but it does not explain the "why." The "why" is that our inaction hurts American small businesses and the workers they employ as they find their goods and services shut out of markets by the many preferential trade and investment agreements negotiated by our trading partners. When the President laid out his international trade legislative agenda in May, he identified the specific trade negotiating objectives he intends to pursue in order to advance America's interests.

We must make the needs of small business a priority as we draft our negotiating objectives. While small businesses benefit significantly from the lowering of tariff barriers and other restraints, they also have the strongest interest in the elimination of the red tape that often hinders our exports. That's why small manufacturers are interested in achieving additional progress on the harmonization of standards and burdensome customs procedures. We and most other WTO members seek negotiations in trade facilitation –

which helps to resolve customs procedures and related transparency issues – to benefit small business.

The Industry Sector Advisory Committee on Small and Minority Business for Trade Policy Matters (ISAC-14) provides us with advice on small business priorities on international trade agreements and for our workings within multilateral fora such as the OECD and APEC SME Working Parties. ISAC-14 is part of the Industry Consultations Program (ICP) that gives U.S. companies a voice in the trade policy making process, and includes many SME representatives. For example, ISAC-14 members recently met with the OECD Working Party on SMEs about mutual SME concerns, including the need for the OECD to focus on dispute resolution mechanisms suitable for SMEs. Also, in 1999, the ISAC played an important role in providing advice to Seattle WTO negotiators and securing SME-specific language in WTO documents.

Our SME private-sector trade advisors have expressed their strong support for TPA and believe that its passage will benefit small business interests, and we will continue to consult with them as we draft negotiating objectives. All of this points to why we need to pass TPA and get back in the game of opening new markets for our small businesses.

The Role of the Commerce Department as an Advocate for Small Business and the Work of the Trade Promotion Coordinating Committee

We are acutely aware of the fact that negotiating new agreements will only take us so far. We need to "fill in" behind the negotiations. For our economy to fully benefit from new market openings, we need to expand the base of exporters -- and that means increasing the number of small businesses that export.

That, in fact, is the strategic element that has been missing in our trade promotion efforts to date. Small businesses, in particular, need to get information, expertise, support and financing to do the deals. This requires the coordinated effort of all of the federal agencies involved in export promotion.

TPCC Benchmarking Exercise

Fortunately, we have the right management tool in place – the Trade Promotion Coordinating Committee (TPCC), created by Congress in 1992, which is chaired by the Secretary of Commerce and is comprised of 19 agencies.

The TPCC works on behalf of small businesses by working to coordinate government export promotion programs so that small companies can access them more easily. The TPCC has streamlined financing for small business, which has resulted in a quadrupling of the value of exports supported by the working capital programs of the Export-Import Bank and SBA. Recently, the TPCC organized a series of seminars in

Baltimore, Los Angeles and Chicago, during which officials from the Commerce Department, the United States Trade Representative, the Small Business Administration, and the Export-Import Bank provided information to small firms about business opportunities arising out of recent trade legislation.

We have a plan for taking the TPCC back to its roots as a management tool by undertaking a benchmarking exercise that will help us better serve our small business customers. Our goal is to ensure that we offer them world-class export promotion services.

Last week, Secretary Evans, as Chair of the TPCC, got the commitment of the heads of the member agencies to undertake this innovative review and established a timeline for its completion. We will assess our customers' expectations and their level of satisfaction. We also will compare our business processes to these in other government agencies and the private sector to determine whether we are making use of their best practices. We intend to produce an interim report to Congress at the end of September and provide a full report on March 30 of next year. This report will include recommended reforms of our programs and services.

It is more important than ever that our policy and promotion efforts on behalf of small businesses are coordinated and mutually reinforcing. Our goal is to provide the American people, and the small- and medium-sized exporters in particular, the most efficient, strategically-focused, well-coordinated and customer-driven programs possible.

With that, let me turn to the job that the International Trade Administration (ITA) at the Department of Commerce does to generate economic growth through small business.

ITA is a $334 million agency with over 2,430 employees and four main operating units: the Commercial Service (CS), Market Access and Compliance (MAC), Trade Development (TD), and Import Administration (IA) – all of which strive to help small- and medium-sized enterprises.

We estimate that almost 80 percent of ITA's resources go towards helping smaller companies compete and win in the global economy. Our array of programs and services, ranging from information to hands-on assistance, help SMEs through every stage of the export process.

Over the past few years, ITA has been making it easier for SMEs to use our services by delivering them through alternative channels, such as the Internet and e-mail, and by developing "virtual" programs that allow SME exporters to take advantage of our services without leaving their offices. These "virtual" programs include Virtual Trade

Missions, Video Gold Keys, Video Market Briefings, our new export portal, ***export.gov***, and our new electronic marketplace known as *BuyUSA.com*.

Additionally, Mr Chairman, I have brought with me copies of our new *2001 Export Programs Guide*, which highlights our programs.

General Export Counseling and Assistance

As the first stop, we encourage SMEs to contact our Trade Information Center (TIC), for counseling via phone on its 1-800-USA-TRADE hotline. The TIC handles a variety of export questions ranging from "how to get started" to technical requirements in particular countries. The TIC also provides basic export counseling, information on all U.S. Government export assistance programs, and country and regional export counseling.

In FY 2000, the TIC handled more than 731,000 inquiries. Of these, TIC trade specialists responded personally to more than 85,400 inquiries, 87 percent of which were from SMEs. To meet the huge public demand for information, the TIC now has over 30 web-enabled databases.

Our Commercial Service is a worldwide network of 1800 employees who strive to help U.S. firms realize their export potential and emphasizes outreach to small- and medium-sized enterprises. We have Commercial Service officers posted in 160 locations in 85 countries abroad; they are our "eyes and ears" on the ground, providing information back to Commerce headquarters and our district offices.

Our 105 U.S. Export Assistance Centers (USEACs) throughout the nation have become the hubs in a hub-and-spoke network. The USEACs – which include federal, state, and local government partners (some locations combine the resources of the Small Business Administration and the U.S. Export-Import Bank) – offer export counseling, market research, trade events and international finance solutions to U.S. exporters. I strongly encourage you to send your constituents to the ones close to your districts.

During FY 2000, the Commercial Service's U.S. Export Assistance Centers counseled 17,855 U.S. companies in 44,156 counseling sessions and worked with a total client base of 88,100, nearly all of which were small- and medium-sized companies. The work the offices did with these companies resulted in 4,627 verifiable export sales worth $5.1 billion in export sales.

During the same period, the Commercial Service's overseas Posts recorded 4,628 verifiable sales totaling $16.2 billion as a result of the assistance they provided to U.S. companies. Seventy percent (3,237) of these verifiable sales were from small- and

medium-sized clients, with an average sale per company of $1.2 million. The Commercial Service overseas officers also undertook 189,865 counseling sessions with U.S. companies and potential buyers.

We have a couple of initiatives to reach out to traditionally under-served communities. Our Rural Export Initiative (REI) seeks to increase the number of rural companies engaged in exporting by ensuring better access to export assistance programs and services (video conferencing services, virtual tradeshows and webcasting programs). The REI team counseled over 1500 rural companies and sponsored 75 trade events in FY 2000. Under the REI, we have developed the Native American Exporter Incubator Program (located in South Dakota, Washington, Arizona, and New Mexico). The goal of this program is to develop export markets for Native American Businesses while also training them in international business procedures and marketing.

Through our Global Diversity Initiative (GDI), we provide comprehensive training to minority- and women-owned firms to prepare them to sell their products/services internationally. We have provided "how-to-export" training to over 200 minority companies. Our GDI team counseled over 700 minority clients at 17 sites across the country last year.

Comprehensive Website

SME exporters should visit *export.gov*, a single, customer-focused website designed to help U.S. exporters quickly assess their needs and find all U.S. Government export-related information online. By providing all country, industry, and program information in one location, *export.gov* enables users to answer their questions quickly without having to understand the organizational structure of the U.S. Government. For example, a user can locate in-depth market research, check trade leads, find partners, look into export-financing programs, and peruse potential export opportunities in just a few clicks.

Industry-Specific Counseling and Assistance

ITA's industry specialists annually provide over 92,000 SMEs with assistance, in sectors ranging from basic manufacturing to high technology and service exports. Our specialists deliver information and analyses on industry-specific foreign market conditions and regulations, industry trends, business practices, and competitiveness by industry sector. They send time-sensitive trade leads and contact information to industry and are increasingly using videoconferencing for industry counseling.

Country-Specific Counseling and Assistance

SME exporters can receive country-specific counseling on commercial laws, regulations, distribution channels, opportunities and best prospects for U.S. companies in individual foreign markets, and import tariffs/taxes and customs procedures, among other topics by calling 1-800-USA-TRAD(E) or by visiting the USA Trade Information Center. Trade Information Center specialists provide counseling and assistance on Asia, Western Europe, Latin America, NAFTA, Africa, and the Near East (***tradeinfo.doc.gov***). The Business Information Service for the Newly Independent States (BISNIS) is the U.S. Government's clearinghouse for business information on the Newly Independent States (NIS) of the former Soviet Union (***www.bisnis.doc.gov***). The Central and Eastern Europe Business Information Center (CEEBIC) is a business facilitation program for U.S. firms interested in expanding into Central and Eastern Europe (***www.mac.doc.gov/eebic/ceebic***).

Small business exporters traveling overseas also have access to services provided by Commercial Service Officers in U.S. Embassies and Consulates in more than 160 offices around the world. Commercial Service Officers provide information and assistance to U.S. firms.

Trade Contacts and Market Research Programs

Small businesses have benefitted from ITA's programs to identify overseas markets, clients, and partners. For example, the Gold Key Matching Service pairs U.S. firms with pre-screened international companies interested in becoming agents, distributors, sales representatives or strategic business partners. For those companies that desire longer-term, sustained assistance, ITA offers the Platinum Key Service, which provides comprehensive, customized market entry support. This customized service can assist companies to identify markets, launch projects, develop opportunities, reduce market access barriers, and address regulatory or technical standards matters.

Increasingly, ITA uses electronic technology to assist small companies with their exporting endeavors. Video technology provides U.S. companies face-to-face contact with potential international partners without the expense and time of foreign travel. Two different kinds of video opportunities are currently available: Video Market Briefings that offer SMEs a chance to ask questions and obtain specialized knowledge from overseas commercial officers located in their market of interest, and Video Gold Keys that give U.S. companies the opportunity to screen potential business partners via video conferencing.

ITA is currently working with IBM to establish an electronic "B2B" marketplace known as *BuyUSA.com*. *BuyUSA.com* is an online service that matches U.S. companies with potential buyers and business partners overseas. *BuyUSA.com*, which will be linked

to *export.gov*, integrates the export counseling and lead-generation functions of the U.S. Commercial Service with an on-line export marketplace exclusively for U.S. businesses. For a fee, U.S. companies can create a product catalog and be automatically forwarded inquiries of interest from over 70 markets worldwide.

SMEs can also participate in an International Partner Search. Through this service, companies receive a report on up to five pre-screened overseas agents, distributors, manufacturers, representatives, joint venture partners, licensees, franchises, or strategic partners who have examined a U.S. company's materials and expressed an interest in the company's products, services, or licenses, or expressed an interest in otherwise partnering with the company.

For those companies that desire specific market research pertaining to their products or services, Flexible Market Research provides U.S. firms with individualized information on overseas markets. It answers such questions as the overall marketability of a product or service, market trends and size, customary distribution and promotion practices, market entry requirements, regulations, product standards and registration, key competitors, and potential agents, distributors, or strategic partners.

Making Contacts Through Trade Promotion Events

In 2000, ITA carried out 80 trade missions and 500 other promotions including trade fairs, catalog events, and international buyer shows that assisted over 4,500 mostly smaller, U.S. businesses in new markets overseas. These events assist U.S. companies in making contacts, developing business relationships, and locating customers overseas. Trade events are an excellent way for companies to get international exposure and make valuable contacts.

Last summer, 15 U.S. technology companies participated in a Virtual Trade Mission to China, which was organized specifically to serve small business clients. This program, sponsored by *BuyUSA.com*, allowed SMEs to avoid the expense of physically traveling to the show in Beijing by displaying their products and services online. Approximately 4500 people viewed the booth, generating over 1000 trade leads. *BuyUSA.com* is currently planning additional virtual trade mission opportunities including the Paris Air Show, the aerospace world's foremost trading event, and a "U.S. Health Products Virtual Expo" in Korea.

Catalog exhibits are another way for U.S. companies to economically showcase in selected international markets without traveling. Through these exhibits ITA presents product literature to hundreds of interested business prospects abroad and sends the trade leads directly to U.S. participants.

Advocacy

The Advocacy Center marshals the resources of 19 U.S. Government agencies in the Trade Promotion Coordinating Committee and U.S. officials stationed at our embassies and consulates abroad. The Center aims to ensure that when SMEs participate in international public-sector tenders they are treated fairly and their proposals are evaluated on technical and commercial merits. Since 1993, the Advocacy Center has helped over 140 SMEs win foreign government contracts worth over $3.7 billion. In addition, thousands of SMEs benefit indirectly from the Advocacy Center's services as suppliers or subcontractors to larger U.S. companies.

Market Access

Through MAC's Trade Compliance Center (TCC), small businesses – without need for costly legal and consulting advice – receive the full benefits of the trade agreements that this Administration has negotiated. The TCC is the one-stop-shop for U.S. businesses, small and large, to get directly the information and help they need to compete globally.

The TCC is also the Trade Complaint Center and features a hotline to enable small- and medium-sized exporters to instantly contact the Commerce Department to report on market access and trade agreements problems and to receive direct replies to their complaints. The TCC provides a "home page" geared towards small businesses (http://www.mac.doc.gov/Tcc/e-guides/sm_ex.html). TCC On-Line also features a fully searchable database of over 300 trade and related agreements and market access information on over 100 foreign markets published by the Commerce Department and other agencies.

Our expertise in market access barriers to U.S. exports allows us to offer specialized, in-depth support for firms with these problems. MAC's country specialists help U.S. firms by using their knowledge of foreign government practices and by marshaling the forces of other U.S. Government agencies to combat unfair trade practices. MAC also maintains special websites with information on countries and regions (e.g., China, Africa, NAFTA, Northern Ireland and the Border Counties, Central and Eastern Europe, Russia and the Newly Independent States, the Caribbean Basin).

Our goal is to solve problems at a practical level. If and when that is not possible, we work with USTR to build cases that can be litigated at the WTO or in other formal dispute fora.

In February, Secretary Evans invited each Member of Congress to designate one staff member to work with our Trade Compliance Center to refer constituent market

access and compliance problems; if you aren't already working with us on this, I hope that you will.

Export Finance, Insurance, and Grants

Small businesses often find financing to be one of the biggest obstacles to exporting. To help exporters locate firms that finance sales to overseas buyers, ITA has launched the Export Finance Matchmaker, an interactive Internet service (*www.ita.doc.gov/td/efm/*). ITA also sponsors Export Financing Workshops to educate SMEs about the value of innovative finance as a sales tool. In FY 2001, more than 200 companies have participated in Export Financing workshops across the country.

ITA also uses competitive matching grants to build public and private partnerships. This program, the Market Development Cooperator Program (MDCP), provides federal assistance to those state and local non-profit export multipliers that are particularly effective in reaching SMEs. MDCP awards help underwrite the start-up costs of new export marketing ventures that these groups would otherwise be reluctant to undertake.

Special Technical Assistance

ITA administers programs that provide SMEs with important technical information and assistance on a variety of specialized trade-related issues.

Our 301 Alert service e-mails early warnings to SMEs that register with us to help them react to potential increases in U.S. import duties in response to unfair trade practices. 301 Alert service is located at *ita.doc.gov/301alert*.

The Export Trade Certificate of Review Program allows SMEs to cooperate on exporting without U.S. antitrust implications. By cooperating with one another, SMEs can increase their export profits and access new export business at an accelerated rate. The Export Trade Certificate of Review Program allows SMEs to coordinate on export cost sharing, such as sharing costs of market research, promotion, financing, and transportation; establishing distribution networks; and operating overseas facilities. The program also allows SMEs to conduct joint export activities, such as setting export prices and filling large and complex export sales orders that they otherwise would never be able to do on their own. More than 5,000 U.S. firms are operating under the program's antitrust protection.

Unfair Trade Laws

Import Administration (IA), which administers the unfair trade laws, has staff specifically dedicated to assisting any business interested in exploring the possibility of

filing an antidumping (AD) and/or countervailing duty (CVD) petition. Over one-half of the all cases brought before IA are by small- and medium-sized businesses. These companies normally do not have the resources to obtain representation and assistance from experienced trade counsel in petitioning the Department to initiate an investigation.

IA staff works extensively with small businesses on a regular basis to help them understand U.S. trade laws concerning dumping and unfair foreign government subsidies. IA staff will meet with prospective petitioners, either at the Commerce Department or, in some cases, on-site at the petitioner's production facilities, and will provide assistance to help bring a potential petition into compliance with statutory initiation standards. IA advises the petitioning industry throughout the investigation process in terms of procedural requirements.

IA works closely with small- and medium-sized producers in the agricultural sector, providing them with advice and guidance on trade remedy assistance. Some of the producers IA has assisted include those in the sectors of garlic, honey, mushrooms, grapes and tomatoes.

Recently, IA assisted a *pro se* (self-represented) company in filing a dumping petition on live cultivated blue mussels from Canada. IA conducted an informational session (hosted by the Congressional delegations of Mississippi, Louisiana, Arkansas and Alabama) as part of seminar for U.S. catfish producers concerned with rapidly increasing imports.

IA also monitors cases filed against U.S. exporters in order to assist these companies with the procedural and technical requirements that must be met when responding to foreign AD and CVD investigations,

Conclusion

Let me close by saying that, together, we have some tough work ahead of us. That is true of the work we have to do abroad in opening new markets to help SMEs achieve their export potential – while SMEs account for 97 percent of exporters, their share of U.S. merchandise exports hovers around 30 percent. This is also true of the work we have to do here at home in setting the stage for further trade liberalization by the renewal of trade promotion authority.

One of my top goals as the Under Secretary for International Trade is to promote job creation, economic growth, sustainable development and improved living standards for all Americans. Helping small- and medium-sized companies export is key to this. To compete and succeed in a global arena, I believe that we must reach out to all communities and businesses to ensure that they are aware of the opportunities that are available to them. Last week, I traveled to Los Angeles to speak at a conference

sponsored by the Minority Business Development Administration to underscore that point.

Thank you again for inviting me to testify. I welcome ideas about how we can continue to improve the workings of the International Trade Administration to reach out to a greater cross-section of small businesses. Just as we must continually push for trade liberalization so that we do not fall behind the competition, we must keep improving our institutions. I look forward to your questions and invite you to help us as we undergo our benchmarking exercise.

PRESENTATION TO CONGRESS of the UNITED STATES 7/24/2001

Committee on Small Business
Subcommittee on Tax, Finance and Exports

Presentation by Princeton Healthcare Inc.

SUPPORT FOR TRADE PROMOTION AUTHORITY (TPA)
And TRADE ADJUSTMENT ASSISTANCE PROGRAMS (TAA)

Good afternoon, Mr. Patrick Toomey, Honorable Chairman, Congressmen, Congresswomen, Representatives and Staff, Distinguished Guests, and fellow international exporters and businesses.

My name is Don Lloyd Williams, and I am President of Princeton Healthcare Inc., an international healthcare consulting and integration company doing business in both Africa and Latin America. We provide USA manufactured medical and information technology, products and support services to hospitals and clinics worldwide. Our mission is to improve the quality of healthcare in emerging markets and underdeveloped countries, through the use of new technology.

Princeton Healthcare is classified as both a small business and minority owned and operated company, or SME "if you will". My firm is based in the Metropolitan area of Atlanta, Georgia.

I have come to Washington, DC, to speak to you today in support of both the Trade Promotion Authority and Trade Adjustment Assistance Programs.

I speak to you from a perspective of not only many years of international experience, but from a perspective unique to small firms that have to "work in the trenches" against fierce international competition in the global business community. This is how we create business opportunities, revenues for our companies, and jobs for US Citizens.

You see, I was blessed with the opportunity to start my business career, working with several major US Companies doing business in international markets, which later afforded an opportunity to work for several major international companies. The experiences and perspectives that I gained from these firms were beneficial, because it helped me gain the expertise and knowledge to create business opportunities in these foreign markets, and to transact business successfully.

However, my firm, similar to most small businesses have all of the challenges that the larger firms have, but typically have to operate without the support systems and resources that the larger firms can invest in, to support their internationally based business development programs.US small businesses in general have a wide array of challenges to overcome when developing marketing entry strategies into foreign markets.

My firm has had to work effectively to overcome the barriers associated with the commercial risks of doing business in Latin America and Africa. This includes currency and exchange rate dynamics, and payment and performance issues with customers.

We have had to manage the risks associated with the logistics, freight forwarding, cargo insurance, and completing the appropriate documentation to clear customs.

To date, to our credit we have been able to do these manage these issues rather successfully.

Two major areas however, continue to present problems for my firm 1) getting our projects financed for the foreign buyer or customer, and 2) dealing with the trade policies which may further disadvantage our exports to that region.

First let's look at the financing scenario.

My firm, similar to most small businesses, is in a better position to secure a contract with a foreign buyer if we can provide "low interest" financing. Financing provided by EX-IM Bank's Medium Term Foreign Buyer Programs, have helped to "level the playing field" for small exporters. For example, my firm was recently approved by EX-IM Bank to provide $400,000 in medical and laboratory equipment to a Diagnostic Testing Laboratory in Ghana. This Testing Laboratory supports the clinical testing of patients that are treated at surrounding hospitals in the region.

Last year we were also able to secure financing for a hospital in the Ivory Coast, through EX-IM Bank financing. This region has been a stronghold for Francophone based European companies, yet we were able to secure the contract, and gain the export revenues.

In both instances by providing both competitive pricing and financing for these customers, we were able to beat out several major European, and Asian companies that clearly were better positioned in the market.

Without EX-IM Bank's support, these transaction would have been impossible. So, from our perspective it's important to continue increasing the funding for EX-IM Bank so that smaller firms, have a shot to secure business in these emerging markets.

Aside from financing, Princeton Healthcare's most significant challenge lies within the constraints of the US's trade policy and number free trade agreements. Clearly, the US seems to be behind in the number of bilateral trade agreements established in these emerging markets. My firm is at a significant disadvantage in markets where host countries of European and Asian Competitors, have established Free Trade Agreements (FTA).

You see in many instances, being competitive on a transaction can make the difference in deciding if you will win a contract, or loose a contract. Therefore, any cost differential that may be artificially created by import tariffs can put us at a disadvantage.

An example of this is in the Brazil marketplace. My firm is currently developing programs to establish business in this region. However, the US does not have a Free Trade Agreement for this market. This could put us at a major disadvantage to our European competitors, if the European Union establishes a Free Trade Agreement, in this market before the US. As you are aware, the EU is currently negotiating a FTA with the Mercosur Customs Union, to cover the Latin American countries of Argentina, Brazil, Paraguay and Uruguay.

We are also aware that many other countries in Asia are establishing bilateral FTA's to expand their economies and increase their number of trading partners.

Therefore, from my perspective, the US represents the largest economy and most competitive nation in the "free world", must take a leadership position, towards the development of international trade programs. We must be proactive rather than reactive. We must be innovative on multiple fronts, when dealing with trade matters, and find effective solutions that can impact the trade deficit.

Small businesses will continue to play an important role in the growth of international trade by opening up new markets. However, we need your support to help create the tools that can minimize the trade barriers, to allow us to be successful in these markets.

We feel that through proactive legislation, for example, reestablishing the TPA and developing and expanding the TTA programs, are positive steps which will help "level the playing" field for US small businesses, pursuing opportunities in these markets.

We encourage you and challenge you, as Congress to continue to take "giant steps" towards legislation that promotes international trade development!

I thank you for your time, interest and consideration.

Good afternoon, my name is Paul Hartman. I am an eighth generation farmer from Reading, Pennsylvania and I want to thank Congressman Toomey and the entire committee for this opportunity to testify before you on behalf of the Pennsylvania Farm Bureau and the American Farm Bureau Federation regarding our strong support for H.R. 2149, The Trade Promotion Authority Act of 2001. My family owns and operates an 800 head dairy farm. We grow crops on approximately 500 acres, which is used entirely to feed the cows and replacement young stock. Our dairy produces about 9 million pounds of milk per year.

U.S. agriculture continues to be increasingly reliant on access to export markets. The agricultural industry in this country can only continue to grow and prosper by reaching the ninety-six percent of the consumers who live outside this country. Our ability to export continues to be hampered by significant barriers to trade. Given continued low commodity prices, access to world markets is now more important than ever. U.S. leadership in international trade has languished since negotiating authority for the president lapsed. Other countries have struck new trade deals that place our producers at a disadvantage relative to their competitors. We need to arm President Bush and his team of negotiators with the tools that are necessary to open new markets for our commodities. Granting this authority without trade restrictions, or sanctions, governing environment and labor is essential. Employing trade-restraining measures to address these important societal goals will serve only to hamper – not promote – trade without achieving the desired policy result.

The lack of Trade Promotion Authority is hindering the United States' ability to be taken seriously as a trade negotiating partner. Meanwhile, other countries are moving forward without us – the EU, Canada, Mexico, and Latin American countries are negotiating new free trade agreements and preferential arrangements that don't include the United States. Over 130 preferential trade agreements exist today – only 2 of them include the United States. The preferential access given to EU producers on a number of commodities, including dairy, has enabled them to better compete with U.S. exports. On subsidies, the EU outspends the United States nearly four to one on domestic supports and uses over ninety percent of the world's agricultural export subsidies. World agricultural tariffs today average about sixty-two percent, while U.S. agricultural tariffs average twelve percent. These foreign barriers to U.S. agricultural exports can only be eliminated by trade agreements. And without Trade Promotion Authority, we are unlikely to achieve those goals.

Despite the significant trade barriers that continue to exist, nearly one-fifth of all US agricultural products are currently exported. Agriculture generally ranks among the top six U.S. industry groups in export sales, accounting for about seven percent of the nation's total export value. Agriculture consistently generates a trade surplus, as it has every year since the late 1950's. This contrasts with, and helps temper, the growing U.S. merchandise trade deficit, which reached a record-high $346 billion last year. U.S. agriculture exports outpaced imports by nearly $11 billion in 1999. As recently as 1996, this surplus topped $27 billion.

Economic studies show that the most significant growth in demand for agricultural products – and in particular, for value-added foods – is in societies with emerging middle classes. As families and households move into the economic middle classes, they spend an increasing portion of their discretionary income on food. It is estimated that in the next decade, nearly 250 million Indians and more than 200 million Chinese will attain middle class status. Growth of demand for food will be strongest in these emerging markets. To maximize our opportunities to supply those markets we must get tariff and non-tariff barriers down.

A wider range of U.S. agricultural products now depend on export markets. Corn, wheat, soybeans and other bulk commodities used to dominate the trade picture, accounting for two-thirds or more of total U.S. agricultural exports. No more. Since the 1980's the most rapid and consistent growth has been in consumer-oriented products, everything from meats to snacks, and fruits and vegetables to pet foods. This category ranked third in 1985, after bulk and intermediate products. By 1999, for the first time ever, consumer-oriented exports captured the lead. This means that a wider range of jobs and economic activity in the agriculture sector depends on trade than ever before. An estimated 750,000 full-time U.S. jobs in FY 1999 were related to the production, assembly, processing and distribution of U.S. agricultural exports. Of this total, the majority -- 470,000 jobs -- were off the farm.

World market prices for many agricultural products are depressed, in part, because of high levels of trade-distorting subsidies and protected home markets. Strengthening of world prices, which helps the incomes of U.S. producers and exporters, can only happen with effective international disciplines on unfair trading practices and trade barriers. Other countries are unlikely to agree to such disciplines except through a comprehensive round of WTO negotiations, that Trade Promotion Authority would authorize.

Securing Trade Promotion Authority in a timely manner is critical to ensure that a new round of negotiations in the World Trade Organization is launched by the WTO Ministerial Conference this November. Further reform in the rules governing agricultural trade is needed to ensure new access to foreign markets and fair access in the U.S. marketplace. Exports are the lifeblood of American agriculture. We may lose our existing share of foreign markets to other competitors if we are not an active player in new trade agreements.

Securing Trade Promotion Authority for the President will make launching a round in the WTO, where the greatest gains will be made in agricultural trade, more likely. Only with Trade Promotion Authority will the negotiations begin in earnest. Without Trade Promotion Authority, improving conditions for agricultural trade will be significantly delayed. The current set of trading rules in existing trade agreements – including the WTO – does not address all trade barriers or trading practices. But the only way we can fix the problems that have emerged under them, or in spite of them, is by having the credibility and strength at the negotiating table that comes from Trade Promotion Authority.

We can no longer afford to stand idly by while other nations' governments improve trading opportunities for their citizens and industries. Leadership and action by the Congress must no longer be delayed. The time to act is now; Congressional passage of Trade Promotion Authority is essential this year.

Trade Promotion Authority and Small Business

Testimony of Suresh K. Gursahaney
President & CEO
MicroAutomation, Inc.

Before the
U.S. House Small Business Committee
Subcommittee on Tax, Finance and Exports
July 24, 2001

The Honorable Patrick J. Toomey
Chairman

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As a small business entrepreneur who benefits from the global marketplace, let me state that I am honored to testify today before the House Small Business Committee, Subcommittee on Tax, Finance and Exports on the issue of small business and trade. My name is Suresh Gursahaney and I am CEO & President of MicroAutomation, Inc. The firm is headquartered in Chantilly, Virginia, and we currently have a workforce of twenty employees.

MicroAutomation designs and implements product sets for call center environments. We consider ourselves to be one of the industry's pioneers and are quite pleased that our products and applications are used in organizations renowned for their customer service, such as Hilton Reservations Worldwide, Maytag and Baltimore County 911. The last several years brought a variety of ways for consumers to reach customer contact centers – advances in technology have allowed customers access to service via the web, fax, e-mail, chat sessions, and telephone. MicroAutomation helps businesses and organizations develop one integrated point of customer service contact that is accessible from these diverse media.

Based on statistics available from the U.S. government, and based upon my own experience, the opportunities for small firms to participate in the global marketplace are quite exciting. Small businesses with less than twenty employees made up two-thirds of all U.S. exporting firms in 1998, a significant increase from 1992 when these small business exporters stood at 59 percent. In 2000, the U.S. information technology (IT) sector alone exported $134 billion in products -- this sector contributed one-third to real U.S. G.D.P. growth from 1997 to 2000, according to the Department of Commerce. Small businesses dominate the IT sector, and many of them, like MicroAutomation, work

in niche technologies and markets. The growth of the innovative IT sector can only be sustained through expanding markets, and much of these opportunities will occur abroad. MicroAutomation is so pleased by our expanding opportunities, and we are hopeful that more U.S.-based small businesses will have the opportunity to pursue markets abroad as well.

MicroAutomation's successful work implementing solutions for Hilton Reservations Worldwide in five U.S. reservation centers has led to an expansion of our work overseas. We most recently completed a call center project in Glasgow, Scotland Reservation Center, and there are plans for four additional international call centers. Our international portfolio also includes work via prime contractor for: South Korea (SK) Telecom, Samsung Life Insurance, Citibank (via IBM) and Hong Kong Telephone (via Mosaix). Indeed there are many opportunities for MicroAutomation to conduct business abroad for a variety of clients, and we are thrilled by these opportunities for growth. However, as we have also learned from our overseas work, there are risks for small businesses too.

While MicroAutomation's experience participating in overseas markets has been largely positive, our experience in South Korea served as a wake-up call to the prospective perils faced by small firms in the world marketplace. Through a local South Korean subcontractor, MicroAutomation implemented our call center solution for SK Telecom and Samsung just prior to the fall of the Korean economy. Unfortunately, we fell victim to the economic slump, and invoices totaling $100,000 are still outstanding. While larger companies have the resources to dispatch legal teams when such circumstances arise, the recourse small firms have -- such as MicroAutomation – are

really rather limited. It would have required enormous sums of money for our firm to pursue collection of the outstanding bills, and quite frankly we are less powerful and politically connected than larger firms. Our experience in Korea did not dampen our pursuit of overseas work, but it has altered our international strategy for pursuing such opportunities.

MicroAutomation's current plans are to work with companies that are headquarted here in the United States, with contracting and invoicing performed domestically. The current prerequisites that we have established for ourselves in conducting work abroad only underscores the importance of expanding trading opportunities for all American business abroad. Clearly, there are many small businesses that successfully export their products and services on their own, and expanding favorable trade arrangements with a variety of countries will give small businesses a broader market to sell those products and services. In the case of MicroAutomation, it is also clear that when all businesses have increased access to overseas markets – small, medium and large businesses alike – all sizes of businesses *and their workforce* will benefit from increased global opportunities.

As mentioned above, it is quite risky and difficult to transact overseas as a smaller business entity. Competing with businesses around the globe in unfamiliar environments is a big step for a small firm. Any steps that our government can take to lay the groundwork for better trading relationships with countries abroad, including favorable trade agreements that create more certainty and lower tariffs, is beneficial for small businesses.

Trade Promotion Authority (TPA) is a positive tool that will not only expand market opportunities for small firms, but help to establish favorable parameters for doing business in foreign countries – this is important both to small and big businesses alike. Since 1994, the U.S.'s absence in designing trade agreements has meant that businesses in other countries have a competitive advantage of U.S. firms. With 130 free-trade agreements currently on the books throughout the world, the U.S. is involved in just two – NAFTA and an agreement with Israel. Mexico has struck 25 trade deals since 1994, while the European Union has arrangements with 27 other countries (and another 15 in the pipeline). While the growth of small business's role in trade has grown tremendously over the past decade or so – the number of U.S. small business exporters tripled from 65,900 to 202, 185 – many more opportunities await small businesses. Allowing the President the authority to negotiate trade agreements on the U.S.'s behalf makes good sense for our country.

Whether you are a small business like MicroAutomation, Inc. that has directly benefited in the international marketplace through the overseas growth and expansion of bigger U.S. companies, or if you are singularly pursuing business abroad, more favorable arrangements for doing businesses is highly desirable. Leadership from the U.S. government in helping small business on the trade front through constructive agreements in countries where such agreements do not exist will continue to help fuel economic growth, job creation and innovation at home.

Again I thank the committee for the opportunity to testify today, and I look forward to your questions and our dialog.

Written Testimony of

The Honorable Phil English
United States Representative
21st District, Pennsylvania

Before

The House Committee on Small Business
Subcommittee on Tax, Finance, and Exports

Hearing on Trade Adjustment Assistance

July 24, 2001

Mr. Chairman, Members of the Committee, thank you for the opportunity to present written testimony on Trade Adjustment Assistance -- an issue of great importance to me.

The Trade Adjustment Assistance (TAA) was established by the Trade Expansion Act of 1962 to help workers and firms hurt by a reduction in trade barriers. Since then it has provided relief for thousands of workers and numerous firms. Pennsylvania workers are second only to North Carolina in being the leading consumer of TAA benefits in the United States.

The Trade Adjustment Assistance program lends a helping hand through unemployment benefits and job training to workers injured by the impact of foreign trade. The program is an unique economic development tool which helps entire communities retain jobs and expand employment opportunities by allowing domestic manufacturers to compete with foreign firms. TAA as a trade remedy assists U.S. companies without creating artificial trade barriers or impediments to the free flow of goods. It is the only federal trade remedy that can make this claim.

One of the objectives of the TAA program, in addition to income support, is the retraining and placement of workers displaced by import competition. The TAA program has always emphasized training for all program participants, but training expenditures were less than 5% of all TAA spending before FY1982. The Omnibus Trade and Competitiveness Act of 1988 made it a requirement that workers who receive benefits under TAA participate in training unless granted an exemption by the Secretary of Labor.

In most cases, workers who have benefitted from TAA were permanently separated from their pre-layoff employers, and the overwhelming majority (70%) of the layoffs were prompted by plant closings. Both before and after the amendments to the TAA program in 1988, a substantial proportion of recipients received reemployment services from TAA. Before 1988, 37% participated in TAA training; this proportion rose to 47% after the 1988 amendments.

The training provided to TAA participants generally is intended to develop specific job-related skills for new occupations. Much of the training takes longer than a year to complete. Many of the training programs are provided at vocational training centers or community colleges. The majority of trainees feel that this training helped them find a new job and additionally gave them useful experience

for use on the job.

H.R. 3194, The FY2000 Consolidated Appropriations bill extended the TAA program until September 30, 2001. In the 107th Congress, I have introduced H.R. 85, this legislation would reauthorize the TAA program through September 30, 2006. It would also extend the amount of time available to dislocated workers to apply for TAA benefits from one year to two years.

Currently, workers who lose their jobs or who are laid off due to the relocation of their company to another country are not eligible for TAA if the displacement occurred more than a year before the individual files for assistance. This time limit has shut out many workers who would have otherwise been eligible for assistance.

It is important that TAA be reauthorized for an extended time period. This would allow existing participants to experience successful "adjustments", and would provide prospective clients with the confidence that the program will continue to help them. Moreover, such an extension will indicate a recognition by Congress of the needs of our businesses and communities. Reauthorization will send a clear message to all Americans that we are serious about competing in the world economy.

H.R. 85 also provides technical assistance to qualifying firms who are seeking relief from lost sales due to foreign imports. It is critical that this component of the TAA program be maintained to assist workers and firms.

Trade Adjustment Assistance is critical to individual workers and firms who are adversely affected by import competition. This pro-trade, bipartisan legislation – currently with 41 cosponsors – will help dislocated workers and firms obtain the assistance that they are entitled to under current law. I would like to extend my thanks to the Ranking Member, Mr. Pascrell, for cosponsoring this vital legislation.

The TAA program is imperative in assisting displaced workers and allowing manufacturers to make the adjustments necessary to remain competitive in the global economy. Without the re-authorization of TAA, the impact will be devastating to those who rely on its aid.

TESTIMONY OF

WILLIAM J. BUJALOS

DIRECTOR OF MIDATLANTIC TRADE ADJUSTMENT ASSISTANCE CENTER

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS

JULY 24, 2001

Thank you, Mr. Chairman for the opportunity to testify before this committee regarding pending Trade Promotion Authority legislation, its effects upon the nation's smaller manufacturers and the role played by the Trade Adjustment Assistance Program (TAA) as a remedy for its impact. I am the Director of the MidAtlantic Trade Adjustment Assistance Center (MATAAC) located in Blue Bell, PA, a suburb of Philadelphia. MATAAC is one of twelve Trade Adjustment Assistance Centers (TAACs) that contract with the U.S. Department of Commerce through the Economic Development Administration (EDA). Our responsibility is to assist firms in the states of Pennsylvania, Maryland, Delaware, Virginia, West Virginia, and the District of Columbia.

When it created The Trade Act in 1974 Congress had the foresight to understand that elimination of the barriers to free trade, while desirable from any number of points of view, would impose a heavy burden on those least prepared to shoulder it – the employees and owners of small family-owned manufacturers.

When I was invited to testify before this committee I was asked to explain what it is we do and offer examples of the results. We see over and over again the effects of imports. They often

arrive in waves and usually with very low prices. At first, small companies will typically loose sales volume during the initial onslaught. Then working capital is diminished and then the layoffs start. These firms find themselves in a situation where they must reconsider their original strategies – a tough assignment for even the most sophisticated companies and at a time when they can least afford to do it. Because they can't meet the price competition from imports head-on these firms must develop an excellence in some other aspect of their business, i.e. marketing, quality, swiftness, etc. Some may even have to consider making a different product.

It might be helpful for you to consider a typical client's transition through Trade Adjustment Assistance.

Typically, your business is one of a few in a relatively low population semi-rural area. Typically, you have used most, if not all, of your personal savings for the start up since few banks are willing to take the risk that you are willing to take. You have only a few employees. You are the CEO, the COO, the CFO, the Marketing Manager, the Sales Manager, the Plant Manager, the Information Systems Manager, the Human Resources Manager, and sometimes even the janitor. You work ten to twelve (sometimes more) hours a day, six or seven days a week. Your most pressing concerns are *not* the current status of free trade agreements, the changing dynamic of your market, the most recent developments in operational technologies to upgrade productivity, the latest advances in shop floor controls or cash flow systems, or systems of management for agile performance. Your main concern is whether or not you'll make payroll by Thursday afternoon.

So you and your employees won't see it coming. Cheaper imports will hammer you. And you'll reduce prices in order to "stay competitive" but all you'll be doing is using precious working capital to make up the difference between what it costs you to make it and what you can sell it for. As working capital dries up you will be left with only one alternative – the layoffs will commence. You need help, the kind of help you don't have internally, and the kind of help you can't afford. By this time you may come to realize that all you've been doing is attacking symptoms and not addressing the problem itself – your and your employees' lack of

preparedness for a permanent market shift. At this point your company and the aspirations of your employees and their families will be circling the drain.

There are three phases to the TAA program. In Phase I a MATAAC Project Manager, who will develop a Petition for EDA's concurrence, will visit your firm. He'll verify both that your business volume and employee count have declined as a direct result of imports and will interview several of your customers to verify that they have reduced their purchases from your company because they were able to acquire cheaper imports.

In Phase II following certification, we will visit with your company again to develop a diagnostic of its current condition and a plan of attack to turn it around. Officially this is referred to as the development of a Firm Diagnostic and Adjustment Plan or AP. Every aspect of your company: Marketing, Sales, Manufacturing, Materials Management, Purchasing, MIS, Financial Management, Management Development, Inventory Controls, Human Resources, Quality Assurance, etc. will be examined to achieve a clear understanding of the specific strengths and weaknesses of each functional area and an understanding of what specific changes must be made to turn weaknesses into strengths and take existing strengths and make them bullet-proof. MATAAC staff and company employees and management will then collaborate on the development of an Adjustment Plan. This is a specific scope of work encompassing the upgrade projects necessary to turn each business aspect into a strong point, a Gantt chart of the time frame necessary, and our best estimate of the costs involved. Your company will pay twenty-five percent of the cost to develop this Diagnostic and Adjustment Plan.

Phase III following approval of the AP, is the implementation phase. Professionals from the private sector, many through competitive bidding, will be engaged to implement the projects outlined in the AP. Monthly costs for the assistance will be split 50/50 between MATAAC and your firm. Over the next two to three or more years your company will change. The way your firm designs, manufactures, distributes, and sells its products will be improved as necessary. International certifications (ISO 9000, etc.) will be attained as required. Methodologies to enhance productivity will be developed and installed. In short, you and your employees will re-

examine and upgrade the way business is conducted by the firm. During this phase MATAAC will monitor progress and be available to you and your employees for guidance as needed.

Mr. Chairman, this scenario is typical. Firms as diverse as castings manufacturers, shipping container makers, and the producers of folding scissors go through it – companies like[1]:

- Cast-Fab Technologies, Inc. of Cincinnati, a producer of iron castings and metal cabinets. In 1998 they saw 22.5% of their business go to Mexico and China, and were forced to layoff 89 employees. With TAA's assistance they were able to implement an aggressive Productivity Improvement Program involving self-directed work teams, an improved MRP management process and a Marketing Plan through private sector consultants. As a result, in two years shipments were up 35%, labor productivity had improved 40%, and inventory queues had been reduced by 50%.
- Garrett Container Systems, Inc. of Accident, MD, a maker of aluminum shipping containers. In 1998 the firm was in its second year of decline when it approached TAA. Sales had declined 13%, employment was down 20% while profits had plunged by more than 53%. TAA and management developed a recovery strategy to secure ISO 9000 certification, improve its manufacturing operations, financial controls, management information systems, and personnel development. As a result the company can now point to a sales increase of 160%, employment growth of 78% and a 46% upgrade in employee productivity.
- Slip-N-Snip, Inc. of Sweet Home, OR, the only remaining U.S. manufacturer of folding scissors. In less than three years shipments had dropped by more than 51% and the company had to lay off 55% of its employees. Management and TAA collaborated in the development of a new marketing strategy. Since the company could not compete with the imports from Taiwan and Japan on price, the quality of its products over that of the imports was emphasized. A marketing consultant was hired. The product was placed on the U.S. Space Shuttle as standard equipment. Medical applications, particularly dentists were discovered to be strong markets. Price was no longer a selling point. The

[1] See additional examples in the addendum.

company's quality was. Today sales are 370% higher and employment has increased 200%.

A major strongpoint of this program is that assistance is custom made to fit the specific circumstances of each company – not "one size fits all." Another is that the TAACs do not directly provide consulting but facilitate the engagement of qualified professional experts from the private sector to implement changes. Consequently we do not bring our own agendas to the table. Rather, we can focus on the turnaround of the company at hand and not "sell" a particular package simply because we have personnel on staff with that expertise that must be kept busy.

More than 90% of the nation's manufacturing companies can be categorized as small businesses. In the MidAtlantic region there are 37,840 manufacturers and 90% of these have less than 100[2] employees. These are small family-owned concerns. Larger firms have the deeper pockets and more options but smaller, family-owned manufacturers don't. Larger companies can more readily bear the financial setback with reliance upon equity markets, debt, or other more profitable operations. Smaller companies can't. Smaller firms find that they need outside expertise – help developing new strategies, and new technologies – all at a time when they are least prepared to acquire it, given the pressures on working capital.

Without the use of quotas, tariffs or other barriers to free trade, TAA is instrumental in saving and creating thousands of jobs in the nation's manufacturing and agricultural sectors. Since 1996 the program nationwide has saved or created just over 59,000 jobs in 530 companies at an average cost to the government of $862 per job[3]. Consider also that this is done *without* reliance on welfare, worker retraining, food stamps, unemployment benefits, or other traditional remedies to unemployment because efforts are made to turn impacted firms around competitively *before* massive layoffs or closures become necessary – not *after* the damage is done. Those who might be tempted to label the program as corporate welfare might consider the following:

[2] National Association of Manufacturers
[3] TAA Effectiveness Report FY 1996-2000

- The firm pays for it. Typically, a company provides 50% of the funds necessary to pay for the private sector professional help needed.
- It's very small. For example, four individuals cover the MidAtlantic states.
- It's only one part of a larger strategy. In many cases, participation in TAA for Firms is adjunct to much larger commitments these companies make in new plants and new equipment on their own.
- And here's the kicker – because their companies are made stronger, more productive, and more competitive; employees' jobs are made stronger, more productive, and more competitive. Not only have they *not* lost a job but also the one they have is made much more secure. That's the very essence of economic development – not welfare.

None of the personnel within the TAACs across the nation are government employees. All have worked in the private sector. Many have had extensive corporate, business, and executive level experience. Some have owned and operated their own businesses. This depth of knowledge gives TAACs the ability to ascertain specific actions that must be applied to each company's unique set of circumstances. TAA for Firms assists only those companies in distress because of imports and where jobs are at risk. These positive results are made possible by the heavy involvement of each firm – their infusion of half of the funds necessary to make it all happen and their commitment to change the way they do business.

Personally I support our national efforts to enable the free flow of goods between ourselves and the rest of the world. I share the view that open and free trade promotes the improved living standards of all. From a professional standpoint the reduction of trade barriers is a healthy thing for America's smaller manufacturers too. The increased imports that result is a catalyst that forces groups of employers and employees who would otherwise neglect the continuous improvement of their performance to question obsolete strategies and technologies and implement needed change. It just makes sense. It's much easier and costs a lot less money to save a job than to retrain a laid off worker for a new one. And for many small family-owned companies, TAA for Firms makes this once impossible task possible.

ADDENDUM

CASE HISTORIES

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS – CASE HISTORY

Innovative Program Helps Manufacturer of High-End Audio/Video Components Expand Market Reach and Compete More Effectively Against Foreign Products

B & K Components Ltd. of Buffalo, New York

Contact: **Mr. John Beyer, President, B & K Components Ltd. (716) 656-0023**
Mr. Lou McKeage, Director, NYS TAAC (607) 771-0875

The Situation

B & K Components is an established, well-respected name in high-end audio components. Although B & K annually invested approximately $100,000 in marketing its products, and because of the narrowly defined market and foreign competition, the client has achieved little brand recognition outside the world of the true audiophile.

The Solution

The NYS TAAC helped B & K identify the need for new promotional materials to expand its reach to new markets. This included hiring a marketing communications specialist to first perform a marketing audit, which would identify new target markets for B & K's product, then create the appropriate promotional tools. The consultant designed three consumer ads that currently run in more popular audio/video publications; a web site was created; new postcards and posters were designed and sent to all retail vendors; and a new 12-page glossy color brochure was designed.

The Results

Inquiries from around the U.S. have been more consistent since B & K began using its new promotional material. Employment doubled (to 60) the first three months after the new material was put into action, and sales also doubled (to $2.4 million), with one new customer accounting for a $1 million increase in sales.

The U.S. Department of Commerce, Economic Development Administration sponsors this small, highly successful program. Regionally, a network of Trade Adjustment Assistance Centers (TAACs), located at universities and non-profits, work directly with participating firms. Binghamton University administers the NYS TAAC, which operates the program throughout New York State. Trade Adjustment Assistance for Firms helps U.S. based manufacturing and producing firms compete more effectively where increased imports threaten U.S. jobs and business survival. Nationwide the program produces outstanding results.

Trade Adjustment Assistance For Firms – Case History

Innovative Program Assists a Nationally Known Men's Shirt Company to Successfully Compete in a Low-Growth Market Dominated by Imports

Hathaway Shirt Company of Waterville, Maine

The Situation

In the early 1950's, Hathaway Shirt established a strong consumer brand identity with the "Hathaway Man" depicted as a sophisticated gentleman wearing a black eye patch. However, the company changed its marketing direction twice after being purchased by large conglomerates. A lower priced shirt was introduced that damaged the Hathaway brand image. Large retailers developed their own brand of shirts, which they imported and the market for dress shirts was stagnant due to the growth of casual sportswear in the corporate environment (dress-down Fridays). The Waterville, Maine, plant was being shut down by Warnaco, the owner of the company. Local investors purchased the company in the hopes of saving the jobs and reviving the Hathaway brand.

The Solution

With the assistance of Trade Adjustment Assistance, and in conjunction with the EDA, NETAAC, and Hathaway's management developed a three-part strategy. First, Hathaway acquired the building, the brand name, and all corporate assets. Second, with TAA assistance, an information system was designed and installed to control operations, and third, the company would introduce a new line of shirts, using the Hathaway name but include more innovative styling. In addition, sportswear accessories such as knit shirts, sweaters, slacks, and outerwear were added to the product line.

The Results

In the two years since completion of assistance, sales increased by 45 percent, earnings before taxes by 174 percent, and employment by over 34 percent. The Hathaway brand is regaining its lost stature, and new products for new markets have been successfully introduced. The information system enabled management to reduce labor costs without impacting product quality, and provided the needed tools to dramatically increase inventory turnover and reduce indirect costs.

The New England Trade Adjustment Assistance Center, Inc. (NETAAC) is a non-profit 501(c)(3) corporation dedicated to implementing the Trade Adjustment Assistance program in the six New England states. In partnership with the U.S. Department of Commerce, the six New England governors, and private enterprises, NETAAC has delivered consulting services to import-impacted manufacturers. It has materially contributed to job retention, job growth, and increased profitability for its manufacturing clients.

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Trade Adjustment Assistance For Firms – Case History

Innovative Program Assists Oceanographic Company to Recapture Lost Sales, Boost Profitability, and Penetrate New Markets

Benthos, Inc. of North Falmouth, Massachusetts

The Situation Benthos, Inc., a manufacturer of oceanographic systems, robotics made to operate in environments humans cannot enter, and container inspection systems, had lost sales, market share, and profitability, due to increased import competition for all product lines. To improve operational controls, the company was divided into three divisions: underseas systems, robotics, and container inspection systems.

The Solution With the assistance of Trade Adjustment Assistance, the New England TAAC and Benthos' management developed a recovery strategy with specific actions to upgrade product quality, the development of Windows-based controller for its "TapTone" Container Inspection Systems, and upgraded and improved information systems. Assistance in exporting products to Europe and Latin America was a major segment of the strategy.

The Results Within one year of assistance, Benthos applied for a NASDAQ listing and announced record bookings in one week from two orders of almost $3 million each. Record first-quarter sales and earnings increased 88 percent in per-share earnings, and the company experienced a 102 percent increase over sales from the previous year. Benthos' common stock was approved for listing on the NASDAQ SmallCap market, one of the largest trading exchanges in the world. The Miller Brewing Company presented the container inspection's "TapTone" Division with the prestigious "Partners in Excellence" award for their container inspection system. Other companies presently using the system include Grupo Modelo, manufacturer of Corona and the largest brewer in Mexico, South African Breweries of Johannesburg, one of the five largest brewers in the world and Coors Brewing Company in Colorado.

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Trade Adjustment Assistance For Firms – Case History

Innovative Program Assists a Wooden Giftware Product Manufacturer to Reduce Costs, Increase Sales and Profitability, and Employment Levels

Snow River Wood Products of Brattleboro, Vermont

The Situation Due to imports of less expensive wooden giftware into the U. S. domestic market, sales levels had declined below break-even levels. Inventory turnover was low, absorbing needed working capital, long-term debt was very high, and interest expenses were draining cash. The product line, while of high quality, can be replicated at lower costs at equal quality levels from a variety of foreign manufacturers.

The Solution With the assistance of Trade Adjustment Assistance, the New England TAAC and the client developed a comprehensive strategy designed to lower costs, improve information systems, improve inventory turnover, and expand sales by developing new products and entering new markets. To support these activities, promotional materials were developed to assist in increasing sales, and software was installed to improve production scheduling, inventory control, and upgrade the cost system.

The Results Sales levels have increased by over 180 percent, and the company is solidly profitable. A project to review purchasing efficiency saved over $48,000 per year in raw material costs with no loss in material quality. Also, more advantageous terms and conditions were negotiated. Inventory turnover has improved, new products have been developed and introduced into the market, and new market niches have been successfully penetrated. Most important, employment levels have more than doubled.

The New England Trade Adjustment Assistance Center, Inc. (NETAAC) is a non-profit 501(c)(3) corporation dedicated to implementing the Trade Adjustment Assistance program in the six New England states. In partnership with the U.S. Department of Commerce, the six New England governors, and private enterprises, NETAAC has delivered consulting services to import-impacted manufacturers. It has materially contributed to job retention, job growth, and increased profitability for its manufacturing clients.

New England Trade Adjustment Assistance Center, Inc.
45 Bromfield Street, Suite 601, Boston, MA 02108
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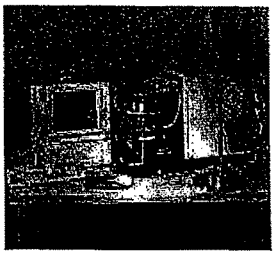
Trade Adjustment Assistance For Firms – Case History

Minnesota Manufacturer Boosts Quality and Sales with Federal Funds

Kurt Manufacturing Company - Minneapolis, Minnesota

Contact: Dale Owens, Corporate Quality Director, Kurt Mfg Co. (763) 572-1500
Mr. Howard Yefsky, Executive Director, Midwest TAAC, (312) 368-4600

The Situation



Kurt Manufacturing produces tool room work holding products and accessories, custom machined metal parts and assemblies. Customers include the aerospace, defense, computer and automotive industries. The company faced not only direct foreign competition, but also declining sales as its large customers downsized due to imports. These combined pressures resulted in lost sales of $20,000,000 over a two-year period.

The Solution

Kurt Manufacturing worked with the Trade Adjustment Assistance program to identify the most effective projects to improve competitiveness. Private sector consultants were used to implement projects utilizing cost-shared funds from the Trade Adjustment Assistance program. These projects focused on improving quality to both ISO 9000 standards and QS 9000 standards. The company also implemented a marketing strategy to inform customers of its new quality standard compliance.

The Results

The quality programs pursued by Kurt Manufacturing for the main production facility were so successful that they were replicated at all of its other factories. Sales turned around from the sharp decline to post a gain of $56,000,000 over the next six years. Employment also increased, with a 33% increase in production jobs over the same time period.

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Trade Adjustment Assistance for Firms is a practical, results-oriented resource designed for U.S. manufacturers facing import competition. The program offers 50/50 cost sharing of projects aimed at improving a firm's competitiveness. Specifically, the funds are applied toward the cost of consultants, engineers or other professional service providers to implement improvement projects in areas such as manufacturing, engineering, marketing, systems or quality.

Trade Adjustment Assistance For Firms – Case History

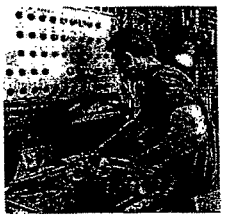
Iowa Foundry Fights Foreign Competition with Federal Funds

Blackhawk Foundry and Machine Co. - Davenport, Iowa

Contact: Jerry Hanson, Treasurer, Blackhawk Foundry and Machine Co. (319) 323-3621
Mr. Howard Yefsky, Executive Director, Midwest TAAC, (312) 368-4600

The Situation

Blackhawk Foundry had experienced a significant drop in sales due to a surge of foreign competition in the U.S. casting market. As a foundry that cast gray iron into various shapes for customers in markets such as agricultural, construction, and industrial equipment, Blackhawk was vulnerable to lower priced import competition.



The Solution

Blackhawk worked with the Midwest TAAC to evaluate the situation and identify projects that would improve its competitive position. Realizing that the company could not compete strictly as a gray iron caster, ductile iron casting capabilities were brought in-house as well. In conjunction with these new production capabilities, Blackhawk had to improve its internal information and control systems. Private sector consultants were used to implement projects using cost-shared funds from the Trade Adjustment Assistance program. Through these projects, the company brought in a new companywide information system, developed better technology to reduce gage error, implemented Total Quality Management, and began using a newly acquired Coordinate Measuring Machine.

The Results

As a result of these efforts, Blackhawk dramatically improved productivity. Customers are now able to get more information on orders, and error rates have been reduced from 12% to 1.5%. Sales have improved so much that an addition was built onto the clean room at the foundry. Since Blackhawk initially entered the Trade Adjustment Assistance program, sales increased 55% and employment increased by 35%.

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Trade Adjustment Assistance For Firms - Case History

Innovative Program Helps Electronic Monitoring and Communications Equipment Manufacturer Compete Successfully in Market Dominated by Low-Cost Foreign Producers

Pyott-Boone Electronics, Inc. of Tazewell, Virginia

Contacts: **Ms. Nancye K. Howell, Vice President, Pyott-Boone (540) 988-5505**
Mr. William J. Bujalos, Director, MidAtlantic TAAC, (610) 825-7819

The Situation

Pyott-Boone Electronics, Inc., a maker of electronic monitoring, communications and testing equipment for Fortune 500 customers as well as the U.S. government feared they wouldn't survive when customers began sourcing lower cost imports. The company was in its fourth year of consecutive loss; sales were down 27% and over a quarter of its employees were released.

The Solution

With the unique assistance provided by TAA, MidAtlantic TAAC and the company's management developed a recovery strategy with specific actions to secure manufacturing upgrades, inventory management improvements, and marketing/sales advancements. Lacking the expertise to accomplish these objectives, Pyott-Boone management, with assistance from MidAtlantic TAAC identified and contracted with private sector specialists to implement these projects using the TAA program's cost-shared technical assistance.

The Results

As a result of the assistance provided by TAA, the firm was able to implement its strategy in a timely manner with competent outside expertise. Since implementation began Pyott-Boone has significantly improved its inventory control and investment, created an exceptional marketing program that enables it to be the contract manufacturer of choice and harnessed its internal costs to substantially improve its bid-to-award ratio.

Since Pyott-Boone Electronics, Inc. was initially certified as trade impacted:
Sales have increased 58%, and employment is up more than 96%.

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Trade Adjustment Assistance For Firms – Case History

TAA Program Helps Arkansas Manufacturer Compete Against Foreign Producers

SeaArk Marine, Inc. of Monticello, Arkansas

Contact: **Paul G. Schmid, Director, Mid-America TAAC (816) 246-1555**

The Situation: SeaArk Marine, a family owned and operated company, had enjoyed a long history of national and international sales of its heavy-duty workboats. When they began experiencing declines in sales, employment and profitability, they sought help through the TAA Program for firms. It was determined that they were experiencing increased competition from Canada and France.

The Solution: The Mid-America TAAC competitive analysis pointed to the need to upgrade SeaArk's computer software, including its design software. As part of this project, software to operate a new plasma cutting machine tool was developed. As a result of this technology, production lead-time was reduced, quality improved and tighter tolerances were attainable.

SeaArk also developed marketing and promotional literature with the balance of the $125,000 matching grant.

The Results: The expert consultants and the funds to pay for 50% of each technical assistance project resulted in the company reclaiming and expanding their competitive position in the industry. Sales have increased 79% while employment level has increased 43%. Profitability has returned to SeaArk's operation.

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Trade Adjustment Assistance For Firms – Case History

TAA Program Helps Industrial Metrology Instruments Manufacturer Grow in Market Dominated by Foreign Producers

Brunson Instrument of Kansas City, Missouri

Contact: **Paul G. Schmid, Director, Mid-America TAAC (816) 246-1555**

The Situation: This Company started in 1927 and is currently headed by the grandson of the founder. Brunson's products were designed for highly accurate alignment where there is little tolerance for error. These products are used in the construction, aviation, shipbuilding, steel, paper mills and power generation industries. Competition from Europe had been increasing when the company applied for certification into the TAA Program. Brunson had been losing money for several years.

The Solution: Working with Brunson's management, MAMTAAC developed a recovery strategy that included market development, productivity improvement, and new product research and development. The request for technical assistance was approved by the DOC for a $100,000 matching grant.

Over the next several years, projects were implemented under contracts with several private industry consulting firms and with the Missouri Manufacturing Technology Center (MEP).

The Results: As a result of all the assistance provided by MAMTAAC, Brunson was able to develop a new, technologically advance product for the domestic and international markets. Using their own resources, they acquired a company with a complementary product line. Employment has risen 59% since certification and Brunson has returned to profitable operations. Sales have more than doubled.

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Trade Adjustment Assistance For Firms – Case History

TAA Program Helps Missouri Manufacturer Compete Against Foreign Producers

Courion of St. Louis, Missouri

Contact: **Paul G. Schmid, Director, Mid-America TAAC (816) 246-1555**

The Situation: Courion was founded in the 1920's as a producer of fire doors. Over time, the company identified freight elevator door systems as a more profitable product line. The firm currently manufactures door systems, including rails, guides and gates, interlock mechanisms and controllers. They also produce elevator car enclosures and replacement parts.

At the time the company applied for the TAA program, they had been adversely affected by competition from Canada. By the mid 1990's, both sales and employment had declined.

The Solution: After a diagnostic survey of Courion's operation, the company was awarded a $128,000 matching grant. The Adjustment Proposal identified the creation of promotional and instructional videos as a significant project for recovery. To date, several videos have been produced. Courion has also implemented improvements to their production operation. The last project to be undertaken will be ISO-9000 certification.

The Results: The President of Courion believes that both the TAA projects and the improvements the company has made on their own have substantially contributed to the increase in sales and employment. Since certification, sales have increased 12% and employment is up 13.8%.

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Trade Adjustment Assistance for Firms – Case History

ISO 9000 Certifications Help Major Electronics Firm Improve Its Global Competitiveness

Contact: **Matt Long, Assistant Treasurer, CTS Corp., (219) 293-7511**
Scott Jacobs, Project Manager, Great Lakes TAAC, (734) 998 6238
Maureen A. Burns, Director, Great Lakes TAAC, (734) 998-6218

Situation CTS Corp., a multinational electronic component manufacturer headquartered in Elkhart, Indiana, experienced a significant revenue and profit drop in the early '90s. Between 1989 and 1992, worldwide sales fell by 13%, while net income dropped by 87%. In addition, CTS experienced a double-digit decline in U.S. employment. The company's rapid decline was primarily due to the continued penetration of Japanese imports, defense industry cutbacks, the economic recession of the time, and the internal restructuring of several key customers.

Solution CTS management, working with the Great Lakes TAAC, developed a near-term recovery strategy focused on reducing costs, improving cash flow, increasing market penetration, improving quality, and developing new products. Because most high-potential markets are located outside the United States, the long-term strategy was geared towards achieving world-class status in manufacturing quality (to enable CTS to successfully compete on a global basis), and broadening product offerings via targeted expansion and strategic acquisitions (to better serve its OEM customer base).

Implementing these strategies has involved numerous internal projects based on JIT operation, CI, and TQM. ISO 9000 certification was also an integral component of CTS's ongoing "Journey to Excellence," and this is the area in which TAA cost-shared technical assistance has been focused. TAA technical assistance funds have been used to help a number of CTS's U.S. plants earn ISO certification.

Results CTS has not only been able to stabilize its situation, but also to grow the company. 2000 sales reached $867 million (up 282% from 1992). Today, CTS is recognized as a global leader in high-quality, high-tech electronic components, and has managed to expand in foreign markets (53% of sales in 1999, versus 24% in 1992) while still retaining a significant U.S. manufacturing base. As of 1999, U.S. employment at the company was up 34% compared to 1992 levels.

U.S. Department of Commerce, Economic Development Administration sponsors this small highly successful program. Regionally, a network of Trade Adjustment Assistance Centers (TAAC's), located at universities and non-profits, work directly with participating firms. The University of Michigan Business School's Great Lakes TAAC operates the program in Michigan, Ohio and Indiana. Trade Adjustment Assistance for Firm help U.S. Based manufacturing and producing firms compete more effectively where increased imports threatens U.S. jobs and business survival. Nationwide, the program produces outstanding results.

Trade Adjustment Assistance for Firms – Case History

Computer Systems and Quality Control Improvement Projects Helps Grinding Gauge Systems Manufacturer to Compete Against Low-Cost Imports from Italy

Control Gaging, Inc. of Ann Arbor, Michigan

Contact: **Mr. Paul A. Mueller, President (734) 668-6750**
Mr. John E. Herring, Project Manager, Great Lakes TAAC (734) 998-6217
Ms. Maureen A. Burns, Director, Great Lakes TAAC (734) 998-6218

The Situation Control Gaging, Inc. is a leading supplier of in-process gaging for grinders. In-process gages measure parts as they are made and control the machine so that only good parts are produced. Gaging systems are typically used for the production of precision components such as high-speed bearings, camshafts and crankshafts, which are used in a wide range of industries including aerospace, automotive and small engine manufacturing. The company experienced a 10% reduction in sales in 1988, and incurred a loss as a result of a combination of severe price competition and product development engineering costs. Price cutting primarily came from Marposs, an Italian manufacturer of machine tool control equipment and gaging.

The Solution Control Gaging's management and the Great Lakes TAAC worked together to develop a recovery strategy with specific action to coordinate functional computer needs, improve the quality control system, integrate the CAD/CAM/FADAL machining center, and expand the customer base. Outside technical assistance was identified and contracted with private consultants to implement the various projects. These projects were cost-shared on a 50/50% basis.

The Results The most significant improvement was in the quality control area. Since the company exports about 15% of its total sales, it is vital that Control Gaging be ISO 9001 certified. As a direct result of the quality control project, the company was ISO 9001 and QS 9000 certified in June, 2000. A major component of the quality improvement project contained employee training in team problem solving. In addition, data processing systems have been integrated to provide operations and management with vital information and controls. Today, sales are 42% higher and employment is up 39.5% compared to 1988.

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Trade Adjustment Assistance for Firms – Case History

Productivity Improvement Project Helps Manufacturer of Castings and Fabricated Products to Compete Against Low-Cost Imports from Mexico and China

ByTec, Incorporated, of Clinton Township, Michigan

Contact: **Mr. Madis Sulg, Vice President and COO, ByTec, Inc. (810) 228-9410**
Mr. Steven B. Wilson, Project Mgr., Great Lakes TAAC, (734) 998-6221
Ms. Maureen A. Burns, Director, Great Lakes TAAC, (734) 998 6218

The Situation ByTec, Inc. manufactures rotary vane lumbar pumps and associated bladders, valves, passive restraint switches, lock actuators, various illuminated entry lamps and switch assemblies, metal clutch assembly devices, and anti-theft devices for automobile interiors. ByTec's primary products, pump and valve components of their automotive seat lumbar support system were being negatively impacted by import competition. Sales fell over 30% during a three-year period in which customers migrated to lower cost imports.

The Solution With the unique assistance provided by TAA, Great Lakes TAAC and ByTec management developed a recovery plan with specific actions designed to differentiate the company and their products above the lower cost foreign competition. The plan called for new product development, market research and planning, ISO14001 environmental certification, Web-site and marketing materials development. ByTec management, with assistance from the Great Lakes TAAC, identified and contracted with private sector specialists to implement these projects using TAA program's cost-shared technical assistance.

The Result As a result of the assistance provided by TAA, ByTec was able to kickoff all of its projects in a timely manner with competent outside expertise. This would have been impossible to do without TAA assistance. Since most of the projects are in the very early stages, the full benefits are far from being realized; though ByTec has already seen positive results. New product development is underway and going well, sales have stopped declining, employment is up, and the company is operating profitably.

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Trade Adjustment Assistance For Firms - Case History

Innovative Program Helps Producer of Men's and Boy's Trousers Compete Successfully in Market Dominated by Low-Cost Foreign Producers

Alperin, Inc. of Scranton, Pennsylvania

Contact: Mr. Myer Alperin, Chairman, Alperin, Inc., (510) 789-2020
Mr. William Bujalos, Director, MidAtlantic TAAC, (610) 825-7819

The Situation Alperin, Inc., a trousers and slacks producer since the 40s, hit a wall when customers began sourcing lower cost imports. Alperin was in its fourth year of consecutive declines. Sales were down 22% and more than 90 employees had been released – with more planned.

The Solution With the unique assistance provided by TAA, MidAtlantic TAAC and Alperin management developed a recovery strategy with specific actions to replace its information system, revise its marketing plan, and upgrade the firm's sales development, cost controls, and strategic planning capabilities. Lacking the expertise to accomplish these objectives, Alperin management, with assistance from MidAtlantic TAAC identified and contracted with private sector specialists to implement these projects using the TAA programs cost-shared technical assistance.

The Results As a result of the assistance provided by TAA, Alperin, Inc. was able to implement its strategy in a timely manner with competent outside expertise. Since implementation began, the firm has developed a management information system capable of informing the company of its progress against planned results, achieved brand recognition in its target markets, established a systematic approach to keeping costs under control and launched a strategic approach to its planning activities.

Since Alperin, Inc. was initially certified as trade impacted:
Sales increased more than 200%, and sales per employee (productivity) have increased an impressive 321%.

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Trade Adjustment Assistance For Firms - Case History

Innovative Program Helps Synthetic Spun Yarn Manufacturer Compete Successfully in Market Dominated by Low-Cost Foreign Producers

Brodnax Mills, Inc. of Brodnax, Virginia

Contacts: **Mr. David Kerr, III, Chairman, Brodnax Mills, Inc. (212) 869-1414**

Mr. William J. Bujalos, Director, MidAtlantic TAAC, (610) 825-7819

The Situation Brodnax Mills, Inc., formed in 1934 and a maker of synthetic and blended spun yarns for the apparel and textile industries became concerned for its future when customers began sourcing lower cost imports. The company was in its third year of declining sales, employment, and profits. Sales had declined more than 35%; employment was down a third and it found itself operating below breakeven.

The Solution With the unique assistance provided by TAA, MidAtlantic TAAC and the company's management developed a recovery strategy with specific actions to substantially upgrade its management information systems and develop a strong marketing function to secure a successful niche within an increasingly difficult market. Lacking the expertise to accomplish these objectives, Brodnax management, with assistance from MidAtlantic TAAC identified and contracted with private sector specialists to implement these projects using the TAA program's cost-shared technical assistance.

The Results As a result of the assistance provided by TAA, Brodnax Mills was able to implement its strategy in a timely manner with competent outside expertise. Since implementation began, the company has achieved its MIS upgrade and is now considering next steps for the marketing enhancement.

Since Brodnax Mills, Inc. was initially certified as trade impacted:
Sales have increased 17.3%, and sales per employee (productivity) have improved by 26%.

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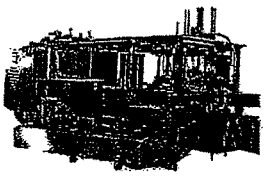
Trade Adjustment Assistance for Firms – Case History

Midwest manufacturer doubles sales and employment in two years with hard work and help of Federal funds.

Johnson Cheese Equipment Inc. – Windsor, Wisconsin

Contact: **Gary Nesheim, President, Johnson/Nelles Corporation (608-846-5711)**
Howard Yefsky, Executive Director, Midwest TAAC (312-368-4600)

The Situation In the late 1990's, Johnson Cheese Equipment Inc. and related Johnson/Nelles Corp. found it increasingly difficult to compete with aggressive cheese equipment manufacturers from Europe, especially "copy-cat" competitors from Italy. In addition to this intense import pressure, the firm's long lead times, narrow product line and limited marketing initiative contributed to a 39% drop in sales and a 25% drop in employment in one year.



The Solution In tandem with the Midwest TAAC, Johnson management devised a recovery strategy focusing on three key areas. First, improve delivery by implementing a new integrated information system with production scheduling capabilities. Second, broaden market appeal by modifying Johnson's high-end cheesemaking equipment for less complex applications. Lastly, strengthen brand recognition by developing new marketing materials. Private sector experts expeditiously implemented all three projects simultaneously, using cost shared funds from the Trade Adjustment Assistance program.

The Results The new information system with production scheduling capabilities was instrumental in cutting lead times in half, thereby dramatically increasing production capacity, improving efficiency and reducing costs. Product modifications, along with new marketing materials, allowed the company to reach a whole new sector of customers and compete head-on with the Europeans. Sales and employment doubled in two years.

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Trade Adjustment Assistance For Firms - Case History

Hawaii Firm Achieves Competitive Positioning Against Lower-Cost Imported Products

Paradise Flower Farms, Inc. of Kula, Maui, Hawaii

Contacts: Ms. Teena Rasmussen, President, Paradise Flower Farms, (808) 878-2591
Mr. David Holbert, Executive Director, Western TAAC, (213) 743-2723

The Situation A family business, Paradise Flower Farms produces and markets cut spring flowers, floral garlands and other floral products, primarily for the Hawaii market. The firm had grown steadily due to efficient operations and an established reputation statewide. In the mid-nineties he company began experiencing strong price competition from a combination of Caribbean, Latin American and Asian production sources that enjoy far lower labor and land-related costs.

The Solution Western TAAC and the firm's management developed a strategy to shift production emphasis to less impacted flowers and excel at marketing and service for the Hawaii retailers as well as for certain products sold off island and through the internet. With the TAA program's cost-shared technical assistance, Western TAAC contracted with a private sector specialist to create marketing programs as well as to improve the firm's web site and information systems relative to marketing capabilities overall.

The Results The firm has embarked on a period of steady sales increases led by increasing sales through a highly successful website primarily featuring leis. Technical assistance was instrumental in this growth. Since beginning the TAA program, the firm's sales increased 38% and employment is up 56%, with further increases anticipated. According to the firm's owner: "The [Western TAAC Project] led us to think differently about our firm…This was the catalyst for taking our company to a new level."

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Trade Adjustment Assistance For Firms - Case History

Inspired Family Business Beats the Odds Competing with Low-Cost Imports

Tropical J's, Inc. of Honolulu, Hawaii

Contacts: Ms. Jeri Barnes, President, Tropical J's, Inc., (808) 848-0888
Mr. David Holbert, Executive Director, Western TAAC, (213) 743-2723

The Situation

Tropical J's owners Gary and Jeri Barnes have been highlighted often in the media with their gutsy run at starting an innovative business. The business began with umbrellas made out of colorful and exciting aloha fabrics, moving beyond plastic and monotones. However, knockoff importers with fractional cost factors excelled in price competition. Tropical J's expanded into high-quality shade umbrellas. While an outstanding value given their longevity, the umbrellas were more expensive than those from developing countries. Tropical J's then expanded into awnings and temporary housing, all extraordinary products noted for creativity. Despite these innovations sales had peaked as import competition took its toll.

The Solution

Working with Western TAAC, the firm's management developed a strategy to expand sales of its successful canvas products through improved business operations so as to position itself as the high quality, high service leader in the region for these products. Western TAAC employed the TAA program's cost-shared, technical assistance to engage private sector consultants to improve production controls, upgrade accounting and costing systems, and implement multiple aspects of its marketing plan. Other aspects of the strategy were carried out directly by the company, its owners now freed from being required to be on site day to day.

The Results

With the unique technical assistance provided by the TAA costs are lower and prospects have improved. Already sales are up and employment has increased. Substantial results are expected in the coming years.

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Trade Adjustment Assistance For Firms - Case History

Innovative Program Helps Medical Device Manufacturer Compete Successfully with Low-Cost Foreign Producers

American Medical Sales, Inc. of Hawthorne, California

Contact: Mr. Daniel Giesberg, President, American Medical Sales, (310) 219-3200
Mr. Daniel Jimenez, Project Manager, Western TAAC, (213) 743-2723

The Situation American Medical Sales, Inc., a manufacturer of medical X-ray illuminators and other medical imaging accessories, successfully sold its products to hospitals, clinics and individual health care professionals for over 40 years. In the early 1990's increasing low- cost foreign competition and dramatic consolidation within the entire medical industry required a strategic shift in where and how the company sold its products.

The Solution Western TAAC and AMS management focused on the development and implementation of export marketing, sales and promotion to expand sales into promising offshore markets; reposition the company's national marketing and sales to meet the changing US market, purchasing demands; and upgrade the information system to support production cost cutting and support for electronic marketing and sales. Using the TAA program's cost-shared technical assistance, Western TAAC and the company's management worked together to identify and to contract with private sector consultants to implements these projects.

The Results As a result, AMS implemented a new web site to support both domestic and export sales efforts; established relationships with several key large domestic customers; established new export distribution and new accounts into Asia, Europe, and Latin America; upgraded the information system which enabled the firm to develop a web site, bringing the majority of its marketing materials production in house, as well as helping to streamline operations which contributed to overall productivity. Since the company was certified as trade-impacted annual sales have increased 35% and employment increased over 18%.

The U.S. Department of Commerce, Economic Development Administration sponsors this small, highly successful program. Regionally, a network of Trade Adjustment Assistance Centers (TAACs), located at universities and non-profits, work directly with participating firms. USC's Western TAAC operates the program in California, Arizona, Nevada and Hawaii. Trade Adjustment Assistance for Firms helps U.S. based manufacturing and producing firms compete more effectively where increased imports threaten U.S. jobs and business survival. Nationwide, the program produces outstanding results.

Trade Adjustment Assistance For Firms - Case History

Innovative Program Helps Arizona Firm Compete Successfully with Low-Cost Foreign Competitors

Hamilton Aviation of Tucson, Arizona

Contacts: Mr. Gary Ferns, Chief Financial Officer, Hamilton Aviation, (520) 294-3481
Mr. Daniel Jimenez, Project Manager, Western TAAC, (213) 743-2723

The Situation

Hamilton Aviation, is a full-service aviation maintenance and aircraft modification facility. In the early 1990's the air cargo industry experienced an increase in price competition by foreign competitors and resulted in a consolidation of maintenance and modification facilities. Many foreign competitors are located in low wage economies. Hamilton. Ike much of the U.S. industry, experienced a drop-off in business.

The Solution

Western TAAC and the company's management developed a strategy to target niche markets where the company could establish a competitive advantage. The strategy guided the firm to focus on selected narrow body commercial jet aircraft, develop proprietary products for the targeted aircraft; expand marketing and sales operations to exploit worldwide sales opportunities; and improve operations to shorten turnaround time and lower costs. The company implemented its marketing, engineering and staff training projects using internal resources. Using the TAA program's cost-shared technical assistance, Western TAAC and the company engaged a private sector consultant to implement an extensive and complicated upgrade of the company's information system to support implementation of this strategy. This project was successfully completed in January 1999.

The Results

Since certification into the Trade Adjustment Assistance for Firms' (TAA) program, the company's sales have increased 47% and employment has increased 154%. The large increase in employment indicated the high volume of work in process and anticipated growth in coming years.

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Trade Adjustment Assistance For Firms - Case History

Multiple Projects Enhance High Tech Manufacturer's Market Presence

Marlow Industries, Inc. of Dallas, Texas

Contact: Mr. Chris Witzke, Sr. Vice President, (214) 340-4900
Mr. Robert Velasquez, Director, Southwest TAAC, (210) 458-2490

The Situation

Marlow Industries, Inc. is engaged in the design and manufacture of thermoelectric coolers for high technology military, space, and industrial markets. These market segments stabilized and then began to decline, causing the firm to seek commercial and consumer applications. In these segments they encountered import competition from Russia, China, and Japan. Employment declined 31%, and annual sales had dropped 14%.

The Solution

With assistance provided by TAA, the Southwest TAAC and Marlow management received assistance in the areas of marketing, management information systems (MIS), and manufacturing. The marketing projects increased domestic and international sales to the commercial and consumer segments, resulted in ISO 9001 certification, and had the firm open a branch office in Japan. The MIS project implemented an MRPII (Manufacturing Resource Planning) system, which included reporting modules and customized software development. The manufacturing implemented an improved reliability evaluation process as a means of shortening new product lead times.

The Results

As a result of TAA funding, the firm has completed most projects, including those listed above, and is preparing to complete its final project, the certification to ISO 14000 standards.

Since Marlow Industries, Inc. was initially certified as trade impacted: **Sales increased by 234% and employment increased by 243% since the year of certification.**

The U.S. Department of Commerce, Economic Development Administration sponsors this small, highly successful program. Regionally, a network of Trade Adjustment Assistance Centers (TAACs), sponsored by universities and independent, non-profit organizations, work directly with participating firms. The Southwest TAAC operated by the **University of Texas at San Antonio** assists firms in Texas, Louisiana, and Oklahoma. Trade Adjustment Assistance for Firms helps U.S. based manufacturing and producing firms compete more effectively where increased imports threaten U.S. jobs and business survival. Nationwide, the program produces outstanding results.

Case History

Endorphin Corporation
Pinellas Park, Florida

Contact: Jeff Matchette
727-545-9848

SETAAC

Contact: Paul Lewis
404-894-6789

Situation:

Endorphin manufactures exercise related weight sets sold predominantly to prisons and high schools. Over the last several years, Endorphin experienced increased competition from imported products that began to erode the firm's market share. At the time of certification, the company was in transition, trying to develop new proprietary equipment that could be sold to the mass-market. The firm lacked the cash flow and expertise to launch a major new consumer product line.

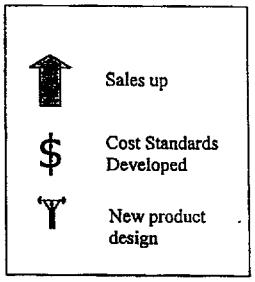
Solution:

During the diagnostic analysis, SETAAC and company owners agreed that the firm would benefit from projects targeted toward increasing sales, quantifying cost, revising the plant layout, and designing new components for a new promising freestanding exercise equipment line. The firm gained new insight into operations specifically due to the diagnostic phase of the program. SETAAC provided tools and training to develop variable costs and presented a breakeven analysis model for use by the company.

Results:

Endorphin, using TAA funding completed a marketing plan, developed sales brochures, implemented a cost tracking system, developed job descriptions and an organization chart, implemented a new plant layout, and designed a new handle for a piece of training equipment.

The combination of these projects and the firm's acquisition of a smaller competitor has led to a twofold increase in sales. Management attributes a portion of this increase to SETAAC funded projects.



The U.S. Department of Commerce, Economic Development Administration sponsors the small, highly successful Trade Adjustment Assistance for Firms program. It is a network of regional TAA centers located at universities and not-for-profits working directly with manufacturing and agricultural firms impacted by imports. The Southeastern TAAC is located on the campus of the Georgia Institute of Technology in Atlanta, Georgia. The southeastern region includes the states of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.

Case History

Agora Sales, Inc.
St. Petersburg, Florida

Contact: Subhash Dave
727-321-0707

SETAAC

Contact: Paul Lewis
404-894-6789

Situation:

Agora occupies a niche in the customized leather and man-made case industry. The company was suffering from competition from imports, a lack of strategic direction with which it could grow the firm, and in-plant problems due to bottlenecks in material flow.

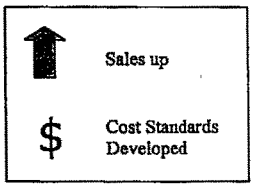
Solution:

Both SETAAC and company management decided that the firm could benefit from plant layout assistance and a better understanding of product labor costs. The plant layout project was essential because the firm was already in a location that was not serving its current level of sales, and therefore, could not satisfy management's desire to grow the business. In addition, the firm needed to understand its costs because it was producing several thousand different types of products per year without a firm grasp of either the material or labor costs attributed to each product.

Results:

Agora implemented both the plant layout and labor standards/product costing projects. As a result, the firms' new layout allowed the firm to remain in its existing facility and eliminated the need to move to a larger, more expensive facility.

The new labor standards project provided the firm with the information it needed to be able to manage product line pricing and profitability.



"We have been very satisfied with the SETAAC process. In particular, we have found the quality of the consultants associated with the program, especially those from Georgia Tech, to be excellent. While our dramatic doubling in sales cannot be directly attributed to the program, our ability to manage the growth internally can be."

Subhash Dave, President

The U.S. Department of Commerce, Economic Development Administration sponsors the small, highly successful Trade Adjustment Assistance for Firms program. It is a network of regional TAA centers located at universities and not-for-profits working directly with manufacturing and agricultural firms impacted by imports. The Southeastern TAAC is located on the campus of the Georgia Institute of Technology in Atlanta, Georgia. The southeastern region includes the states of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.

Case History

A&M Thermometer, Inc.
Asheville, North Carolina

Contact: Madeleine Pflaumbaum
828-251-9092

SETAAC

Contact: Paul Lewis
404-894-6789

Situation:

At the time of certification, A&M was loosing significant portions of its business base with its distributor network as a result of the distributors replacing A & M thermometers with imported products from Germany and China. While waiting to be certified for the TAA program, the firm's sales continued to decline to a point where the firm was having difficulty making payroll.

Solution:

Both SETAAC and company management determined that A&M could greatly benefit from the pursuit of ISO certification. By becoming certified, A&M would be the only domestic or imported thermometer manufacturer with a quality designation. It was believed that this type of certification could become a significant competitive advantage for the firm. A&M received its certification in record time, after only six months, thanks to the dedication of management and its previous work with the National Institute of Science and Technology (NIST) standards.

Results:

Because of the ISO certification, the firm was able to secure a major orders for its industrial thermometers, ultimately resulting in a 50 percent increase in sales revenue. A&M is still one of only a few thermometer manufacturers worldwide that has secured ISO certification. In addition to the dramatic sales increase, A&M Thermometer has been named North Carolina Small Manufacturer of the Year two years (1998 & 1999) in a row and was recently awarded the Sky High Growth Award by the Asheville Area Chamber of Commerce (1999).

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Case History

Northwest Trade Adjustment Assistance Center (Northwest TAAC)
(Alaska, Idaho, Montana, Oregon, Washington)

Design of Hydroelectric Dam Leads to Increased Revenues.

Faulkner Land and Livestock, Inc., Gooding, Idaho

Contact: John Faulkner, President, Faulkner Land & Livestock, Inc. (208) 934-4956
Gary G. Kuhar, Executive Director, Northwest TAAC (206) 622-2730

The Situation

Faulkner Land and Livestock, Inc. raised lambs for their meat. Cheaper priced imports from New Zealand and Canada were eroding its markets. Sales had dropped about 10 percent and employment almost eight percent.

The Solution

Northwest TAAC helped the company develop a recovery strategy. The strategy was to reduce costs and increase revenues to tax and compete with the imports on price. Northwest TAAC and the company hired a consultant to see if costs could be reduced. Even though costs were cut, Faulkner still could not compete based on price with the lower priced imports. The second phase of the strategy was to increase revenue. Since the market had been flooded with cheap imports other revenue sources were identified. Faulkner land was very steep and had a small river running through it. Northwest TAAC, along with the company, hired an engineering firm to design a small hydroelectric dam for Faulkner's property. The design was completed and the dam built by Faulkner. Now the company sells electricity to the local power grid.

The Results

The added revenue allowed Faulkner to survive. This gave the company "breathing room" to outlast the cheaper imports of this commodity type produced. With the shakeout of the competition the company has increased its sale of lamb by 25 percent with employment almost back to pre-certification levels.

Since Faulkner was initially certified as trade impacted:
Sales increased 25%, employment almost back to pre-certification levels.

Case History

Northwest Trade Adjustment Assistance Center (Northwest TAAC)
(Alaska, Idaho, Montana, Oregon, Washington)

Defacto Industry Project Created by Combining Multiple Pear Growing Clients into Large Marketing and Cost Cutting Projects

Associated Fruit Company, Phoenix, Oregon
Contact: Dan Hull, (503) 535-1787
Crystal Springs Packing Company, Inc., Medford, Oregon
Contact: David Culbertson (541) 772-4298
Reter Fruit Company, Medford, Oregon
Contact: Monty Penwell, (541) 772-5256
Gary G. Kuhar, Executive Director, Northwest TAAC (206) 622-2730

The Situation

Oregon, Washington and northern California is a major winter pear growing region in the U.S. A winter pear is of the multiple varieties of pears harvested in late October as opposed to summer pears harvested in May and June. The primary harvesting period in the southern hemisphere is in October also. So cheaper imported pears from Chile and Argentina were impacting the markets these three pear companies had in the U.S. On average these three companies were experiencing over 10 percent decline in sales or revenues and almost an average 30 percent decline in labor due to the cheap import competition.

The Solution

The companies and Northwest TAAC developed a two pronged recovery strategy. The strategy was to cut costs and develop a new national marketing strategy to find out in what form consumers wanted their pears and to develop new pear products to fulfill those described. A national consulting firm was hired by Northwest TAAC and the companies to implement this strategy.

The Results

The consultants identified several new product forms and a desire by consumers to purchase pears that were riper than those normally sold. In addition, cost cutting recommendations were made, particularly in the packing phase. Sales and employment are both increasing as these recommendations are being implemented.

Since these companies were initially certified as trade impacted: **Sales are approaching pre-decline levels and the companies are operating more efficiently with fewer employees. Those employees have a more secure future.**

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS – CASE HISTORY

Innovative Program Helps Novelty Jewelry Manufacturer Increase Time-to-Market with Innovative New Products

Preco Manufacturing. Inc., Liverpool, NY

Contact: **Mr. Doug Ingalls, President, Preco Mfg., Inc. (315) 453-1424**
Mr. Lou McKeage, Director, NYS TAAC (607) 771-0875

The Situation

Preco makes sterling silver stud, hoop, lever-back, post, and dangle earrings, adjustable finger and thumb rings, and body jewelry, which it markets, primarily, to teenagers. From its beginning in 1990, through 1997, Preco enjoyed steady growth with sales peaking at $2.5 million at year-end 1997. However, as Preco was growing, so was competition from foreign producers, mainly from the Orient. These competitors could produce product much faster and cheaper than Preco. Preco was being pushed out of the market, and by the end of the first six months of 1998, when the firm was certified, Preco's sales had been cut in half due to imports taking away its customers. Employment was at a low of 20.

The Solution

Preco had to be quicker to market with its products, and to do this it needed the skills to take a concept design and construct working models, which would be used to build master molds. With the assistance from the NYS TAAC, Preco had a model/mold design consultant analyze the firm's current products and develop prototype products in line with corporate strategy. The consultant then taught management how to take new concept designs through to final master mold production. Having these skills in house gave Preco new hope for a prosperous future.

The Results

Preco learned to produce product that is market driven and produced in a very timely manner. New and fresh product is now arriving in the marketplace when demand is highest, and in many instances beating imports by weeks. Preco has also picked up a large contract to supply product to 26 Six Flags' parks in the U.S. and three of Six Flags' theme parks in Europe. Preco's new skills have management optimistic about the future. New customers, including the new relationship with Six Flags has increased Preco's sales to $4.0 million at year-end 2000 (a 60 percent increase since certification) and employment has increased almost 30 percent to 29.

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TRADE ADJUSTMENT ASSISTANCE FOR FIRMS – CASE HISTORY

Innovative Program Breaths New Life Into Manufacturer of Custom Designed and Built Office Furniture

Rialto Furniture Company, Inc., Brooklyn, NY

Contact: **Mr. Ted Hovivian, President, Rialto Furniture Company, Inc. (718) 599-0800**
Mr. Lou McKeage, Director, NYS TAAC (607) 771-0875

The Situation

Rialto manufactures high-end office furniture, designed, built, finished, and upholstered to customer specifications. For more than 45 years, the firm enjoyed a prosperous business climate and expanded its operations to keep pace. Since the mid-'80s Rialto has experienced steadily increasing competition with cheaper foreign imports. Canada and Mexico have been flooding the market as well as the Republic of Russia. All this was happening at a time when corporate downsizing was also impacting the amount of used office furniture available on the market.

The Solution

With the assistance of the NYS TAAC, Rialto identified the need for a strategic marketing plan. Rialto management had never done a marketing plan, partly because business was so good, and partly because they did not have this expertise in house. With the help of the NYS TAAC, they found a marketing specialist to lead them through the process of developing short and long-term marketing goals, identifying new geographic sale's territories, addressing budgets, planning sales volumes, and identifying new sales tools.

The Results

Management and customers have noticed efficiencies in and around the plant as a result of the projects. German Machine was awarded the contract with the automobile manufacturer and is in the process of developing new bids for additional automotive parts work. At year-end 2000, a few short months after the ISO certification, German Machine's sales had increased to $2.0 million, a 60 percent increase since certification. Employment saw an increase of 20 percent.

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Denise Froning, Policy Analyst, Center for International Trade and Economics
The Heritage Foundation, Washington D.C.

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

Hearing on Trade Adjustment Assistance Reauthorization

Required Information Under House and Senate Rules

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I would like to thank the Chairman and Members of the Subcommittee for the opportunity to speak on Trade Adjustment Assistance (TAA) here today. I am a trade analyst at The Heritage Foundation, a non-profit, non-partisan think tank in Washington.

The TAA program was established under the Trade Act of 1974 and is administered by the Employment and Training Administration in the U.S. Department of Labor. The program's goal is to offer assistance to eligible workers who are adversely affected by trade. Available assistance includes job training, Trade Adjustment Allowances (TRA), job search, relocation and other services concerning re-employment. The current TAA authorization will expire on September 30, 2001, and new legislation (HR 85) has been introduced that would reauthorize the TAA program through FY 2006.

Problems with the Current TAA program.

Despite widespread support for the objective of the program, the effectiveness of the TAA program has likewise been subject to widespread debate. One concern expressed is whether a special program for trade-related job losses should exist. Based on the rationale that job displacements caused by foreign competition are no different from job displacements caused by any other form of competition, the Reagan and first Bush administrations each attempted to consolidate the TAA program with other existing job training programs. Indeed, the number of workers affected by trade is minimal compared to those who lose their jobs for other reasons: of the 3,245,034 workers who were laid off and filed for unemployment insurance between 1997 through 1999, only 2.1% lost their jobs due to import competition or overseas relocation. This percentage is lower than the number of people who lost their jobs due to labor disputes during the same time frame.

Many have also criticized TAA's overall effectiveness, as well as its ability to monitor its own success rate. Specifically, the criticism has focused on the program's inadequate attention to performance measures and failure to conduct proper evaluations on what results program participants achieve. The TAA program does not measure results. Instead, the Department of Labor and the ETA set goals for the number of assistance programs each center implements per year, not whether the aid proves successful.

In addition, the U.S. Trade Deficit Review Commission conducted a survey on the effectiveness of the TAA, which revealed that, of the 46 state workforce agencies that responded, 19 considered the TAA programs "inadequate." Of the 23 agencies that considered the programs adequate, 19 responded that there was need for "improvement." The state agencies complained that the regulations for the TAA programs are unnecessarily complex and create needless red tape.

While the Department of Labor tightened controls after an Inspector General's Report in 1993 found that the TAA system was subject to a number of abuses, the controls themselves have not been evaluated for their effectiveness.

Worse, instead of offering fast, effective help to displaced workers, the TAA program has become a mere compensation procedure, effectively acting as a disincentive for workers to quickly find new employment. This is possible under the TAA program because workers are allowed to obtain a training waiver, which allows them to collect the cash payouts (the Trade Readjustment Allowance, or TRA) without enrolling in any classes. According to the Department of Labor, 38% of TAA participants who left the program in

1999 received some type of training waiver, more than the number of displaced workers that enrolled in those training courses. The numbers bear out this fact: Between 1995 and 1999, TAA spent $663.6 million for basic allowances, $239.7 million for additional allowances. This totals $903.3 in five years for payouts. Meanwhile, only a third as much went to training costs in the same time period. And only $9 million – or one hundredth as much - over those five years went to job search and relocation costs, in part because so few of the TAA-eligible workers chose to use these elements of the benefits program.. According to the GAO October 2000 report, "Most state officials we surveyed said job search and relocation benefits have not been heavily utilized because workers are reluctant to move to new areas, primarily because of family commitments or ties to the community."

Even if more funds had gone to the training aspects of the program, the Institute for International Economics, among others, criticizes the training programs for lack of effectiveness, pointing out that "Workers have no guarantees of employment when they finish the training programs. For this reason there is broad consensus that the best training is delivered on the job, or if workers are already at a job, then in supplemental programs that workers help pay for themselves and choose to attend at night or other off hours."

Other problems with the TAA program include:

- The program as it stands does not address earning loss after reemployment. Some limited data suggest that 75% of workers who left the program found new jobs, but many earned much less that their former wages.
- Poor program tracking system: Despite some improvement in monitoring program outcomes, data collection for such purpose is still poor. Thus accountability for the program is lacking because it is difficult to find out just what success the program is having. For fiscal year 1995 through 1999, an average of $9.8 million was given to each of the 12 regional Trade Adjustment Assistance Centers (TAAC) operating under cooperative agreement with Economic Development Administration (EDA). The effect of the program, however, is not conclusive since there is no formal evaluation process (monitoring or tracking) for program results, and as a result, there is no information necessary to assess TAACs' performances.
- Weakness in internal control. Some reports indicate that workers may receive benefits for which they are not eligible, through the program's internal control weakness.

Conclusion and Recommendation:

The TAA program does not work as it is designed. The current TAA program has failed to provide effective assistance, one of the crucial factors for a successful adjustment program. If the aim of such programs is to help workers find new jobs, then we should eliminate TAA over time and fund a program that provides incentives, not disincentives, for workers to do just that.

Wage insurance is one such proposal that has won widespread support. The bipartisan Congressional Trade Deficit Review Commission recommended "wage insurance" as a more comprehensive worker adjustment solution. Robert Litan of the Brookings Institute and Lori Kletzer of IIE proposed putting wage insurance at the centerpiece of a more effective adjustment program, attracting support from a broad spectrum of policy makers and free trade proponents. Two programs Litan and Kletzer propose are wage insurance and subsidies for health insurance.

- Wage insurance would allow qualifying displaced workers to receive benefits upon reemployment, protecting workers from the loss of income that can result from finding a new job that does not pay as well. This applies to workers who have been employed at their previous job for at least two years, and in moving to the new job, suffered an earnings loss that can be documented. The insurance would be paid only after workers find a new job. The workers would receive the wage insurance for up to two years following the initial date of job loss;
- Health insurance subsidies would be provided to qualifying displaced workers for up to 6 months, or until they found a new job;
- Both programs would provide benefits to full time workers who have been dislocated, for any reason (not just trade), from jobs they had held for a minimum of least two years.

In particular, Litan and Kletzer argue that wage insurance would fix a deficiency of the current TAA program. Unlike the current program, which works as a disincentive for rapid reemployment, the proposed wage insurance program would strongly encourage workers to quickly find new jobs since they would not receive the assistance until this takes place.

A central issue in this reauthorization debate is the question of what is the proper role of government in the United States. If we decide that among government's duties is to give money to workers who have lost their jobs, for whatever reason, then we should do it effectively and efficiently. Ensuring the existence of an effective program will fulfill our responsibility to all Americans whose livelihoods are affected through the taxes they have to pay in order to make any such program possible. It is a betrayal of this responsibility to continue to fund a program that has been proven ineffective, and which cannot even measure its own results or lack thereof.

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