FEDERAL PROCUREMENT AND INTERNATIONAL TRADE: ASSESSING THE FEDERAL GOVERNMENT'S EFFORTS TO MEET THE NEEDS OF LOCAL SMALL BUSINESSES

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

NORWALK, CA, SEPTEMBER 3, 2002

Serial No. 107–68

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

82–504 WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
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FEDERAL PROCUREMENT AND INTERNATIONAL TRADE: ASSESSING THE FEDERAL GOVERNMENT'S EFFORTS TO MEET THE NEEDS OF LOCAL SMALL BUSINESSES

TUESDAY, SEPTEMBER 3, 2002

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

The committee met, pursuant to call, at 9:00 a.m., at the Norwalk City Hall, Council Chambers, 12700 Norwalk Boulevard, Norwalk, California, Hon. Donald Manzullo presiding.

Chairman MANZULLO. Good morning. The U.S. House of Representatives Committee on Small Business will come to order. Before I give my opening statement, first I am going to defer to my distinguished colleague that represents this Congressional District. Grace, I will let you go first. But before you do that, I just want to share with you the joy it is to be out here in sunny California.

I spent a semester at Pasadena City College, just a few years ago, Grace, back in January of 1963, on an interesting course through college. I really fell in love with the weather here. I also realized at that time how very practical your community college system is. There we had a four-hour course in speaking Spanish, and, unfortunately, Grace, I didn't keep up with it. And otherwise, I would have been invited to become a member of the Hispanic caucus.

Because you may wonder, with a name like M-A-N-Z-U-L-L-O, is it—pronounced Man-zoo-low or Man-zway-low. You can pronounce it however you like, and we just have a lot of fun with that name. It's Italian, like Grace's husband.

I am proud to represent the 16th Congressional District in Illinois, but our Congressional District is a little bit different than yours, Grace, but in a sense it's similar because we have a lot of suburbs.

But our Congressional District starts at the Mississippi River, and it runs all the way across the top of the state to within one county of Lake Michigan. It's about a three-and-a-half-hour drive, and we have the two fastest-growing counties in Illinois, plus we have Rockford, Illinois, which is the machine tool center of the country. It has a 30 percent manufacturing base. Then as you go westward towards the Mississippi River, we have huge agricultural and value-added food processing facilities. So it's a Congressional District that has just a lot of things in it that make it for a very interesting mix.

Congresswoman Napolitano, I'll leave it to you to make your opening statement.

Mrs. NAPOLITANO. Thank you, Chairman Manzullo. It is a pleasure for me to have the Chairman of the Small Business Committee in Norwalk to listen to our business issues, especially when it deals with government access to the procurement business, which is so vital to our areas, not only Southern California, but specifically the 34th Congressional District.

Chairman Manzullo, the fact that this area had double-digit unemployment due to the departure of one of the biggest defense manufacturers has created a lot of problems, and so one of my jobs is to make sure that we assist all business, small, medium and large—we have very few large—be able to be successful in knowing what is out there, not only in city procurement, county, state, but also specifically federal procurement.

And the idea being that if we help our business be able to have the ability to know how to be successful, then it's up to them to be able to do it, and we want to be sure that our agencies are in tune with that and that we are able to help both sides be able to increase sales in our area, because I need the jobs, very simply. I need the employment in the area.

Mr. Manzullo, I believe that Mrs. Millender-McDonald broke her ankle, and might come. Loretta is supposed to be here, so she may be coming in off and on, but I certainly thank you for your true nature of love for business, for consenting to come to Southern California and meet here.

And, while there is only two of us, you would be surprised what we have done before together. We are a Republican and a Democrat, and yet we work for business. There is no political line when it comes to small business. And I thank him for that.

And I also must thank the city of Norwalk for facilitating this nice City Council chambers, where I have been before. I used to be mayor of this city. And my staff and all the staff who worked on this. It takes a lot of work, including Mr. Manzullo's staff, to put this together. And the agencies who are cooperating, and it's good to see some of my old—one of my old colleagues who is now in government, in federal government, Mr. Thompson. Welcome, it's good seeing you, truly. So thank you very much. We will move on.

We hope that today brings you a little more insight and the ability to connect and contact the agencies that are here. Please feel free to talk to them. SBA has ten consultants outside the courtyard, ready to help answer questions throughout the meeting. Don't feel like you need to sit, and if you need to ask them questions, they are here to do just that. So with that, Mr. Chairman, thank you, I will turn it over to you.

Chairman MANZULLO. Thank you. Let me acknowledge Donna Jimenez. Donna, where are you? Why don't you stand up. Donna is representing Congressman David Dreier, who can't be with us today. Thank you for your participation. I appreciate it very much.

Just to give you some of the rules, I know it won't happen here, it's happened in some field hearings, but unlike what you might see on C–SPAN during the House of Representatives, during the committee hearing, we don't allow—what's the word for them?—any displays of emotion. You can smile, you can chuckle if you want. But no booing or hissing. I know that's not going to take place.

You ought to see what has happened at some hearings. But that is not going to happen here. Sometimes the issues are a lot more complex and divisive.

We have a five-minute clock, and the purpose of that is to facilitate the testimony. When it gets to 30 seconds to go, I will try to gently tap like this, and then I would like you to sum up within 30 seconds. Okay.

All the written testimony of the witnesses will be accepted for the official record. If anybody in the audience wishes to give any testimony, any written testimony, if you could keep it to under two pages, two 8½-by-11 pages, single spaced, I will keep open the record for a couple of weeks, and then if you could get your testimony over to Ms. Napolitano, she will make sure it gets to our office and is made part of the complete record.

Most of you have never testified before a Congressional committee. The first thing I want to tell you is relax. Nobody is going to put you under oath. Nobody is going to accuse you of doing anything wrong. I sit on the Financial Services Committee, and we went through that with MCI WorldCom. I just want to let you know you are real people out there, not those clowns that come in from those bogus corporations and do the huge injury that they've done.

So let's start with our first witness Bruce Thompson. Bruce is the regional administrator of Region Nine for the Small Business Administration. And Bruce came in from San Francisco for us this morning. Bruce, we look forward to your testimony.

Mr. THOMPSON. Thank you, Mr. Chairman, and Congresswoman Napolitano. Is this on?

Chairman MANZULLO. It is, but it's very soft.

[Whereupon discussion was held off the record.]

STATEMENT OF BRUCE THOMPSON, REGIONAL ADMINISTRATOR FOR SBA REGION 9, SAN FRANCISCO, CALIFORNIA

Mr. THOMPSON. Mr. Chairman, Congresswoman Napolitano, thank you for convening this field hearing to discuss the important issues of federal procurement and international trade as they relate to small business.

I am Bruce Thompson, the U.S. Small Business Administration's Regional Administrator for Region 9, which includes California. I am pleased to be here today representing Administrator Hector Barreto and having the opportunity to discuss SBA's role in these areas. Here with me in the audience is Alberto Alvarado, our District Director for Los Angeles, and his very capable staff are also here.

Chairman MANZULLO. Why don't you have them stand.

Mr. THOMPSON. Would you please stand up? I didn't want to do that with my five minutes.

Chairman MANZULLO. That's okay. We won't penalize you for it. So people know to whom to go for help.

[All stand.]

Mr. THOMPSON. Great people. Great people. Also, Martin Selander, our SBA's USEAC representative, is here, and Nick Manalisay, a Procurement Center representative, is also here.

It is the mission of the SBA to help entrepreneurs realize the American dream of owning and expanding their businesses. I think President Bush said it best when he said, and I quote, "The role of government is to create an environment in which people are willing to take risk, an environment in which people are willing to risk capital, an environment that heralds the entrepreneur and small businessperson."

I am pleased to report that over the last three years, SBA's Los Angeles District Office has led the nation in providing $2.8 billion in financing to more than 7,000 small businesses, including over $1 billion to over 4,000 minority and women-owned businesses.

The SBA is committed to representing small business men and women as an effective and efficient 21st century national organization, an organization that focuses on simplification, innovation, and dedication, in order to create a climate in which entrepreneurship can be both encouraged and sustained, a climate that ensures that small businesses have a maximum opportunity to compete for available procurement dollars.

To that end, the SBA is working with the Office of Management and Budget as the President called for in his small business agenda on task force dealing with issues vital to small business access to federal procurement data. They are full and open competition and contract unbundling. It is important to note that this President has made it clear that he expects more than task force reports. He demands results.

For 34 years, the SBA and industry have come together to conduct a procurement conference. This year for the first time, the SBA included matchmaking as part of this event. As a result, 1,000 appointments between qualified small businesses, federal agencies, and prime contractors were conducted. Due to its success, the SBA is taking this matchmaking program to 12 locations across the country.

Additionally, the SBA is conducting a top-to-bottom review of the 8(a) business development program to ensure effective management and efficient delivery, and we are also developing an online 8(a) application to dramatically simplify the process.

Another initiative under way is the SBA's online procurement academy to train entrepreneurs, and, as you may know, the SBA has plans to restructure its workforce, including the Procurement Center representatives, to bring them closer to customers.

In your district, Congresswoman, we are very supportive of the President's goal to improve small business access to federal procurement opportunities. During the fiscal year of 2001 a total of 170 federal government procurements were awarded to small business concerns in the district for $15.9 million, including Philatron International.

Philatron has grown into a highly respected multimillion dollar electronic and electric wire, cable, and hose manufacturer. The company is a graduate of the 8(a) program and is considered the world's foremost expert in coiled cable hose.

America's small businesses want more business. The President and administrative staff are strong champions for small business in the federal procurement system, and, accordingly, as I have briefly described, the SBA is committed to evolving and simplifying our delivery of products and services. We are dedicated to being proactive and delivering procurement opportunities to the small business community.

Thank you for giving me this opportunity to share the administrator's vision, and I will be happy to answer any questions.

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

Chairman MANZULLO. Right in back of you is Phil Ramos, who is the president, secretary, CEO, chief operating engineer and janitor for Philatron. Stand up, Frank. I'm sorry, Phil. Okay. Thank you. [Applause.] We had the opportunity to visit his facility last night.

Our second witness—and I got Phil and Frank mixed up on it—oh, Nick—is Nick Manalisay, is he here? Nick, would you stand up? All right. Everybody turn around and look at Nick. He is the Procurement Center representative for the USDA. What did I say? No, U.S. Small Business Administration. SBA. All right. I need some more coffee. I got the FBI and the AFL/CIO—I'm going to get—all these initials, Grace, with members of Congress.

Anyway, people that are interested in doing business with the federal government, Nick, you're the person to see, is that correct?

Mr. MANALISAY. Yes.

Chairman MANZULLO. Okay. Thank you. Our next witness is Frank Ramos, Director of the Office of the Small and Disadvantaged Business Utilization Department of Defense. Frank is going to talk about Department of Defense's efforts to address the concerns of small business on general procurement practices. Frank, I didn't quite see it in your prepared testimony, but give us a thumbnail definition of what small and disadvantaged businesses are, because there is a little confusion that goes on there. We look forward to your testimony. Once you give the definition, then I'll start the clock. All right? Is that fair enough?

STATEMENT OF FRANK RAMOS, DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION (OSDBU), OFFICE OF THE SECRETARY OF DEFENSE, DEPARTMENT OF DEFENSE, ARLINGTON, VIRGINIA

Mr. RAMOS. That sounds good. I would like to recognize, Mr. Chairman, Congresswoman Napolitano, and a gentleman I introduced you to last evening, Dr. Robert Segura, former dean of the School of Education, Cal State University Fresno. He has been on my staff for two weeks. And we are going to be doing some things there. Is Bob here?

Chairman MANZULLO. Stand up, Bob.

Mr. RAMOS. Mr. Chairman, and specifically Congresswoman Napolitano, thank you for bringing me back home. I am a Fresno, California native, and it's always good to get back to California to get a fix of Mexican food, so thank you.

Let me define what we call small and disadvantaged business. According to the statute, some are firms that are what they call SBA certified 8(a) companies. These companies are socially and economically disadvantaged firms, again certified by the Small Business Administration. There is another group called disadvantaged businesses——

Chairman MANZULLO. If you'd excuse me just a second, we are joined by Congresswoman Loretta Sanchez.

Ms. SANCHEZ. Good morning.

Mr. RAMOS. Congresswoman. I was describing small and disadvantaged businesses. Essentially, what that business is, is one who is, in effect, certifying that they are a small disadvantaged business, not necessarily going through all of the details of the certification process as an 8(a) company, but is certified in part by the SBA that they are, in fact, a small and disadvantaged business.

In that grouping we also have HUBZones. HUBZones are historically under-utilized business economic centers. We are trying to improve their economic well-being. They are important because they also include Native Americans—all reservations are HUBZones in the Native American territories.

We also have, according to the statute, severely handicapped veterans, which have again, a high degree of interest on my part. Then we also have small women-owned businesses that are, again, part of our outreach effort, and really all of the federal government, so just not the Department of Defense but all the Federal agencies.

Chairman MANZULLO. Frank, you're there just for the regular small business, they need some help, they can come to you.

Mr. RAMOS. I'm sorry, sir?

Chairman MANZULLO. This is for regular small business that may not fit into any of those categories.

Mr. RAMOS. Well, they don't enjoy the interest of the economic focus of all the federal agencies, but they are included within our umbrella, Department of Defense, as well as other Federal agencies.

Chairman MANZULLO. So you service everybody?

Mr. RAMOS. Yes, we do.

Chairman MANZULLO. Now we will start the clock.

Mr. RAMOS. Thank you. Again, my name is Frank Ramos. I am the director of Small and Disadvantaged Business Utilization. Essentially I am responsible for all the small business contracting inside of the Department of Defense.

I want to speak to you today about the Department of Defense and its procurement activities within the small business arena. We at the Department of Defense consider small business to be a high priority. The very fact that 88 percent of all Department of Defense prime contractors are small businesses demonstrates how important the small business world is to the Department.

Additionally, our dependence on small business is increasing. In fiscal year 2001 the number of small businesses receiving contract awards grew by 1,825, an increase of 8.2 percent over fiscal year 2000.

Of these 1,825 additional firms, 584 were owned by women and 355 were located in historically underutilized business zones or HUBZones, as I alluded to earlier.

We exceeded the statutory goal of five percent contracting with small disadvantaged businesses, spending 5.7 percent of our prime contracting dollars on purchase from small businesses. Small businesses received over $50 billion of Department of Defense procurement funds last year alone. The Department of Defense regards the contributions of small business as critical and invaluable.

There has never been a more vital need for small business support within the Department of Defense. Neither this department nor our nation could have recovered from the shocking events of September 11th so quickly and effectively without the small business community.

Small business provided the critical surge capacity the Department of Defense needed to begin the rebuilding of the Pentagon and to take on the task of fighting terrorism. These business owners immediately responded to a broad agency announcement issued by the Office of the Secretary of Defense for new ideas to counter this terrorist threat. Small businesses have great ideas, innovative technology, and can respond to our needs with flexibility, speed, and agility.

The Department of Defense has established a Small Business Reinvention Program. This policy assigns responsibility and accountability for the program at the most senior levels within the Department of Defense, and includes solid metrics for gauging success.

Each military department and defense agency is responsible for an annual small business improvement plan. These plans detail special initiatives unique to each Department of Defense component that will enhance small business participation. Each Department of Defense component has targets, and performance will be measured by my office.

Under this initiative, the secretaries of the military departments and directors of the defense agencies will report semiannually to the Under Secretary of Defense, Mr. Pete Aldridge, who in turn will inform the Deputy Secretary of Defense on their performance against the improvement plans and targets.

It is important that we stay in touch with the concerns of the small businesses that supports our requirements. The Under Secretary has, consequently, established small business forums. The Department of Defense Office of Small and Disadvantaged Business Office staff, which has already met with a Wichita, Kansas group of small businesses that produce aircraft components.

My office has strategized with women-owned businesses, brainstormed with Native Americans, and represented the Secretary of Defense on the Board of Directors of the National Veterans Business Development Corporation. These forums identify prime and subcontracting barriers, enabling us to discuss and develop recommended solutions with department leadership and the chief executive officers of the major defense firms. Additionally, we appreciate the support from the Small Business Administration, and we look forward to working with them in the future.

The Army, Navy, Air Force and defense agencies' small business offices are also doing their part to help the Department of Defense meet its goals. They, along with over 500 small business specialists across the nation, are my means to transform the small business acquisition culture in the Department of Defense. And I emphasize culture.

The Department of Defense specialists will foster a cultural shift in the attitude of the acquisition workforce towards small business through new teaching modules. The office of Secretary of Defense, my office, in partnership with the Defense Acquisition University, is creating the first small business training module for executives and program managers. These new modules will explain why the Department's acquisition workforce should value the contributions of small businesses. Future training initiatives will focus on improving the use of Historically Black Colleges and Universities/Minority Institutions, Hispanic-serving institutions, and we intend to reinvigorate training about HUBZones, including Native American reservations, and so on.

Department of Defense continually strives to enhance its overall small business performance, particularly to achieve the goals recently established for woman-owned small businesses, HUBZones, and service disabled veteran-owned small business. There are positive trends. In fiscal year 2001, $51.8 billion of Department of Defense procurement spending went to small business firms, with $28.3 billion of this going to small business prime contractors.

I'm sorry, sir.

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

Chairman MANZULLO. Appreciate it. Our next witness is Deborah Cabreira-Johnson of the Office of Procurement of the County of Los Angeles. She is going to speak about the county's effort to assist small businesses to access and secure federal contracts. I look forward to your testimony. In your testimony, if you could also bring in what other agencies may be doing the same thing you are, or trying to do the same thing you are, it would make it a little easier for folks that want to break into procurement to try to put all the pieces together. We look forward to your testimony.

Ms. CABREIRA-JOHNSON. Yes, can I answer that——

Chairman MANZULLO. Sure. First Frank has to turn off his microphone.

Mrs. NAPOLITANO. And while he does that, I want to tell everybody, before everybody runs out, validation for your parking, please see the table over there. Validation.

Chairman MANZULLO. Okay, Debbie, you can tell that before we turn the clock on.

STATEMENT OF DEBORAH CABRIERA-JOHNSON, MANAGER OF THE LOS ANGELES COUNTY PROCUREMENT TECHNICAL ASSISTANCE CENTER, LOS ANGELES, CALIFORNIA

Ms. CABREIRA-JOHNSON. Thank you. The Office of Small Business is the parent of the PTAC or Procurement Technical Assistance Center. The PTAC is one of the activities of the County of Los Angeles Office of Small Business, which is the resource center for helping business attain government contracts.

Our director, Edna Bruce, is here this morning with me. Edna, would you stand?

Chairman MANZULLO. Stand up, Edna. Good to see you this morning.

[Applause.]

Ms. CABREIRA-JOHNSON. And as far as other agencies or organizations that may be doing the same thing, there are quite a few which we do not try to replicate those same processes, but we try to complement each other. Some of the agencies would be the Small

Business Development Centers located throughout Southern California. Of course, our partners—major partners in offering our training is the SBA, Small Business Administration, who often speaks and presents at our workshops, trains. The General Services Administration, which is a major purchasing agency for the Federal Government, and we conduct training classes together.

Chairman MANZULLO. Somebody could come to you and if they are not in the right facility, you could direct them, is that correct?

Ms. CABREIRA-JOHNSON. Certainly. That's my job.

Chairman MANZULLO. Look forward to your testimony. Now we'll start the clock. Thank you.

Ms. CABREIRA-JOHNSON. Mr. Chairman, Congresswoman Napolitano and distinguished members, I appreciate the courtesy you are extending to Los Angeles County in giving me the privilege to present this testimony.

I am Debbie Cabreira-Johnson, Manager of the Los Angeles County Procurement Technical Assistance Center, funded by the Department of Defense, Defense Logistics Agency.

The Procurement Technical Assistance Center, or PTAC, is one of the program activities of the County Office of Small Business. There are 88 other PTACs nationwide, five of which are in California. Our mission is to assist businesses, especially small, minority, woman-owned and veteran and/or service-disabled-veteran-owned businesses in their efforts to do business with the Department of Defense and other government agencies.

The County of Los Angeles has a population of approximately 12 million, a greater population than 42 states in the nation, with more than 1 million in the county unincorporated areas alone that ranges from a few blocks to 100 square miles in the Antelope Valley. There are 88 cities within the county's borders, the largest of which is the city of Los Angeles.

As members of the Small Business Committee, you know how critical small business is to this nation's economy. In Los Angeles County there are approximately 250,000 small businesses, 96 percent of which have fewer than 100 employees.

The Los Angeles County PTAC receives numerous inquiries from firms and business in the county as well as the surrounding areas. On a daily basis we see and hear which government buying practices work well and also which might present obstacles to small business participation.

It is our job to guide these firms step by step if necessary through the stages of this complex procurement process. This may include but is not limited to marketing, identifying appropriate solicitations, preparing bids, helping them prepare their bids, understanding regulations, the federal acquisition regulations, and administering the contracts.

In addition, we are in a position to help connect large prime contractors with capable small business contractors, a growing function which is significant in this area of contract consolidation.

In order to service these many businesses and cover the county's vast area, we hold regular monthly courses at the PTAC headquarters. We coordinate quarterly workshops with our partners, the U.S. Small Business Administration, and the General Services

Administration throughout the county to train and disseminate this information.

For the first 18 months of our operation, the L.A. businesses that we have been able to register on the County's electronic database numbers approximately 9,000. Of those 9,000 businesses, 212 of those are registered vendors right here located in the 34th Congressional District.

The number of active clients that the PTAC services, roughly 423. The number of small business awards that I can report number 18, resulting in over $7.4 million in awards. We have held numerous classes over the last year and a half, 42 and counting. The average attendance at our county workshops held quarterly number 300. In many instances we run out of paper, we run out of documents to hand out at the door because they show up unregistered, without RSVP. The average attendance at monthly classes, 50.

I believe our presence has made a positive impact in the community. Many contract awards are not reported back to us, thus making it difficult to measure our impact in dollar figures. However, in just the one and a half years of PTAC's existence, five years for the County Office of Small Business, we can report success in our outreach and marketing efforts with small business.

We help our clients one by one find the opportunities, complete the paperwork, which eventually will lead to obtaining a government contract. Small business contract awards mean the creation and retention of jobs. But the PTAC mission is an ongoing one. Federal and local matching funds are critical to enable the PTACs to continue our mission of helping these capable small firms pursue contracts as either prime contractors or subcontractors in whatever capacity possible. I always tell my small business clients that even the smallest piece of pie is better than no pie at all.

We applaud the Senate Defense Appropriations bill which included an additional $5 million for the PTAC program.

Mr. Chairman, thank you again for the privilege of presenting this testimony. Please let me know if you have any questions.

Chairman MANZULLO. The ding means you've got 30 seconds to go.

Ms. CABREIRA-JOHNSON. Okay. I applaud the Defense Appropriations Committee. We hope that the House version will agree to the Senate's increased spending level. We also commend this committee for listening to the needs of small business, and Representative Velazquez for introducing Bills H.R. 1324 and H.R. 2867, aimed at helping small business in the federal procurement arena. Again, Mr. Chairman, honorable members, thank you again for this privilege. Please let me know if you have any questions.

[Ms. Cabriera-Johnson's statement may be found in the appendix.]

Chairman MANZULLO. Thank you. Appreciate it very much. Our next witness is Eric Espinoza. He is the owner of Stitches Uniforms, and he is going to talk about specific problems faced by his company securing federal contracts, and the recommendations for the system. Eric, we look forward to your testimony.

Mr. ESPINOZA. Thanks very much. A little nervous, but first I want to thank Chairman——

Chairman MANZULLO. The first thing you do is take a glass of water. Go ahead. Take a sip of water, and then we will start the clock.

STATEMENT OF ERIC ESPINOZA, OWNER, STITCHES UNIFORMS/G.S. DUNBAR & CO. INC., MONTEBELLO, CALIFORNIA

Mr. ESPINOZA. First, I want to thank you for coming on a long weekend and yesterday. I am sure staying away from your family on a holiday weekend was a little trying.

Chairman MANZULLO. It was great to get together for some true Mexican food, really, that Grace had prepared for us.

Mr. ESPINOZA. Again, Congresswoman Napolitano, thank you for putting this all together, and giving us a chance to speak.

First, I would like to say that the SBA and the House Small Business Committee were formed in function for the purpose of fostering competition and promoting small businesses throughout the United States. What our research has shown, however, is that a disproportionate number of contracts to provide clothing for the military are awarded to the southern and northeastern part of the country to the same contractors over and over.

In the two and a half years that I have been researching contract awards through the DSCP clothing and textiles, I have not seen one contract awarded to a firm in California. I am not saying there haven't been any, but I haven't seen any.

GS Dunbar, our partner in our joint venture to provide clothing to the military, was in the 8(a) program for almost ten years before they were awarded their first contract, and the total award for their contract was a relatively small $300,000.

The testimony that—prior to mine right now, the—I forgot your name. Stated that there were 18 awards for—and what was the total on that? 18 awards for $7 million. 18 awards for $7 million. You divide that among the companies, that is a fairly small dollar amount per company that is coming out of the military for these contracts.

The contracts that we see when we are doing our research have been large contracts, to large companies, throughout the south and the northeast.

The contract that is—I am speaking of now that we are having a problem with was for a little over $5 million to provide a million T-shirts to the army. The cost on those last year was $5.99 for the short sleeved and $7.77 for the long-sleeved T-shirt, and we underbid that bid at $5.49 on the short sleeve and $7.49 on the long sleeve, a significant savings to the government, yet our experience has been that we have been stonewalled on a number of situations with the DSCP.

They have—I lost my train of thought there. They have negotiated, changed the bid from a sealed bid to a negotiated buy on us, and twice they have had negotiations, and they just do not seem to be very forthcoming with information for us. They have made it very difficult for us to get any information out of them, and we have just had a significant number of problems. If we're the low bid on this contract, we feel we should be getting a little more information from them on why they have renegotiated and why they have taken steps they have.

Now, there is something to be said for proximity to the capital with regards to the companies that are in the northeast and the south. They are a lot closer to the capital. They can attend frequent seminars and meet with procurement officers, but the fact that in this instance we were able to produce the same garment for less money, we felt should stand on its own to a certain extent. We felt that we have been—that, given the hostile nature of the procurement officers to our inquiries, that a trip to the capital would not serve much of a purpose. We believe that the proposal should stand on its own in order to receive full consideration for award, and if it is necessary to meet the procurement officers, in order to satisfy their questions, we would be happy to attend any requested meeting, but that request has never been forthcoming.

Another important issue that I would like the government to address perhaps is competitive pricing. Some of these companies in the northeast or in the south have much lower cost structure than we do out in California. We were still able to bid this contract for less, but we are not seeing anything with regards to an award. I think there is something wrong with that, but, these are the problems that we need to address.

Sorry, I kind of stumbled through that. I was a little nervous, but I do again want to thank you for listening to me and taking the time out of your busy schedules. Thank you.

Chairman MANZULLO. If you encounter a procurement officer that is nasty to you, have you taken the appropriate steps——

Mr. ESPINOZA. They have never been forthcoming. One example was when we inquired—we have hired a consulting firm basically in Washington, DC, that had done these types of procurement, and we were told that when the buy is turned from a sealed bid to a negotiation, that we have a right to request a debrief on why it was changed to a renegotiation. When we requested that, we were told that basically we did not have that right, and they were not going to——

Chairman MANZULLO. If you run into that contact Grace. She is a member of Congress and representative on the Small Business Committee, and relay that to us and we will take care of it.

Mr. ESPINOZA. Okay.

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

Chairman MANZULLO. Our next witness is Adriana Grippa.

Ms. GRIPPA. Good morning.

Chairman MANZULLO. Did I pronounce that correctly, Grippa?

Ms. GRIPPA. Yes, thank you.

Chairman MANZULLO. All right. There is a vowel on the end of my name, too, so I struggle to make sure I pronounce them correctly.

Ms. GRIPPA. No problem.

Chairman MANZULLO. She is the president of Master Research & Manufacturing, Incorporated, to testify on specific problems faced by her company to secure federal contracts and recommendations, and we look forward to your testimony.

STATEMENT OF ADRIANA GRIPPA, PRESIDENT, MASTER RESEARCH & MANUFACTURING, INC., NORWALK, CALIFORNIA

Ms. GRIPPA. Thank you very much. I appreciate it. Good morning, ladies and gentlemen. I would like to start my comments with my personal thanks to Donald Manzullo, chairman of this hearing, and Congresswoman Grace Napolitano.

Like Mr. Manzullo said, my name is Adriana Grippa, and I am the president of Master Research & Manufacturing. We are a company who specialize in the fabrication of critical aerospace components and assemblies.

My husband Miguel and I started our small company about 25 years ago. And I am proud to say that we have been doing business with the Department of Defense for 20 of those years. Overall, we also enjoy a good business relationship with the Procurement Offices and an excellent relationship with the administration and quality representatives from Defense Center Management Administration Office with the IC trade in Van Nuys and Norwalk.

The last few years, however, have been very difficult because of our dealings with the Defense Supply Center—Richmond. For those of you who are not familiar with this agency, it is now the procurement center for most of the military hardware needed by the Navy and the other Armed Forces.

Throughout the years, we received over 800 contracts from Department of Defense centers located all over the country. This procurement process always went through the normal steps and successfully completed. By normal steps I mean request for quote is solicited by a government agency.

The suppliers submit quotes. The contract is awarded to the lowest bid. Items are manufactured in compliance with contract requirements. Items are then inspected, approved and delivered, and payments made.

We can't recall an occasion where the terms and conditions of the contracts were changed by the procuring office after award. According with the Federal Acquisition Regulations and standard business practices, to do so requires a bilateral agreement from the government and the contractors.

However, in the past two years in dealing with the Richmond Center, 10 contracts have been modified unilaterally by the Procuring Office after the award, without regard to the consequences to our company, our rights, and in violation of the Federal Regulations. It's almost as if the Richmond Center is intentionally trying to injure its small business base.

I say the small business base because we are not the only contractor experiencing this problem. We attended an open house in Richmond some months ago and heard many of the same complaints from other business owners. These modifications after award have caused severe financial hardship, and continue to do so.

Our business goal is to produce good quality products for the aerospace industry on schedule and at a reasonable price. To do so, we have to concentrate our efforts in two main areas, which are quality control and lean manufacturing.

Now our time is spent correcting procurement blunders and after-the-fact modifications to the items being manufactured. We have even been forced to hire a contract specialist and have retained legal counsel just to deal with the growing problems.

The most common and most expensive contract modification we are experiencing is the change of items to flight critical item status. Categorizing an item as flight critical restricts procurement to purchase only from approved sources, in most cases just the prime contractor. Some are items that we have manufactured and that have been in use for many years. Besides, critical nature or not, we have proved our capabilities to build them. And we have seen many items categorized as flight critical that has nothing critical on it.

When the status of the item is changed after award and we have already started the manufacturing process, it forces us to stop working and freezes the funds already invested. For example, after a recent contract award, we purchased a special material from Dupont, which is the only authorized fabricator. After we received this material and paid $50,000 for it, we received a stop work order from Richmond and a request to submit what is called a source approval request, because the item had been reclassified to flight critical. This special material has been sitting in our warehouse and our money tied up for more than six months now, waiting for our source approval request to be approved. The Procurement Office's response to our complaints has only been, "We are very sorry."

This chart that I had brought with me is an example of how the taxpayers' money is also wasted (see page 83). As you can see—thank you. As you can see, we received and successfully completed two contracts, and after we received the third one, somebody decided to change the product to flight critical.

We submitted a source approval package, which took 18 months to be approved by the Navy. 18 months. That is a long time. In the meantime, another order was awarded to the prime contractor, the only approved source. And finally, our parts were purchased to meet an emergency need before we received our source approval.

In this example, as you can see, 177,000 taxpayers' dollars——

Chairman MANZULLO. Adriana, could you suspend a second and turn that chart towards the audience? Because we have a copy of that before us. Thank you. Go ahead.

Ms. GRIPPA. Okay. In this example, 177,000 taxpayers' dollars were wasted because of a senseless restriction. In addition, it smacks of discrimination against a small business and collusion between the big primes and the government.

And this is just the tip of the iceberg. I wish to have more time to tell you all about our troubled history, but I don't have time. I know that you may have more important issues to deal with, but if we let Procurement Offices continued with this behavior, they will drive our company, and who knows how many others, out of business. Besides, the amount of money wasted may be tremendous, and I think it justifies for an investigation.

I hope that you can use your power to solve the obvious problems within the government procurement system and especially those at the Defense Supply Center-Richmond. As a small business owner and a taxpayer, I thank you for this opportunity to bring this case to your attention. Thank you.

Chairman MANZULLO. And thank you.

Ms. GRIPPA. And can I add something very, very quickly?

Chairman MANZULLO. Sure.

Ms. GRIPPA. I just want to let you know that I am not only a small business, but we are minority, woman-owned, and also I am an 8(a) certified business.

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

Chairman MANZULLO. Mrs. Sanchez, do you want to go first?

Ms. SANCHEZ. Thank you, Mr. Chairman. First of all, I want to thank you, Mr. Chairman, for allowing this Congressional hearing here in the greater Los Angeles area. In particular because we here in Southern California do a lot of defense contracting, and as you know, at the federal level, the defense budget is the largest part of our discretionary spending.

I also wanted to thank my colleague, Grace Napolitano, for twisting the arm or cajoling or whatever it is that you did to get the Chairman to be here, but, you know, I am from Orange County, and I—well, it is easier than my chairman, but—I am from Orange County, but I feel very strongly about this whole issue of small business, having been both in the corporate world before and owning my own business before I became a Congresswoman.

In fact, you know, it's interesting, because I don't sit on this committee, and I consider this committee a very big policy committee, and a policy committee whose efforts impact the rest of the committees and the spending committees of the Congress. I happen to sit on the Defense Committee, on the Armed Services Committee, and almost $300 billion a year gets spent on defense at the federal level, versus maybe about $700 million or so from a small business perspective that maybe this committee has jurisdiction over, so you can tell that the largest spending comes out of a committee that I sit on. And because of that, what happens here, and how we make policy and how we move it through the Congress, and more importantly, maybe not just policy, but process, how the process is driven, makes a big difference for small business, and I see it all the time, being the only Democrat sitting on the Defense Committee for this section of our area.

I have seen a lot of things over the last six years in my time on that committee in the Congress. And first and foremost is this whole issue of, before 9/11 really, was our biggest problem was that real defense dollars were not increasing, in fact, was contracting in the budget. And what happened, because of that, is that prime contractors, the big guys, in order to meet their growth, needs, because they—a lot of them are publicly traded, they would begin to cannibalize all of the work inside to their own companies, eliminating the contracts that were going to subcontractors, small and medium business size, even the medium business size, $50 million, $100 million companies were affected by this.

There is also another problem I think at the defense level, and I see it all the time, and I know if we could fix this, we would be so much better off, and it all comes down to this issue of process and really how we finance defense projects, how we put them in the budget. And also I think a mentality from the defense, Pentagon area, where everything—you know, once the Congress decides we are going to spend on a project, there is this sort of what I call an orderly procurement process. You know, you are the prime, we go year after year, this is the way we spend.

So if there is any innovation or if there is an outside company that is coming in and telling us, we have something innovative, you don't have to spend the $100 million doing this particular thing, you can buy it off the shelves, and you can save a lot of money, and the technologies available from a commercial basis right now and it's redundant and it's robust and we can use it, the guy at the Pentagon says, "You know, you are going to mess up my orderly procurement process. I mean, these are my marching orders." So we need to fix that, and I hope that we can work together with the help of the Small Business Committee members to ensure that particularly in defense where the majority of the money is spent, we can do something about it.

Bundling is a problem, it's been a major problem for small- and medium-sized businesses. Rebid, you know, when a small business goes out and it has a five-year contract, first option opt two years from now, and all of a sudden through a new process in the federal government, their two-year contract, they are notified, well, now is just a one-year contract. If they put the investment in for capital machinery and other things, invested in the training of their employees and all of a sudden they don't even have a guarantee of a two-year contract, that is a big problem for small- or medium-sized businesses. So we need to address that also.

And I want to make a couple of questions to Mr. Ramos. I know I am going on a little, but I didn't get an opening statement. And I think these are so important for us to realize. Vendor payments, making the payments on time. I have got so many vendors who have gotten a contract, and they are half a million dollars behind from the Pentagon payment. This is another process we need to work on to get right.

And lastly, I want to say to the gentleman here, the younger gentleman who is a little bit nervous, first of all, thank you for coming, Eric, because your time is worth money when you are a small business owner or when you run that company, and so we appreciate you being here today instead of being out trying to make rain, as we call it in the business, and getting the contract.

I have found, in the 6 years I have seen this process, that it's relationships to a large extent that allow you to identify far enough ahead of time what is going to be procured, what is going to be available. It allows you to get ready for the whole process, so relationships become very important, and I think the first place you start is with your Congressperson, because they can help you with their staff to work with you.

You know, I have not really found, and I hate to say this because I have a lot of lobbyist friends, but, you know, hiring somebody back in Washington, DC. Because they tell you they can get the in and they can get the hit for you, isn't the easiest way to break into all of this. And this is to DC. They come later when you are very far along the process, and you are really, really competing for something.

First and foremost I would say to you begin with your Congressperson, and with all this spending that is going into defense, I am sure—I think at the Pentagon there is this guy, and I am sure his name is Mr. Jones, and, excuse me, he is an Anglo, older male, and he is the one that is letting all these contracts, and

I haven't been able to find him, I haven't been able to find the door where I can send my subcontractors to go and to get this contract. So we need to make a better process by which we can involve small business.

And I would like to have Mr. Frank Ramos—who, by the way, I think you have been doing a great job, Frank, but you and I both know, there are major, major problems. What are we doing about making the process more transparent so that our small innovative businesses have a shot to win these contracts?

Mr. RAMOS. Let me just go back, Congresswoman. First of all, your contract comment about being able to purchase right off the shelf. After September 11th I arrived in my office and listened to the special operations command, and the past circumstances that the military found itself, and I don't want to say before this Administration came out, the shelves were somewhat bare. I listened to the command—special operations commander procurement officer, senior person, who was literally taking a credit card and going around California and buying products for the special command officers that are in the field in Afghanistan. They literally did that, and they found a way to go after the new technology.

The second thing that happened, and I inserted myself into this process which hadn't been done, and I alluded to the comment I made earlier about culture and attitude, there was an announcement for counter-terrorism, and they asked everybody in the world, "Tell me what can you bring to the table to fight this war against terrorism." We had 12,500 proposals, including small businesses. We reviewed 200 of those, some of which were small businesses.

What I did is I inserted myself by saying, if you come across a small business, which is mom and pop, for example, that doesn't have the managerial, technical, financial capability, we don't do a finance, and my experience of the SBA, I bring this capability to it, we will assist that small business to provide their product or service to the special operations counter-terrorism expert.

Not only that, I offered that if they found a firm that needed that type of support, we will put them into the Mentor-Protegee Program. We have $25 million that we can use within that program to support the small business owner, so we are taking some proactive effort into that.

This area of procurements that you alluded to, I recognize and am assured by Mr. Aldridge, that we did not have in the procurement training of the senior executive offices within the Department of Defense the training module that explains with some clear clarity the process to help small businesses. There is some, but it's not in a regular training module.

I have contacted, and have secured agreement of Frank Anderson. He is the president, CEO, former one-star Air Force general at the Defense Acquisition University, and we are going to have a procurement module to train the most senior officers within the Department of Defense.

I brought on Dr. Segura, as I introduced him earlier, the former Dean of the School of Education, Cal State Fresno, to help me with that specific endeavor, and to bring those training modules so that our small businesses can understand how to do business with the Department of Defense. It is complex. There are some issues there.

With respect to this panel, and I think the Chairman recalled the last hearing that we had, I took all of the panel members that were there by the hand and I said, I will find out what is going on because I am learning the process of what is right and what is wrong. That which is right we are going to showcase. That which is wrong we are dealing with, and eyeball to eyeball these contracting officers in there, and I am deadly serious about this.

So I have committed to—yesterday that Mr. Berrazas, who was here yesterday, the gentleman to my right, and to Mrs. Grippa, that I will take this issue, and members of my staff, and we are going to explore what went on in the process, we are going to tell them the good, bad, ugly of the process. If it is inside, we are going to address it, and if it is outside, at least you will be informed as to what went wrong.

Chairman MANZULLO. Frank, we appreciate that very much. I know you have been following up on the witnesses we have had in Washington, and your work on that has been no less than exemplary.

Ms. Napolitano, do you have some questions?

Mrs. NAPOLITANO. This might not work too well, so they asked me to use this one.

There aren't any questions, but in the interests of time I am going to be very short and very specific, and Bruce and Frank, I—and also Deborah, I need to find out how many employees do you have and where are they placed, and what kind of business community do they serve? I mean, the number of businesses your staff serves, and how can we get the best—how can we help you increase the outreach to the businesses, because obviously you can't have enough personnel?

It is proven, I have had to take some of my chambers over some of the actual—the one-stop shops, and we have done all kinds of different things to be able to have—I don't know of all of the things that are out there, and I would like you to share with us in how we can help you do a better job. And Frank, I won't become one of those [inaudible]. As Mr. Manzullo, Chair. It's that important to our businesses.

Mr. THOMPSON. Congresswoman Napolitano, when in Washington they had the joint meeting with the procurement offices back there, we brought in, as I mentioned in my testimony, a thousand small businesses to line them up so they could be right there and interview with these procurement officers. We are going to take that on the road, and I have been assured that one of those 12 meetings will be here in California. And I think that—too loud?

Chairman MANZULLO. My district, too.

Mr. THOMPSON. Oh, absolutely. Mr. Chairman, I can almost guarantee there will be one there around the corner from you.

Chairman MANZULLO. That's why I'm the chairman.

Mr. THOMPSON. That's exactly right, and I apologize for not mentioning that when I was talking to my good friend Congresswoman Napolitano here from California, because it is important that we do bring it out to the West Coast, because of course there is a lot that happens in Washington, DC.

With staff, we are trying to reorganize the procurement staff that we have out here with our six offices in California. We want to make sure that they are persistent in what they are doing in working with small businesses.

Our SBDC offices, as you mentioned, the one-stops, those are so important for those individuals to give counseling and direction to small businesses of how they can work with the SBA, and how they can work with the federal government, and that's happening. We have some great SBDC directors.

Mrs. NAPOLITANO. No, they are wonderful. I don't dispute that. What I am trying to figure out is how many people do you actually have at those SBD centers, and more than that, I think California, because of the budget consciousness, is looking at cutting some of those offices. I want to be sure we continue to be able to have them there to provide the assistance.

Mr. THOMPSON. Well, we might be leaner, but we're going to be more—I don't want to use the word meaner, but we're going to be direct in what we do and try to focus. We are taking a lot of our—as you know probably better than most, a lot of our back room operations and loan collections, things like that, we are taking and trying to put those in certain centers around the country so that we can take our people that are in SBA offices that have been sitting at desks taking notes and writing papers, and doing those things, to get them out into the community so that our work force can really be out there to help small businesses. Right now we don't reach the 24 million small businesses the way we should. The Internet is a big asset to us, and there's a lot of these things, and small businesses will go on the Internet. There's all kinds of opportunities for them, not only to register for loans, but also—I'm sorry, go ahead.

Mrs. NAPOLITANO. We know that; the problem is these people don't. They don't know how to access that information, and unless you get those workers out here to actually sit and listen to them and give that information out to the Chambers and to the newspapers so they put it out and people can look at it, there is very little information filtering to the West Coast, and that is a fact.

And that is why I am so concerned about how do we get the information out to a small business to become more informed and educated about how it is that they can do government procurement. And so that was the reason why I was asking.

And you guys do a great job. The problem is you are understaffed. You don't have enough time to service the hundreds of thousands of businesses in California, and that's why I am trying to figure out how do we help you do a better delivery job, so that you can, because I'm sure if everybody here went to you right now, you would be swamped. You need to be able to have an effective method of being able to deliver, just like my colleague over here, Sanchez, had mentioned. Frank?

Chairman MANZULLO. Frank, what's the answer to the question?

Mr. RAMOS. Thanks, Grace. Congresswoman, here is what I am willing to offer, but I have to do this very narrowly. And the reason why I want to do this very narrowly focus just on Department of Defense, Department of Defense. I will give you a quick example. We had a veterans forum with the other agencies including the Department of Energy, and somebody asked the question about security clearances, and it took a half hour to explain the difference between the security clearance, which was top-secret from the Department of Energy, versus the security clearance from the Department of Defense.

While you obtain the same result, the process is different.

I am willing to bring a forum of Department of Defense personnel, if you would host it. We don't have the resources.

Mrs. NAPOLITANO. You have got it.

Mr. RAMOS. It would be very narrowly focused in terms of how-tos with regard to the Department of Defense, and we are doing this in the HUBZone up in Newark, New Jersey, the Chairman's counsel, Nelson Crowther, is going to join us, we have—we're bringing Native Americans, because they're HUBZones, they bring contracting opportunities. We alluded to the Alaskan tribes, who have sole source, no contract threshold ceilings; we will also bring in the local commands to explain the how-tos.

What I don't like to do is bring Nelson Crowther, of the Chairman's staff, doesn't like these conferences, because you give high hopes for people assuming that you're going to need contracts. I think it's more important that we explain to them the requirements of how you do business with folks, past performance, how to team with other folks, and that is what I would like to do, and I'm willing to do this, with some lead time.

Mrs. NAPOLITANO. You're on, sir. And Ms. Sanchez is also going to be in on that, and I have invited Mr. Manzullo to come down, and not quite sure whether he can. But thank you so much. I appreciate that.

Chairman MANZULLO. Thank you, Grace. I've actually got a follow-up question. During the direct testimony, Bruce, you talked about some event in Washington with a thousand small business people. Would you tell us about that again? And when did that take place?

Mr. THOMPSON. This took place in May, I believe, Mr. Chairman. Every year for the past 34 years they have had the procurement hearings back there in Washington as kind of a—I haven't been to it, but my understanding of it is that businesses come in and listen to basically what Frank was talking about. How do you get contracts, so forth, so on.

This year for the first time what we did is we set up appointments with a thousand small businesses with prime contractors and also with the federal government to sit face to face and talk about these contracts and how you get them. And that's the difference, Mr. Chairman, and this was the first year that this happened. And that's what we're going to take on the road. We are going to do an additional 12 of those around the country.

Chairman MANZULLO. I don't want to interrupt you, but——

Mr. THOMPSON. No, that's all right.

Chairman MANZULLO [continuing]. But we had a procurement conference back home; Deirdre Lee came in along with some of the highest officials, and we had about 250 people showed up. Even a lady that makes baskets. She said, who knows? The Department of Defense may need a basket. Maybe they do. I don't know. But then we worked with—in conjunction with our local PTAC center, and it takes a while—I don't want to use the word qualified, but to get the small business people up to speed.

I want to see the Department of Defense, and the SBA, and the rest of the agencies, get a hold of the large corporations and say, "You shall show up at this conference, and you shall bring with you requests for proposals." Because they are doing business using government money, and I don't see much excitement.

If the beneficiaries of most of this money are big companies, then they should be the ones out there trying to find the little guys. With all due respect, not you. You're there to facilitate the meeting. But as many meetings as I've been to, and to which my constituents go, it is the same thing: Where are the big corporations with the RFPs? And that is what I would like to see.

They say, Well, you got to go online; Well, you got to do this; Well, you have to do that. Well, heck, just show up. You want to do business with the federal government, you are a big corporation, you got a big contract, then you shall, s-h-a-l-l, you shall be in Rockford, Illinois, or wherever it is, and you shall show up with contracts in hand, and willing, hungry, starving bidders over here. The area that I represent has a 30 percent manufacturing base. In 1981 we led the nation in unemployment at 25.9 percent.

More people were unemployed in Rockford, Illinois proportionately in 1981 than during the so-called Great Depression. I see zero incentive on the part of the major corporations whose legal task it is to bring in the little people that we represent. They don't do anything. Sure they have people that are associated with them. Sure they outsource and everything. Sure they do this, they do that, but that's the type of hearing I would like to have. I want them to just show up. There may be 100 people bidding for one contract, but at least there is a contract, and after a while the little guys get tired of going to schools. I see a lot of nodding going on around here. Little guys—little guys; that's Midwest. What do you say in California? The word "guys," is that okay out here?

Whatever it is. But little guys are out there, and they come to these shows—Many of them run the machines at their little shops, and they get all the tools and are told to go on site and go to everything, and then nothing happens. But I would love to work with you to be able to have one of these forums.

Mr. THOMPSON. We will do it.

Chairman MANZULLO. Well, great.

Mr. THOMPSON. Thank you, Mr. Chairman. We will take you up on that.

Chairman MANZULLO. Okay. We're going to have to move on. We have 13 witnesses on the next panel, and again, we want to thank you for coming and appreciate everything that you are doing, and you can applaud this panel. We'll allow that here. (Applause.)

Mrs. NAPOLITANO. The panel, before you leave, thank you very much. May I ask that you begin giving us some contacts, some of the California contacts for small business for defense so that we can, when we do our workshop, we can invite all those folks that you want to come in, especially the big guys.

[Recess.]

Chairman MANZULLO. We have a second panel divided in two groups because of the logistics of the cases. Jeff, your mike is on. How many more do we have here?

[Whereupon discussion was held off the record.]

Chairman MANZULLO. Let's get everybody up here. Set the rest of them over here. That would be fine. While we are waiting, let me introduce, representing Congresswoman Solis—is Aiha Nguyen. Aiha, where are you? I tell you what, are you going to set up everybody over there?

[Whereupon discussion was held off the record.]

Chairman MANZULLO. I think we are going to start the testimony over here on this side, and I think that should work out okay. And Ray, if you would turn those name plates towards us, at an angle, and if those witnesses could come over and take their seats.

Our next panel, we are going to start with David Bearden. Dave is the Deputy Assistant Secretary and Chief Operating Officer of the Economic Development Administration, EDA, with whom we work very closely in our district at the U.S. Department of Commerce out of Washington. You came all the way from Washington to be with us, Dave. We appreciate it and look forward to your testimony.

STATEMENT OF DAVID BEARDEN, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT, HOUSE COMMITTEE ON SMALL BUSINESS

Mr. BEARDEN. Okay. Well, thank you very much, Chairman Manzullo, and also Representative Napolitano, for inviting me to be here with you today, and I appreciate the opportunity to talk to you about the Economic Development Administration's Trade Adjustment Assistance for Firms program.

Now, while the authorizing legislation for this program expired at the end of last year, President Bush was able to work successfully with Congress this year to reauthorize this program and to extend it through September 30th of 2007, and that was signed into law under the Trade Act of 2002 by President Bush last month, on August the 6th.

My comments today will briefly summarize for you the purpose, the process, and some of the results of this program.

The purpose of the TAA for Firms program is to help manufacturing and producing firms that have lost sales and employment as a result of increased imports of similar or competitive goods. The program is a unique federal response for mitigating the problems that firms encounter as a result of changing trade patterns. It is also fully consistent with the concepts of free trade. Instead of relying on quotas, and tariffs, and other types of trade barriers, the TAA for Firms program actually works with trade-impacted firms directly, and it helps them to become more efficient and competitive within the global marketplace.

The Commerce Department supports a national network of Trade Adjustment Assistance Centers, or TAACs, to help injured firms in navigating their way through this TAA program. Currently there are twelve TAACs in the network. California here, for example, is served by the Western TAAC, which is sponsored by the University of Southern California. David Holbert here is the director of the Western TAAC, to testify before you today.

There are three steps that a firm must go through in order to attain assistance under the TAA for Firms program: The first is certification, and the second is preparation and approval of an adjustment proposal, and then finally is the implementation of that adjustment proposal.

In the first step, EDA determines that a firm is eligible for assistance under the TAA program. And the way they do that is the firm submits to EDA a petition which documents that it's been adversely impacted by increased imports.

EDA must find that the firm reduced its employment by 5 percent or 50 employees, whichever is less, it lost sales, and that there was an increase of imports of similar or competitive goods that that firm produces, and that increase significantly contributed to those losses.

If EDA makes those findings, then a firm is issued a certificate of eligibility to apply for assistance.

The second step involves the preparation of the firm's adjustment proposal and then that is approved also by EDA. The adjustment proposal is essentially a strategy for guiding the firm's recovery, and it may include technical assistance in such areas as marketing, product development and diversification, computer system enhancements, production and industrial engineering, and export promotion.

And then finally the third step is the actual implementation of the firm's adjustment proposal. And usually what happens is a firm will consult with a private consultant to actually implement those technical assistance tasks, and the firm will pay 50 percent of the consultant's fees, and then the TAAC will pay the other 50 percent, up to an amount of $75,000.

As far as the results of the TAA program, we have seen instances in which some firms have increased their sales between 13 and 40 percent, and we've seen some other instances where firms have been able to decrease their production costs by as much as 40 percent.

And also in 1998, an evaluation by the Urban Institute compared certified firms that prepared and actually implemented their adjustment proposals with certified firms that didn't. Those firms that actually implemented their adjustment proposals survived at a significantly higher rate, added as opposed to lost more employees, and they achieved an almost double increase in their sales.

And, Mr. Chairman, just the last thing I'll tell you is that for those that are seeking more information about the TAA for Firms program, that may be interested in looking at the TAA for Firms web site, and that's located at taacenters.org. And I thank you very much for the opportunity to visit with you today, and I would be happy to answer any questions.

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

Chairman MANZULLO. Appreciate your testimony. Thank you.

The next person to testify is David Holbert, who is the Executive Director of the Western Trade Adjustment Assistance Center, one of the 12 TAACs, located here in the Los Angeles area. Mr. Holbert, look forward to your testimony.

STATEMENT OF DAVID G. HOLBERT, EXECUTIVE DIRECTOR, WESTERN TRADE ADJUSTMENT ASSISTANCE CENTER, LOS ANGELES, CALIFORNIA

Mr. HOLBERT. Thank you, Chairman Manzullo, and Congresswoman Napolitano, for this opportunity to testify. Speaking on behalf of the TAA Centers across the country, we deeply appreciate the past support of the Congress to authorize and fund this program. Those decisions have saved and created thousands of jobs nationwide.

The TAA Centers also wish to thank EDA, and Mr. Bearden in particular, for the energetic initiatives to improve this program that have taken form in the last year.

My testimony will address two questions, why TAA for firms is particularly effective for trade-impacted firms, and what improvements could be made to the program.

While the Trade Act does not specify the size of the business that may be eligible, very few participating firms employ more than 500. The average is fewer than 100 employees. Nearly all are manufacturing or agricultural firms. Most are family owned or closely held. Typically, the principal owner is the chief executive, and the firm operates from a single location.

Characteristics of these small firms and the nature of trade impact combine to create a crisis for otherwise viable companies. Whereas small firms tend to have narrow product ranges, a slight change in imports, invisible at the macro-economic level, can bring an aggressive new competitor to small firm's market overnight. Lower costs and thereby lower prices, a common feature of imports, attract customers in rapid succession. Often, business decline occurs before correction can be implemented.

Despite the talent required to found a small business, firms faced with low-cost competition find that they have to do something differently than in the past, and this requires new expertise. Further, since trade impact tends to occur pervasively in particular products, entire fields of industry can be threatened. Most importantly, a temporary and correctable crisis can threaten the livelihoods of employees and the life's work of owners.

By assisting firms with planning and the use of outside expertise, TAA for Firms brings an essential component of recovery into the trade-impacted firm's near-term operations. Indeed, it has been proven time and again that by operating with exceptional quality, with cutting-edge designs, addressing a particular group of customers' needs, and a host of other business improvements, producers can overcome competitors, even those with large price advantages.

By helping to source and monitor as well as partially fund outside expertise, TAA for Firms makes implementation a reality at a time when its need is greatest and yet least feasible for a firm facing declining sales and job losses. Larger firms facing trade impact may rely upon internal financing or turn to sourcing abroad. Small firms do not have these options. Most importantly, a temporary and correctable crisis can threaten the livelihoods of employees and the life's work of owners.

Further, since trade impact tends to occur pervasively in particular industrial segments, entire fields of industry can be threatened with the potential of being lost forever to the U.S. industrial base.

By assisting firms with planning in strategy and implementation of outside expertise, TAA for Firms brings an essential component of recovery into the trade-impacted firms near-term operations. By helping to source and monitor as well as partially fund this technical assistance, TAA for Firms makes implementation a reality at a time when its need is greatest yet least feasible for a firm facing declining sales and job losses. It often surprises observers that a common outcome of recovery is expanded exporting.

During the five years from 1997 through 2001, the TAA Centers monitored results for 511 companies with just under 50,000 employees and $6.4 billion in sales. As a group, these firms had lost 12 percent of employment and 10 percent of sales in the two preceding years.

Since starting the program, the firms grew 29 percent in sales, stopped job losses, and gained 18 percent in productivity, more than double the national rate.

The level of appropriation for TAA firms since 1997 has been between $9.5 million and $10.5 million annually. This year, the President's proposed budget includes $13 million for TAA for Firms. This is a most welcome endorsement, and the only substantial increase proposed in recent years.

Weeks ago, Congress passed legislation authorizing TAA for Firms for six years and recommending appropriations of $16 million annually. Yet without positive efforts, level appropriations would appear to be the most likely income. I ask the members of the committee to help see the adequate appropriations through the various processes of the Congress.

Throughout this testimony I have referred to trade impact without precisely defining it, yet I am confident everyone present knows what I'm talking about. I've stood with company owners in their fields and factories, both of us convinced that the firm is trade impacted, but challenged as to how to demonstrate this. The Trade Act definitions, while certainly appropriate at the time of their creation, offer a qualified standard for today's experience with trade impact.

I would ask the committee to encourage your colleagues to consider anew the subject of what constitutes trade impact.

In the Trade Act of 1974, Congress created TAA for Firms in order to save and create jobs and help American farms and manufacturers compete internationally without creating artificial trade barriers. Your wisdom in establishing this effective trade remedy is now obvious.

I would emphasize that the small business owners that participate in this program face genuine crises of survival. We are told that firms like these are the bedrock of the economy and the engines of job growth. Their individual stories are dramatic and compelling.

To the question as to how this program could—what improvements could be made to this program, I would say first, effective, more effective criteria for defining trade impact, and adequate resources for the program's operation.

I would conclude by again thanking the committee for your attention to this important matter for the nation's small farms and manufacturers as well as the many and valued jobs represented at these enterprises. Thank you very much.

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

Chairman MANZULLO. Thank you. Bruce, you are back for a cameo.

Mr. THOMPSON. I can't stay away, Mr. Chairman. It's a pleasure.

Mrs. NAPOLITANO. Thank you.

Chairman MANZULLO. This time you are going to be testifying on efforts of SBA to promote small business expansion in the international marketplace. For those of you who are with the government testifying, I would ask that you localize your testimony. You don't have to lobby us to get more money for your programs. That is not why we are here. That goes on all the time in Washington. There are a lot of people here who have come to this hearing whose businesses have been severely impacted, and they are coming here because they want help. I want you to testify as though you are speaking to them and not the two members of Congress, because that way, this becomes a full utilization of the resources here as opposed to the normal type of hearing that you can hear in Washington as opposed to a field hearing. So with that in mind, Bruce, give us your additional testimony.

STATEMENT OF BRUCE THOMPSON, REGIONAL ADMINISTRATOR, REGION 9, SMALL BUSINESS ADMINISTRATION, SAN FRANCISCO, CALIFORNIA

Mr. THOMPSON. I appreciate that, Mr. Chairman. I think you will find this is a local driven little talk here.

With regards to international trade, opportunities are growing rapidly. The President sought and Congress recently granted a trade promotion authority. This authority will open markets for U.S. exporters through a new round of global trade negotiations which is very good for America's small businesses.

Ninety-seven percent of all exporters are small businesses with fewer than 500 employees, and two-thirds of those small exporters have less than 20 employees. The SBA has technical assistance and loan product guarantees specifically for exports. Also the SBA is a partner with our sister federal agencies in U.S. export centers (USEACS). There are 19 USEACS across the country, with locations in Southern California.

The SBA also offers three financing tools developed exclusively for export development. They are Export Express, Export Working Capital Programs, or as we call them, the EWCP, and the International Trade Loan Program.

The SBA's new Export Express loan program, offering a maximum loan amount of $250,000, is geared towards small businesses that have export potential but require funds to cover the initial cost of entering an export market. A local example of a firm that used Export Express is Korea Crest, an exporter of piping insulation and industrial chemicals. Korea Crest received a working capital loan used in part to attend an international conference in Seoul. The SBA in association with California Center Bank financed their trade promotion costs.

Paul Lee, the International Development Vice President of California Center Bank in Los Angeles, who underwrote the guaranty application, commented that this unique loan program can provide much needed trade promotion financing to America's exporters, and we look forward to providing financing assistance to many more export businesses through the SBA.

The SBA recognizes that many small businesses have difficulty in obtaining a short-term working capital loan because their collateral is tied up in long-term loans. The EWCP is designed to help these small exporters by supporting transaction-based loans. To make the EWCP even more user friendly for exporters and lenders, the SBA and the U.S. Export-Import Bank, Ex-Im, divided the export financing market with the SBA, extending guarantees of $1 million or less, and Ex-Im Bank holds all guarantees over $1 million.

Congresswoman, in your district we have provided nearly $5 million in export working capital financing to area businesses with 60 percent of the assistance going to minority enterprises and 25 percent to women-owned businesses. The SBA has also had a very successful partnership with the State of California's Export Finance Office, whereby we jointly guarantee loans to eligible small businesses.

The SBA's offices in Southern California have financed 470 transactions for $207 million. Recently the Small Business Administration and Ex-Im entered into a small business initiative memorandum of cooperation.

The first phase of this initiative is to leverage market resources, thereby raising awareness among lenders and exporters.

Lastly, Mr. Chairman, you also wanted to discuss trade adjustment assistance for minimizing any adverse effects of trade agreements. The SBA offers the International Trade Loan program for those small businesses that have been adversely impacted by import competition. This program was designed to help small businesses improve their competitive position by providing eligible firms with necessary financing to support their export and upgrade their physical plant and equipment.

Under this program the SBA can provide a repayment guarantee to commercial lenders for up to $1.25 million in combined working capital and fixed asset loans, including any other current SBA loan guaranties.

Additionally, here in Los Angeles the North American Development Bank administers a loan program called the U.S. Community Adjustment and Investment Program, or CAIP. Through the Department of Agriculture's business and industry loan guarantee program and the SBA's 7A and 504 program, the CAIP provides finance resources in U.S. communities that need assistance adjusting to changes in trade patterns with Canada or Mexico. It is estimated that the SBA has helped to create or preserve over 5,000 jobs.

In general, the SBA's programs can help people start a business, change, or modify their business plan, assist with advertising to different markets or any other management needs and financing. The SBA's Los Angeles District Office and its Government Contracting and International Trade units are proud of the service they have provided to small minority- and women-owned businesses.

While Administrator Barreto continually remind us that much remains to be done, it has been exciting and rewarding to work with the area's entrepreneurs to support their business growth, thereby creating jobs and build stronger neighborhoods. The SBA is here to serve you as well as to listen so we can serve you better.

Please note that I have also submitted written testimony with the committee, and once again, thank you, and I will be happy to answer any questions.

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

Chairman MANZULLO. Thank you. Our next witness is Mary—is it Delmege?

Ms. DELMEGE. Delmege.

Chairman MANZULLO. Delmege. Sent here by, I guess, would it be your boss, Jeri Jensen-Moran?

Ms. DELMEGE. Yes, sir.

Chairman MANZULLO. As the senior advisor for the Trade Promotion Coordinating Committee. I was elected to Congress in November of '92, and sat for years on the International Relations Committee, on the Subcommittee on International Economic Policy and Trade. And I recall, as I was sworn in on January 3 1993, that September 1st of 1993 was the deadline date by which the Trade Promotion Coordinating Committee was to come up with its report bringing together all 19 agencies involved in trade promotion, and they met the deadline. We were astonished, but we have found that some of the most prolific workers in the federal government have been those that are involved in trade. We look forward to your testimony. Thank you.

STATEMENT OF MARY DELMEGE, SENIOR ADVISOR TO THE TRADE PROMOTION COORDINATING COMMITTEE, DEPARTMENT OF COMMERCE, SAN DIEGO, CA

Ms. DELMEGE. Thank you very much. Thank you very much. Mr. Chairman, Representative Napolitano. Thanks for inviting us to this hearing. It provides an excellent opportunity to highlight the importance of trade for our economy and to talk about how small and mid-sized businesses are participating in global trade.

I'd also like to discuss current efforts to ensure that the resources that are available to help small businesses participate in trade are delivered in a coordinated manner. Finally, I'd like to share with you some examples of small California firms that have recently succeeded in selling into overseas markets.

With regard to the importance of trade, the facts speak for themselves, as my colleague from SBA said. Exports have accounted for nearly 30 percent of U.S. economic growth since 1989, and 97 percent of the U.S. businesses that export are small and mid-sized firms.

In developing the National Export Strategy this year, we surveyed more than 1,000 small and mid-sized exporters. One of the things we learned was that many small and mid-sized companies that export regard trade as a core element of their business, and they expect it to serve as a continued source of revenue growth.

Many of them also view their export sales as an important source of diversification when their domestic sales are either flat or declining.

The majority of the firms surveyed have experienced growth of more than five percent annually in the past three years in their exports, and they expect their export sales will continue to grow more than five percent annually over the next three years. Of the small businesses, those under 100 employees, that export, 60 percent of those companies derive more than 20 percent of their total sales from exporting.

There is no doubt about the fact that trade provides tremendous benefits for small and mid-sized U.S. companies, and it's well worth the time and effort we are spending to make sure that services are delivered in a coordinated and effective manner.

The Trade Promotion Coordinating Committee was established in 1993 by executive order, pursuant to the 1992 Export Enhancement Act, and it was designed to provide a unifying framework for all of the different agencies that provide.

Each year we produce the National Export Strategy. This year, the strategy was developed through a unique process. We reached out to U.S. firms in order to better understand their needs. In addition to the survey that I just mentioned, we also conducted numerous one-on-one interviews and focus groups. We also looked at the trade promotion practices of other industrialized countries to learn as much as we could about their best practices.

All of this was used to develop a series of recommendations, for better customer service, better outreach, and better education. And a lot of the specific recommendations, as you know, go to the issue of training. Although the users of our services generally tend to be pleased, many of them told us that they would like to see better coordination between the agencies. They expect more seamless customer service, if you will.

As a result of this, there is an interagency task force that's working right now on developing a training proposal that will make sure that trade specialists who interact with clients are well versed in the full array of services available. Trade specialists should be able to match the needs of the clients with the most appropriate resources. The Commercial Service currently has over 300 international trade specialists in the field, and our goal is to develop them as true account managers who are able to provide clients with the full array of services.

This isn't really a new effort. It's important to point out that the 1993 National Export Strategy called for the creation of U.S. Export Assistance Centers. Right here in Los Angeles was one of the first four that was developed, and the work continues today with Ex-Im, SBA, and the Commerce Department working side by side to develop export services.

So far this year, these offices in Southern California have counseled more than 1,100 clients and they've reported 480 completed export transactions worth a total of $180 million.

I'll just give you a couple of quick examples. One is a firm here in Santa Fe Springs. We helped them resolve an issue with Mexican Customs authorities, leading to the successful shipment of over $30,000 worth of refurbished electronics equipment.

In another case, the U.S. Export Assistance Center helped an apparel manufacturing firm here in Vernon link up with our commercial officer in France, through a series of "gold key" meetings, and the company was able to expand their distribution network and generate sales in excess of $200,000 this year.

These are just a couple of examples of local firms that have benefited locally, but we feel that provided these trade specialists with additional training and resources, we will be able to increase the scope of assistance that's available to small and mid-sized firms.

I very much appreciate the opportunity to testify, and look forward to answering any questions that you might have.

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

Chairman MANZULLO. Thank you. The next two witnesses will split a five-minute segment. William Redway, who is the group vice president of Small and New Business Group, of the Ex-Im Bank, and who came in from Washington, and David Josephson, who is the regional director of the Western Region Office of the Export-Import Bank out of Long Beach. I look forward to your testimony.

STATEMENT OF WILLIAM REDWAY, GROUP VICE PRESIDENT, SMALL AND NEW BUSINESS GROUP AND DAVID JOSEPHSON, REGIONAL DIRECTOR OF WESTERN REGION OFFICE, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. REDWAY. Thank you very much, Chairman Manzullo, and thank you very much, Congresslady Napolitano, for giving us the opportunity to testify. I am Bill Redway, and I'm with the Export-Import Bank. For those of you that are not familiar with Ex-Im Bank, just briefly, we are the U.S. Government's export credit agency. It's designed to support U.S. exports by providing competitive financing. Other countries, almost every developed country, has an organization like us, the Japanese, the English, who do the same thing we do.

We are a small agency. We're about 420 employees with about 110 of those employees in my group which is devoted to small business.

We've got several mandates. We're not supposed to compete with the private sector. We are supposed to support small business. We are—we have other mandates, exporting goods to Africa, this sort of thing. What this means, especially the business don't compete with the private sector, is that we are the agency of last resort. We do the riskiest deals, we do the longest term deals, and we do the smallest deals. The private sector generally takes what is the middle, and we go around the periphery.

The last year we did, we supported $12.5 billion of U.S. exports of which $1.7 billion, or 18 percent, were for small business; 90 percent of the bank's transactions, however, were small business transactions. So that the picture of Ex-Im Bank is support for large business, but also a very, very large support for small business.

Our small business programs, which the state of California has taken a lot of, has used very aggressively over the last 30 years, the first one is our working capital guarantee facility, which my friend from the SBA described their facility. Ours is similar. We do handle the larger transactions, but they're still small. We did almost $700 million of these last year, and 90 percent of those were for small business.

It's based on delegated authorities, so we delegate authority to banks, of which there are 70 in the state of California which are approved delegated lenders. Wells Fargo Bank here in Los Angeles was our Small Business Bank of the Year last year.

Our other very large small business program is our insurance program which supports—which basically insures repayment by the foreign buyers so that we basically are taking foreign buyer risk. If you go into our insurance division, it looks like the commercial lending unit of any Commerce Bank, but it's fairly sophisticated, and we did about 10,000 transactions in that division last year.

Chairman MANZULLO. You have two and a half minutes there. Did you want to yield to your colleague there?

Mr. REDWAY. What I'm going to do, I am going to do most of the talking, and David, who is going to be the California guy, who sits right here, he's going to answer most of the questions. If that's okay with you all.

The biggest problem we have got is nobody knows who we are, so how do you get our name in front of—in front of small businesses here in California and all over the country? We have got a marketing budget by U.S. Government standards which is large, but it's less than a million dollars, so you can see that is not large by most standards. We have six branch offices which spread the word.

Last year we sent out 300,000 pieces of direct mail, we did 37 trade shows, we did 60 seminars, and we've worked very hard with various trade associations around the country. We also worked with 39 city-state partners, of which Seafoe here in the state of California is a very active participant.

I will talk a little bit about California at this point. The—and, David, you jump in if I don't get any of this right. As I said, Wells Fargo Bank was our Small Business Bank of the Year last year. We're also in the San Francisco area. The Silicon Valley Bank is our largest delegated authority lender, our most experienced.

We did out of the state of California last year—no, I'm sorry, the first nine months of the year, $619 million, we supported. We have 15 active insurance brokers who are promoting our products, and, as I said, we did SeaFoe, and we have got as a very active delegated authority lender.

In this district, District 34, in the last five years, we've done a total of 23 transactions, of which 19 were for small business, a total of $158 million. So we have been fairly active here. That is not—remember, it's five years. It's not a figure that I—it's not a figure I am ashamed of, but it's one I think can be very definitely improved on, if we can get the word to people on what our programs really are.

Chairman MANZULLO. Let me make this suggestion. And, again, I want to emphasize the reason that we have the folks from Washington out here is not to justify the existence of the agencies. Nobody's got any gripe at all.

The problem is there is always a huge disconnect, and we see it happening today. The purpose of this testimony is not to edify Ms.

Napolitano and me. We understand this probably better than most of you because we have to authorize a lot of it. I rewrote OPIC and TDA, and I was in the process of writing the Export Administration Act before I became Chairman of this Committee, but the purpose of your testimony, again, is not for us. What I would like to do is take an additional minute and a half, and tell the small business people here exactly what Ex-Im can do for them. Could you do that?

Mr. REDWAY. All right.

Chairman MANZULLO. Appreciate that. Go ahead.

Mr. REDWAY. Let's start with the working capital guarantee program. This is an asset-based lending program which is designed to provide working capital for small firms. So if you are a small California exporter and you have an export order you need working capital to fill, and you've got an order in your hand, you can take that to your bank and say, hey, I have got this, the buyer—I've got a signed contract, the buyer looks like he is okay credit-wise, the—you, Commercial Bank, you, Wells Fargo Bank, take a look at that buyer, and if you think he is okay, you can approve it under your delegated authority and advance me the funds so I can build the widget that needs to be built. That's the working capital guarantee. $700 million last year done that way.

On the insurance side, again, you are a California exporter, and—I'm going to turn this over to David in one minute to give you actual examples. But you've got, say, a Brazilian buyer, and he wants—he places a million dollar order, he wants 90 days to pay. You are not going to take Brazilian risk. It's just not a risk you want to take.

So you say, okay, get yourself an insurance policy, and Ex-Im Bank will go and insure that buyer as long as the credit is good, because again, reasonable assurance of repayment, we are not an aid organization, we are a commercial organization. We look at the Brazilian buyer, we say, that's okay, we will give you an insurance policy against commercial and political risks, and that is what that does.

Now, the California exporter can then take that to his bank, any bank, and they will advance against a federally insured receivable, not a Brazilian receivable. That is what we do. We did 10,000 of those deals last year.

Mrs. NAPOLITANO. Would you mind telling the audience what countries you are in, what countries you're not in?

Mr. REDWAY. We are open in just about every country in the world. The ones we are politically prohibited from, I'm thinking, say, Libya, Cuba, right, those countries we are not open, but every other country we are in, with some exceptions. It's a long list, but basically, most of the countries that you would be dealing with, we are open.

Mrs. NAPOLITANO. And you now have a working agreement with Mexico, I understand, which you didn't have it for many years.

Mr. REDWAY. We do a ton of—Mexico is our biggest market. Yes, we have a very strong working agreement with Mexico, and all the way through. Latin America is our largest area.

I might just finish with this and say that—and this is a political statement, I suppose, but we have a small business set-aside which with our reauthorization has just been doubled, so we are going to try and be twice as aggressive as we have been in the past. I think you all are very familiar with that, and I am open for any questions, and Dave in particular.

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

Chairman MANZULLO. So, bottom line is, if companies are already exporting, then they can go to you, but if a company, a small business person wants to get involved in exports, the best place to go is to the local USEAC center. Is that correct?

Mr. REDWAY. Right.

Chairman MANZULLO. Dave, you want to answer that?

Mr. JOSEPHSON. Right. We have—in our office, we get the full spectrum. We get extremely experienced exporters that need to fine-tune their risk portfolio when they come in to Ex-Im Bank for insurance; we get middle size and small businesses that need working capital; and then we get hopefuls, you know, they have a formula in a garage, and their wife has a brother in the Ministry of Industry in some country, and they—they don't have a business plan, they don't have anything, except a dream; so we have a SCORE representative who can help the new businesses actually get equity financing and a business plan up and running.

I think our colleague from the Small Business Administration already noted that if they need working capital under one million, we refer them to Small Business Administration. If it's over a million, we do the underwriting on that transaction.

Then some of them come in as you mention. They really want to expand their market so then we send them to the DOC for a whole array of products and services that they offer through their foreign commercial center.

Chairman MANZULLO. So, if you get somebody here that doesn't even know if he or she has a product to export, the very first stop they would go to would be the United States Export Assistance Centers or the Small Business Development Centers? Would that be correct?

Mr. JOSEPHSON. The first stop would be the DOC. The DOC can go into any country.

Chairman MANZULLO. Okay. Now, where do people contact the Department of Commerce in this area?

Mr. JOSEPHSON. In one of 19 USEACS, is it?

Ms. DELMEGE. Here in Southern California we have five offices. We have two in Los Angeles, one in West L.A. And one in downtown Los Angeles.

Chairman MANZULLO. Okay. Now, for the folks in Los Angeles, then, Grace, do you have the number there for the USEAC office, at your office? What phone number? We're getting very practical here, folks. What phone number? Way in back. Yes? Is that Ray? Go ahead.

Mr. REDWAY. The number is back in the office, Congresswoman.

Mrs. NAPOLITANO. Well, I know we have it, but this place doesn't have it. And that's why it should be out to the business.

Chairman MANZULLO. Okay. Well, they could contact your office, and you can get that to them. So, if you want to export, get a hold of Grace. Yes, sir. Back with your hand up.

AUDIENCE MEMBER. We have a flyer out here that has phone numbers and contact names.

Chairman MANZULLO. That's great.

Mr. THOMPSON. He works for the SBA, Mr. Chairman.

Chairman MANZULLO. Good. That's great.

Mrs. NAPOLITANO. Mr. Chairman, I'll take the prerogative as your host—hostess, that the SBA representative, Mr. Alvarado, has been exemplary in working with my small businesses. In fact, we have a gentleman sitting in the back, Ron Beilke, just opened his business, and he can't say enough about SBA. He's got several people here. I just want to tell you that he does great work.

And while a lot of people don't know, it's important that they realize that you don't have that kind of big staff, so they need to be patient. However, small business doesn't have the time, so it's important that we kind of understand different agencies' roles in what it is they need to learn about, and while we have you here, we are taping it, hopefully we will get it running and capable so business can understand it, but it's not all the time—how many people come in here to listen and understand and learn and get educated, and this is one of the things I hope you will help all of us be able to better do the outreach to our businesses so that we can have you better—how would I—not prepared, you are prepared, able to deal with the influx of business.

You are saying you're doing a certain amount of money in my district. That's not enough. And I can tell you because we have got thousands upon thousands of businesses that are looking for help, and yet, if I send them to you, you are not going to be able to deal with them, because there is so many. You don't have that kind of personnel. And, again, my frustration is that there's too many bureaucrats doing things in Washington and not enough down here.

Chairman MANZULLO. Well, I guess on that note, everybody here has a purpose in dealing with the small business people, and our goal, Grace, is to make sure that anybody who wants to get involved in the exports, really all they have to do is call your office, and you'll get them over to the nearest USEAC center, and that will put into operation the folks from SBA, the Department of Commerce, and the Ex-Im Bank. Okay. I guess we've made that point.

Our next guest is Raul Hinojosa. Is it a member of your family that is a member of Congress, from Texas?

Mr. HINOJOSA. Yes. The southern part of Texas, yes. Related, yes.

Chairman MANZULLO. Southern part. He's way at the bottom of Texas down there. Anyway, Raul is the Research Director of the North America Integration and Development Center, School of Public Policy and Social Research, University of California at Los Angeles. That's quite a title there. We look forward to your testimony.

Mrs. NAPOLITANO. Not only that, Mr. Chair, but he's also what I consider to be the brains behind NADBank.

STATEMENT OF RAUL HINOJOSA, RESEARCH DIRECTOR, NORTH AMERICAN INTEGRATION AND DEVELOPMENT CENTER, SCHOOL OF PUBLIC POLICY AND SOCIAL RESEARCH, UNIVERSITY OF CALIFORNIA LOS ANGELES (UCLA), LOS ANGELES, CALIFORNIA

Mr. HINOJOSA. Thank you, Grace. And thank you, Mr. Chairman. I do in fact run something called the North American Integration and Development Center. And I am proud to say what we do at the Center is focus on the questions of globalization, its impacts, both positive and negative, and how do we create public policy to make globalization a win-win proposition, particularly for local communities, and I am proud to say that we enjoy very good support from unions as well as small business Chambers of Commerce, and we try to be very, very sort of evenhanded in our analysis.

I just want to make two quick points about the nature of small businesses in the international arena. One, from the tracking information that we have, and I have prepared some testimony for you on this as well as some policy initiatives. One quick thing, small businesses, the reality of it is, they are not actually in the tradable sectors of the economy. Ninety-five percent of small businesses, as you know, are in what are called the nontradable sectors, so they are not very participatory right now.

Hispanics, interestingly enough, Hispanic businesses and Hispanic workers are much more represented in the tradable sectors of the economy, which means both exports, which is potentially positive, but also imports, which is very—affecting this area. So we are looking at both the job gains and the job losses.

In particular, though, one thing I want to point out, that a lot of the debate on globalization has concentrated on these job losses and job gains, is actually missing what I actually think is a very important part of the picture, particularly in Southern California.

Our relationship to the world is actually much more through immigration and through remittances, and a very large untapped resource is immigrant entrepreneurs, and that is what I want to focus a little bit on.

We have a project now at UCLA that we think that immigrant entrepreneurs, small business entrepreneurs are an incredible asset for the United States in terms of the ability to link up with markets and with new types of joint ventures all over the world that is unique to the United States, unlike actually many parts of Japan, for example, which doesn't have that type of ability, and particularly from a small business perspective.

We are now working with Hometown Association of Immigrants from Mexico, Central America, Vietnam, and India. I am going to mention just one of 20 projects that we are incubating to create, for example, wireless technology here by Indian and Chinese companies, that are now providing Internet connectivity in the rural countryside and immigrant centered regions of Mexico to reduce costs of telecommunications and remittance sendings, which represents more than 50 percent of what immigrant households, transnational households, spent. Both here in the U.S. and abroad, 50 percent of their income goes to financial services or to telecommunications, very high cost.

Here is a small company, rooted here, developing this new type of technology. What is the problem? The problem is that we—our—and these gentlemen and ladies are—have developed a very important base here in the United States for small business support.

What we really need to do is get it globalized, transnational small business development activities. And that was actually the idea that we originally had six years ago, with the North American Development Bank, to create, in the case of North America, a unified strategy for supporting these types of transnational small businesses.

Multinationals have it. They have the transnational law firms, they have the transnational banks. It's very hard for the small businesses to break into that.

I know that Hector Baretto with SBA has now opened up an SBDC in Guadalajara, first of its kind in the world. You know, it's not really off the ground yet, and in part we really need to have a great deal more focus. NAFTA is a perfect place to really even out these benefits in this community which is also potentially the most at risk, which I was pointing out.

So I would suggest a couple of very concrete points. One is that we work with the North American Development Bank. I would love it if your committee worked more closely with SBA to develop this strategy on a bi-national basis, go down to the Bi-national Conference that is going to be held with legislators from both countries, in November, with—President Bush is now apparently going to go down there to raise this agenda item.

Secondly, broader point, we are about to negotiate something called the Free Trade of the Americas Initiative. The small business agenda has to be on these globalization discussions. If not, people are going to continue to be left out of the process, and my time is up. There's a lot more that I think that we can talk about at the local level that there are really opportunities to advance along these lines.

Chairman MANZULLO. I appreciate your testimony. I also am a member of the Financial Services Committee, and I sit on the subcommittee that deals with the multilateral development banks, and next time you are in Washington, please stop by and you can take out Grace and me for some coffee, and look forward to exploring this on a greater level with you.

Mr. HINOJOSA. Absolutely.

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

Chairman MANZULLO. Our next good follow-up witness is Hugh Loftus. Hugh is the director of the Community Adjustment Investment Program of the North American Development Bank in the City of Industry in California. Hugh, look forward to hearing your testimony.

STATEMENT OF HUGH LOFTUS, DIRECTOR, COMMUNITY ADJUSTMENT AND INVESTMENT PROGRAM, NORTH AMERICAN DEVELOPMENT (NAD) BANK, CITY OF INDUSTRY, CALIFORNIA

Mr. LOFTUS. Thank you, Mr. Chairman. I am pleased to be here today, and thank you, Congresswoman Napolitano, for including me in the program. I have submitted some remarks which I will let stand on their own, since they went in a direction which was not of the chairman's wishes, to be a little bit more practical in terms of how we can interact directly with businesses. Does give me an opportunity to answer the question and also talk about one of the fundamental problems in the way we've approached our particular program.

We were established to go in to help communities as opposed to businesses or individuals deal with NAFTA impacts measured by job losses by trying to replace jobs in the community so we did not try and preserve businesses that were being negatively affected, we did not impose on the Department of Labor's issues in working with workers. We tried to take a regional community-wide look at how can we create replacement jobs.

We work very closely with the SBA and with the U.S. Department of Agriculture, augmenting and enhancing their loan programs for small business, trying to overcome with the resources we had some of the perceived problems that we felt both caused businesses to hesitate in pursuing the opportunities, typically the fees and costs associated with that or the processing time associated with that, and to encourage them, if they were going to pursue the program, to look at actually possibly borrowing more money, expanding more rapidly because of some of the cost savings that we could afford.

I have nothing but compliments for our friends at SBA and USDA that we have worked with over the years, but the critical element that is involved in that process, and alluded to by several other groups, are the commercial lenders in the marketplace.

What we have found over the six years of our program in working with these agencies is that we can have a very effective program in rural and smaller communities because we can become a visible entity. They can see a transaction; they can identify our participation; they can think of us as a resource and a tool, which is what we want. You take that same program, and put it in a large urban area like Los Angeles County, and getting visibility in Los Angeles County is the hardest thing you can do in the world.

We have had meetings with lenders, we have had meetings with businesses, we outreached to Chambers. If you don't turn a meeting into a transaction within 48 hours, within another 48 hours, that meeting never took place. Life goes on, and memory diminishes.

So we have found that the one—the critical element for us to work with is a better way to engage the financial institutions. Candidly, the program that we put together was designed to enhance small businesses, to attract them and to give them an incentive. The cost of that is an additional work burden on the banks. They have to take on more burden to process the loans the way we're doing them in order to garner benefits for their borrowers, and which basically, in summary, there is really not very much in it for the banks.

And so, for the smaller communities, where the bank is an integral part of the community, and works with the businesses on a daily basis, we have been successful. In the larger communities, we have been told by some large banks, that they simply cannot interrupt their normal production process by identifying the occasional transaction that might qualify, and could save—in the maximum it could save the small business $25,000.

Chairman MANZULLO. Hugh, let me interrupt here in your time left. When would a small business person come to you or a local community come to you for your services at the NADBank?

Mr. LOFTUS. Let me answer that—I'll flip the question. We deal at the community level, and when we identify a community as becoming eligible for our program and using the resources at the NADBank, they provide us with regular analysis of data where we can identify NAFTA-impacted communities. We bring them into the program, at which time we notify the elected representatives, both federal, state and local.

We do outreach through the SBA's auspices to the local institutions and notify them they now have eligibility for the program. We provide them with brochures, and there are copies of those outside on the table. That's how they would know that they were in the program and get information as to what the program would do for them.

Our program basically only has about $20 million in funding. There's very little money, so there is not much interactions directly with small businesses per se.

We have made a total of five direct loans under our program which says we will lend directly, where one of the government guaranteed loan programs or a regular conventional loan isn't applicable, but it is still supposed to be a reasonable credit, and there aren't an awful lot of those out there.

So we have in a few cases found transactions where we can participate as a direct lender. Primarily we direct borrowers to the bank, to the local resource centers that they've got, the Small Business Development Centers, SBA offices, and just ask them, do you have a bank in your community that is willing to take the additional time—and it isn't much, probably takes an extra two or three days, is all the process through our program, to save the applicant the cost of the guarantee fee or to assure that in the case of the Department of Agriculture that the loan guarantee funds will be available to cover them, because we actually can supplement the Department of Agriculture's capacity to issue guarantees by giving them additional funding when a qualified loan comes along.

We also do the same thing with SBA, but with SBA last year I think we did 100 loans. The SBA probably did 30 or 40,000. So with the SBA, we are not a huge program.

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

Chairman MANZULLO. I appreciate your testimony. Okay. We are going to shift gears just a little bit here and go to the issue of import duties that have been placed upon steel under the Section 201, of the Trade Act, and we are going to have a pair that will testify together, Anita Huseth, President, and John Reynolds General Manager of Mace Metal Sales here in Los Angeles. Whoever wants to start and control the time, can go first. Anita, would that be you? Go ahead. We look forward to your testimony.

STATEMENT OF ANITH HUSETH, PRESIDENT, MACE METAL SALES, LOS ANGELES, CALIFORNIA

Ms. HUSETH. Thank you, Mr. Chairman. I would like to thank Congressman Donald A. Manzullo, Chairman of the Committee on Small Business, for inviting me to represent my company, Mace Metal Sales, Inc., a steel service center located in Los Angeles, California. I would also like to thank Congresswoman Grace Napolitano for hosting this meeting in her district.

My husband and I initially started Mace Metal Sales in 1971, and have seen it evolve into a successful company during these 31 years. My husband Marvin ran the business for 20 years, and upon his death in 1991 I took charge.

As a steel service center, we deal primarily with carbon flat rolled steel. We store, cut or process the steel for end users.

We are proud to say that we never turn down a customer, no matter how small the order may be, and consider ourselves a customized service center because we adhere to the customer's most demanding considerations. Perhaps this is the reason for our success. We continue to put food on the table for 29 American families, provide full medical coverage for all the family members, and fund employee to retirement one hundred percent. We solve our own internal problems.

President Bush stated that small business owners account for the majority of employment in this country.

NEGATIVE IMPACT OF SECTION 201 ON MACE METAL SALES

We do not have enough domestic mills here in California. We are put on allocation with lead times that are not dependable. What used to be six- to 12-month steel contracts with our customers are now three-month contracts because of the steady rise in steel prices. It is very difficult to keep going back to our customers and informing them that the steel is not available, our allocation allotment has been reduced or our lead times are now pushed out another two to four months.

This year, we had to turn down at least $2 million worth of business simply because the steel was not available.

We have layoffs, and the final end is unemployment. It is obvious that Section 201 is not working for us, and the domestic mills cannot do the job, simply because they do not have the capacity, material, or work force.

To meet our needs, the mills will have to supply us with the additional 25 percent of steel that we normally import.

Something can be done and action must be taken to rescind or amend Section 201 and open the door for more steel to come in and give us relief.

Our problems are serious, and we need help. Thank you.

Our general manager of Mace Mills, John Reynolds.

STATEMENT OF JOHN REYNOLDS, GENERAL MANAGER OF MACE METAL SALES, LOS ANGELES, CALIFORNIA

Mr. REYNOLDS. I'd like to thank you for giving me the opportunity to testify today. I just want to make everybody aware, that Mace Metal Sales has been a very good supporter of domestic mills in the past, and will continue to do so in the future.

However, we do disagree with the 201 decisions for the following reasons.

Never before have the prices increase at this rate. Since March 2002, depending on the product, prices have gone up $20 to $40 per ton every 30 to 60 days. Overall, we have seen a 40 percent increase that's very difficult to pass on to our customers, and we don't know where it's going to end or how far—or how much longer it will last.

It's just been too much too soon for our customers to absorb. They are losing business at an alarming rate to countries such as China who are importing finished goods into this country at prices below the raw material cost. So maybe the 201 decision should focus on some issues like that instead of raw material. Raising prices for those type of customers is not the answer.

Allocations, steel shortages and lead times. What can be said? If you don't have steel, you can't sell it. We have been cut back by roughly 30 to 40 percent. Without imported steel, the domestic mills cannot produce enough steel to supply this market. Therefore, we have shortages, which leads to allocation, which leads to loss of business.

If we cannot get enough steel for all of our current customers' requirements, they must buy elsewhere, and so they'll go shopping around and we lose part of that business too.

In July, we were asked to place orders through the end of the year. That is a six-month lead time. In this business, that is way too long. It is only a guess at that time how much steel you are going to need and at what sizes you can bring in. When we get calls for future inquiries, at the time we cannot accommodate the customers simply because all of our steel has already been ordered and has been booked.

One of our suppliers called and said, "I had to reduce my allocation by another 400 tons for the fourth quarter of the year 2002, simply because the third quarter allocations, 400 tons of it could not be produced and had to move over into the fourth quarter." I don't understand that. I don't know why I have to pay the price for their failure. They also explained that they can only roll so many tons, which is another problem out here on the West Coast. There are simply not enough suppliers.

Number three is the loss of business. If you take points one and two, high prices, long lead times along with not enough steel, and it all adds up to loss of business, and there's just not enough—not only for the current business, but future business as well.

It is our position that the 201 decision should be reconsidered. It seems to help only a few and not the majority in the steel industry.

While Mace is a small minority woman-owned business and may not seem significant in the context of the entire steel industry, don't forget, there are thousands of us out there. Thank you very much.

[Applause.]

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

Chairman MANZULLO. These must be the steel users.

Let me introduce again, representing Hilda Solis, member of Congress, Aiha Nguyen. Are you here? She had to leave. We have also been joined by Tony Cardenas, California Assembly Member from the 39th District. Tony, where are you? Why don't you stand up.

Then Grace wants me to reemphasize that you can validate your parking at the sign-in table. Is that correct?

Mrs. NAPOLITANO. Right there.

Chairman MANZULLO. Okay. The next witness will be Bart Alcamo, President of RBK Tool & Die Company, on behalf of the Society of the Plastics Industry, Incorporated. We look forward to your testimony.

STATEMENT OF BART ALCAMO, PRESIDENT, RBK TOOL & DIE COMPANY, ON BEHALF OF THE SOCIETY OF THE PLASTICS INDUSTRY, INC., MODESTO, CALIFORNIA

Mr. ALCAMO. Thank you, Chairman Manzullo and Representative Napolitano, for calling this field hearing of the U.S. House of Representatives' Small Business Committee to address a number of important issues affecting small businesses in California.

On behalf of The Society of the Plastics Industry, I would like to address one of the issues slated for your consideration today: The adverse impacts on companies from the recent tariffs on steel.

Founded in 1937, The Society of Plastics Industry, Inc. Is the trade association representing one of the largest manufacturing industries in the United States. SPI's 1,500-member companies represent the entire plastics industry supply chain, including processors, machinery and equipment manufacturers and raw material suppliers. The U.S. plastics industry employs some 1.5 million workers and provides $330 billion in annual shipments.

The plastics processing industry is the fourth largest manufacturing industry in the United States after motor vehicles, electronics and petroleum refining. California, it must be noted, ranks number one in the country in terms of plastics jobs, 147,000 persons.

The State ranks second for shipments, shipping more than $27 billion in plastic raw material, products and equipment. In the six-county region from Los Angeles to San Diego, the plastics industry is responsible for more than 70,000 jobs and $14.3 billion in shipments, and Los Angeles County has more plastics jobs than any other county in the entire United States.

Thus, I don't think there should be any doubt about the significance of the plastics industry to the United States, California, or, in particular, this region of California.

Ours is an industry that has grown more rapidly than overall manufacturing for the past 25 years, as it has continued to adapt to meet the ever-growing needs of consumers and to meet ever-changing economic challenges. Today, however, the industry is certainly facing some particularly tough times, as it has been hard hit in the past two-and-a-half years during the nation's economic slowdown.

For example, the plastics equipment sector experienced a 40.4 percent decline in shipment in 2001 compared to 2002. Shipments of injection molding machines, the largest industry equipment market, dropped nearly 50 percent from quarter four, 2001 compared to quarter four, 2000. The hope that 2001 was a bottoming out of the equipment market did not materialize as the first quarter of 2002 continued the downward trend, with an additional 23.3 percent slowdown compared to the previous year.

The current economic climate for the plastics equipment sector has been very hard indeed, with frequent announcements of layoffs and plant closures that hurt American workers and the industry. In one company survey of 1,000 moldmakers, another plastics industry equipment segment, the average profitability for moldmakers is down to just 1.4 percent.

All this serves to explain, as you may have been wondering, why the plastics industry is here to testify before the Small Business Committee on the effects of the recent Steel Tariff's decision by the Bush Administration. And that is because the equipment and mold sectors of the plastics industry are steel consumers, and the President's imposition of tariffs on steel has exacerbated an already challenging situation.

As an example, Universal Dynamics, a plastics auxiliary manufacturer, experienced a 20 percent increase in their steel price immediately following the tariff's decision. Its steel suppliers have told them that another increase may be expected in September. Estimated annual costs to this company for steel price increases are more than $100,000 annually. While this company has grown to meet the global demands of the worldwide plastics industry, uncertainty about if and when a steel increase may happen, or how much the increase may be, adds another level of uncertainty to an overall already volatile economic environment.

Another large diversified company, ITW, which is a major plastics processor and employs some 52,000 workers in plants in 43 countries, believes that the tariff's increase may cost the company nearly $20 million annually in additional duties. Other major plastics equipment manufacturers have experienced price increases ranging from 9 to 16 percent since March 2002, when the tariff was implemented, with increases growing to more than 35 percent over the past year.

While there have been exclusions granted from the U.S. Trade Representatives for certain steel imports, steel consumers are still feeling the pinch. One plastics company, for instance, applied for 21 exclusions from the tariff, to have only four granted.

Chairman MANZULLO. Your time is up, but tell us about your own company.

Mr. ALCAMO. Our company has had some experience with the steel increase in the tariffs. However, it's been minimal to us because there's been a lack of work because of the uncertainty of the manufacturers placing orders.

Chairman MANZULLO. You have had a double whammy.

Mr. ALCAMO. Got a double whammy.

Chairman MANZULLO. Okay. Does that conclude your remarks? Is that really everything you wanted to say in there?

Mr. ALCAMO. Yes. It pretty much concludes what I had to say.

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

Chairman MANZULLO. Okay. We'll get that in the Q and A. Thank you. The next witness is Terry Bonds. Terry is the District Director 12 of United States Steelworkers of America, came all the way from Albuquerque, to be with us, and here you are, Terry. We look forward to your testimony.

STATEMENT OF TERRY BONDS, DIRECTOR, DISTRICT 12, UNITED STEELWORKERS OF AMERICA, ALBUQUERQUE, NEW MEXICO

Mr. BONDS. Good morning. My name is Terry Bonds, and I'm the director of District 12 of the United Steelworkers of America. I represent 40,000 men and women who work in many industries within nine southwestern states, including California.

I would like to thank the Committee on Small Business Chairman Manzullo for giving me the opportunity to address the issues of international trade and steel tariffs. I'd also like to express my appreciation to Congresswoman Napolitano for inviting me to this hearing in her home district.

Following the Asian economic crisis, steel imports destined for Asia and Europe were diverted to the U.S. steel imports rose from 31 million tons in 1997 to 41 million tons in 1998, and reached nearly 40 percent of the market.

Domestic steel prices fell by 30 to 40 percent. The price of hot-rolled steel fell from an average of $340 per ton in 1997 to $210 per ton by December 2001.

Currently there is a global over-capacity of 250 million tons.

The impact of the steel crisis of 1997–2002 cannot be overstated. Since 1998, 35 companies have declared bankruptcy and 17 have ceased production. Over 50,000 steelworkers lost their jobs. More than 100,000 retirees have lost their health care benefits, and the benefits of another 500,000 retirees are at risk.

Last year the International Trade Commission found that imports had seriously injured domestic steel producers. Following the most thorough investigation in its history, the FTC recommended tariffs and quotas be applied to 16 of 33 products.

On March the 5th, 2002, President Bush ordered tariffs on 14 of those products starting at 30 percent this year, falling to 24 percent next year, and then 18 percent in the third year with regular schedules resuming in the fourth year.

ITC Commissioner Hilman has estimated that the section 201 tariffs apply to only about 29 percent of all steel imports. Some legitimate exemptions have been issued, though hundreds of the 727 exemptions are for products that the domestic industry has the capacity and willingness to produce. Too many unfounded exemptions will undoubtedly weaken the 201's effectiveness.

The President's 201 decision was not intended to be a permanent solution. In fact, this temporary safeguard provides a 3-year reprieve during which the reduction of global over-capacity, the lessening of retiree health care liabilities, and the consolidation of the domestic industry must occur for future viability.

Some have expressed concern about recent price increases. Reasonable price increases were to be expected. Worldwide, prices have increased for reasons other than the 201. Current steel prices in the U.S. remain below 1997–1998 levels, and below their 20-year average.

No one wants to pay higher prices, and steel-consuming companies are no different. Steel producers have invested $60 billion to improve quality and lower prices. But the '98–'01 import prices were not fair market prices, but rather unfair dumping prices, against which U.S. producers simply could not compete. Steel consumers couldn't compete with imports dumped at 30 to 40 percent below domestic prices, and they shouldn't expect steel producers to do so either.

With steel at $210 a ton, no steel producer in America can survive. For steel consumers to expect artificial prices is not only unrealistic, it is an endorsement of dumping, a clear violation of American and international trade law. I am not assuming that they have felt no impact. We have members employed by steel-consuming firms as well as steel-producing companies. We must search for a balance to allow both to survive. But, it seems to me, for America to survive, as we know it, our nation must have a strong steel industry. We must be able to produce our own steel.

My hope is to present a balance, a view towards survival for our steel and steel-consuming industries, rather than a short-sighted view. It is not in America's interest to allow the steel industry to vanish, not for our infrastructure, not for our national security.

America has seen the danger of relying on foreign oil. Repeating this misfortune in steel would be a mistake and a threat to our economy. The day our government refuses to use our trade laws to rightfully defend American industry is the day we become solely subject to the WTO and global markets that have no regard for America's workers, producers or consumers.

Revoking the tariffs would be misguided. If Congress wishes to help steel producers and consumers, it should pass H.R. 4646, the Steel Industry Legacy Relief Act. This bill would provoke consolidation, protect retiree health care benefits, and foster a more level playing field since many foreign governments provide workers and retirees with national health care. It could even help steel consumers by reducing the cost of American steel. This bill has gained 175 co-sponsors since its introduction in May, and we hope to see its expeditious passage.

Thank you for allowing me to share my views regarding this important issue of international trade and steel tariffs. I look forward to responding to your questions.

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

Chairman MANZULLO. Thank you, Terry. Appreciate it. We are joined also by Kimberlee Tachiki. She is the Senior Field Deputy for Congresswoman Lucille Roybal-Allard. Kimberlee, where are you? Thank you for coming. Appreciate it very much.

The last witness is Tom Martin, who is the Chair of Government Affairs of the Small Manufacturers Association, SMA, out of Pomona, California, and we look forward to your testimony.

STATEMENT OF TOM MARTIN, CHAIR, GOVERNMENT AFFAIRS, SMALL MANUFACTURERS ASSOCIATION (SMA), POMONA, CALIFORNIA

Mr. MARTIN. Good morning, Mr. Chairman. I wish a special good morning and hello to Congresswoman Grace Napolitano, who through redistricting now represents Pomona, where my employer, Coast Foundry and Manufacturing, is located.

I am a member of the Board of Directors and legislative chair for the Small Manufacturers Association of California, SMAC, an organization representing about 1,000 small manufacturers in California.

David Goodrow, Chairman of the SMAC, has asked me to speak to you because our company has an intimate knowledge of this import-export issue. I am also on the Board of Directors of the California Small Business Association, another major and active organization that represents small businesses throughout California.

More importantly, I am a full-time paid employee, and manager of insurance and safety for Coast Foundry and Manufacturing, Inc., a Pomona company, which manufactures price competitive water control valves for the toilet industry.

While Coast is an industry leader, and may be the largest producer of toilet valves in the world, today we employ 210 people. Two weeks ago we employed 240, and we will say unequivocally those 30 jobs were lost to unfair imports. My remarks today are primarily on behalf of members of the SMAC, including Coast Foundry.

I am sure, if we look closely, small manufacturers can find many good things about exporting, and even a few good things about importing. Dr. James Morrison, president of the Small Business Export Association, on May 15, 2002 told the Congressional Committee on International Relations, "While there's no doubt that some of America's biggest companies can continue to increase their exports, the largest untapped resource for American exports is small and medium-sized companies."

Some of our SMAC members are exporters or want to be exporters. They are looking for customers offshore who can afford our rising prices. California proudly announced this is the fifth largest economy in the world. Unfortunately, in the eyes of California manufacturers, service industry jobs, and lawyers filing lawsuits drive our economy. California legislation is raising our cost and quickly making it noncompetitive in the Continental U.S., especially if your company manufactures price-sensitive products.

California has the second highest minimum wage in the Nation, and might soon be first. Our legislative costs and taxes to run a business are major. Private companies in most inland states cannot or more importantly will not support the high wages and benefits costs that California manufacturers must charge. They go offshore in search of cheaper but comparable products. Often they find products that are visually comparable, and occasionally they are comparable in performance and quality, but the bottom line is they are cheaper.

Manufacturers that want to stay in California have to look offshore for clients who want the quality we produce, not just the low prices and lax quality coming from overseas.

You were kind enough to offer me the opportunity to address federal programs to support small business exporting, improved trade adjustment assistance and to minimize the adverse impacts resulting from trade agreements, imports and tariffs. Although the SMAC fully supports trade adjustment assistance, I will not be discussing that today.

We have members who export, or want to export to virtually every country and every continent except Antarctica. When we export to those countries, we often find ourselves in a quagmire, where regulations in the receiving country can change overnight.

We have one member who exports to an American-owned production facility in China. Our member's product is palletized on hardwood pallets because China said they would not accept standard softwood pallets. In fact, China threatened to remove the product from the pallets, burn the pallets, and charge the expense back to the customer, which in turn would be charged to the export seller.

Now China has determined they will not accept hardwood pallets because they are not totally hard woods. They argue that even with hardwood pallets, certain portions are soft wood, and might harbor bugs and insects. If it is decided that wood-burrowing bugs have attacked the soft wood portions of the hardwood pallets, the shipment will be returned at the expense of the exporter, and the importer on their end will also be chastised and possibly barred from importing into the Chinese market.

The exporter, our member, is looking for realistically priced plastic pallets, while still trying to keep costs low to compete. China realized that the expenses will have to be eaten by the exporter or paid by the customer. Neither is a positive for the exporter. If their cost drives too high because of these irksome regulations, the Chinese believe our exporters will bail out and/or American companies, already lured to China, will buy Chinese produced products.

The Chinese are not the only ones looking to create markets for their plants' products at the expense of outsiders, but their low labor, subsidized materials and large manufacturing base make them a natural.

In his remarks to Congress, Dr. Morrison noted that a positive government study on exporting stated, "The report calls for better training, better measuring of results, and imparting a big picture national goal of promoting exports to all government export promotional personnel, as opposed to narrower agency goals." He also said, "National export strategy requires a collective effort at all levels of government. Exporting companies won't be interacting with agency officials in Washington; they will be dealing with lower level officials in federal offices across the country."

This is especially true in California. We have a mindset that says we are a part of the Pacific Rim. We have two major ports within minutes of this hearing room. California now looks to the government to provide them support in California, not Washington. But we do look to the Congress to protect us by providing a level playing field. A tariff on us should be matched by a tariff paid to us. If we are forced to pay greater tariffs going out than they are paying coming in, you are exporting our jobs. When a competitor makes price-sensitive products, is able to put that product on our dock, ready for inland shipment, that it costs lower than we pay for basic materials, we should tell our employees to go home. We cannot compete. There is more, but if you'd like me to stop, I will.

Chairman MANZULLO. The written testimony will be made part of the record. Okay. Ms. Napolitano, do you want to ask some questions?

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

Mrs. NAPOLITANO. This is the part where we start asking some of the questions that we have in mind so that the general public can get an idea of what happens. And I will start off with David Holbert, and USC. How many personnel do you have, sir?

Mr. HOLBERT. There are five individuals that work in our office.

Mrs. NAPOLITANO. Five individuals. And you cover all of Los Angeles or all of the——

Mr. HOLBERT. We cover California, Arizona, Nevada, and Hawaii.

Mrs. NAPOLITANO [continuing]. With five people.

Mr. HOLBERT. With five people, yes.

Mrs. NAPOLITANO. Again, Mr. Chair, this is why it's important that we let our people know how understaffed some of our agencies are. And I just was amazed because I didn't know you were there, and I just wanted to bring that out. So that do you think you will be able to handle some of the input that is going to be generated from here, some of the questions, some of the businesses that may want to be able to get assistance from your agency?

Mr. HOLBERT. Yes, most certainly. I brought some brochures and I will be here to speak to people, and available on the phone as well.

Mrs. NAPOLITANO. Thank you so much. Mr. Thompson, my friends and former colleague, you saw Mr. Carvanas. He just——

Mr. THOMPSON. Did he already leave?

Mrs. NAPOLITANO [continuing]. He was there a minute ago. I don't know where he went.

Mr. THOMPSON. He is probably out helping somebody.

Mrs. NAPOLITANO. Oh, good. How many employees do you have?

Mr. THOMPSON. Do I personally have?

Mrs. NAPOLITANO. No, in your agency.

Mr. THOMPSON. In the region?

Mrs. NAPOLITANO. Correct.

Mr. THOMPSON. It varies. About—the average is 17 employees per office, and we have nine offices within the region. L.A. is larger, but, you know, Hawaii is smaller, and so it averages out to about 17, 18 employees.

Mrs. NAPOLITANO. So, that is still very understaffed, am I correct? In other words, to be able to handle the assistance to the many small businesses of California, especially Southern California.

Mr. THOMPSON. We have our challenges, Congresswoman. And we are trying to deal with those. I would like to keep my job, so——

Mrs. NAPOLITANO. I understand. Thank you. No, I understand. What I am saying to these people is that, you know, you have many agencies. May I ask, then—let me put it another way—what time do you have to interact with other agencies, so you know what everybody is doing, so you can channel some of these individual businesses that have issues, to the correct agency and to be able to come up with programs that are going to help everybody?

Mr. THOMPSON [continuing]. I think the important thing is that we leverage our employees and we leverage the amount of money we get from Congress with the State of California, with the community colleges and other organizations, to provide the information and the business assistance as needed. The SBDCs, the other organizations, State of California and some other organizations, and of course you've heard here with exporting. And that is the important thing, to try to get as much bang for our buck wherever we are at. That is our goal, and that is what we try to do.

I know that the staff in Los Angeles is very capable and they accomplish those things, they are in the Chamber of Commerce's offices in the outlying areas. Any place we need to be, we are at.

Mrs. NAPOLITANO. I don't know about the L.A. one. I know about Glendale, because we worked very much in hand with Mr. Alvarado.

Mr. THOMPSON. Well, that is L.A. That is the L.A. office.

Mrs. NAPOLITANO. Oh, that is the L.A. office.

Mr. THOMPSON. That is the L.A. office. And we have one in Santa Ana and San Diego.

Mrs. NAPOLITANO. Do you have any businesses coming to you for small export assistance?

Mr. THOMPSON. We do, and we have experts in each one of our offices for export. And then of course we have our two USEAC representatives that cover the six offices here. The USEAC offices in the Southern California area, there are six of those and they rotate a day here and a day there, to make sure that they have appointments and so forth and so on.

And then of course we use the SCORE counselors which—or executives, retired executives, where we possibly can, and we are always looking for those that are involved with exporting in their past so that they can give the advice and counsel that's needed there too.

Mrs. NAPOLITANO. Thank you. The businesses that are here I think want to learn where they can go, where they can get assistance, the correct—they want to be guided to an agency that is not going to say, "Well, I can't help you if somebody else is going to," or referrals. And as you well know, and we have been working on that, is the work reduction, which hopefully will come about so maybe the agencies can begin to work on how they can at your level recommend to Congress where we can begin cutting down so that individuals don't have to go through a myriad of red tape and paperwork to be able to get the assistance they need because they don't have that kind of time. Thank you very much for being here.

Mr. THOMPSON. Thank you.

Mrs. NAPOLITANO. Ms. Delmege, does your agency work in cooperation with the other agencies in regard to—well, the same questions, basically.

Ms. DELMEGE. Sure. I am wearing two hats here. One is with the U.S. Department of Commerce as part of the local network, and the other being with the Trade Promotion Coordinating Committee, which is tackling just those issues that you are raising, of coordination between the different agencies.

Here in Los Angeles County, we have two offices, one in downtown L.A., and one in West Los Angeles, and I believe that there is a total of eight trade specialists there. Again, we are co-located with SBA; we work very closely with Ex-Im who is in the offices as well.

Mrs. NAPOLITANO. Okay. But, again, you are talking about L.A. Most of my businesses won't go, can't go, don't have the time, don't even know where you're at, and West L.A. is out of the question. Anything in this area, or anything between here and Orange County?

Ms. DELMEGE. Generally speaking, no, I mean, in short. But they go out to the companies. I mean, you should understand that most of the time they are not sitting behind a desk down in L.A.

Mrs. NAPOLITANO. No, I understand.

Ms. DELMEGE. They are out.

Mrs. NAPOLITANO. How many employees do you have?

Ms. DELMEGE. In Los Angeles County total I believe we have about eight employees. I don't have the exact number.

Mrs. NAPOLITANO. Thank you so very much.

Ms. DELMEGE. You are welcome.

Mrs. NAPOLITANO. I don't mean to belabor, but I just wanted to show that, you know, we just don't have the amount of personnel.

To Mr. Hinojosa, and I guess I am skipping because we are running short on time, but you and I go back a few years, and I can remember when NAFTA was passed, I wasn't there for the vote, unfortunately, would have voted the way I normally would, although I believe totally in trade, I think that there are several provisions that are not included in NAFTA or any other trade agreement. My concern has been for the communities. Now, you have funding that was allocated by Congress for the NADBank, which was in what amount, sir?

Mr. HINOJOSA. Well, actually there was an appropriation made by the U.S. and the Mexican government of $450 million plus guarantees by the U.S. and Mexican government totaling essentially a capitalization of $3 billion, and I hope I know where you are going with this.

Now, after seven years of operation, those $3 billion in capitalization has led to a total, what is it, about $20 million in loans throughout this entire period of time, which I consider a disgrace given the nature of globalization, and the incredible challenge that NAFTA in particular has meant for the context of globalization.

Mrs. NAPOLITANO. And then it follows up with the question of the training funding that was supposed to be made available to employees who have been displaced, and the companies who had lost business because of flight into the Maquilas or into other areas, and what has happened to that?

Mr. HINOJOSA. That's the NAFTA TAA program that's administered out of the Department of Labor which is a separate program, with a separate line item which continues to be funded. We—I mean, what's interesting, we think that that program right now is reaching about 60 percent of the workers that really should be eligible. But there is a large number of workers who would fall under these categories.

And by the way, I would say the same thing about the small firm trade judgment assistance. I think there is a massive undercount of the affected firms and affected workers that—from international trade activities. And I think that this frankly is the problem with the NADBank.

The NADBank was created, but it's then—in a sense, it was also fought tooth and nail by the people in the Treasury Department against creating it, because everybody who knows in this context of debating globalization, nobody wants to focus on the adjustment costs associated with international trade. They like the positive benefits, and that is great, and I agree that we should push that; but I think that part of the problem we have in this country right now is by not really stepping up to the plate to deal with the workers and the firms that are affected in a negative way, which is not that much, by the way. It's a pretty small number.

If you really look at the real impacts of all of the—job impacts given all of the job market of the United States, it's still pretty small, but we refuse to really step up with I think aggressive programs to deal with the dislocation, and not enough program, and I completely agree with you, to take advantage of the incredible opportunities that a particular place like Southern California can offer in trade.

Mrs. NAPOLITANO. Thank you. What is the—very quickly, just what is the percentage, the interest rate, that NADBank charges?

Mr. HINOJOSA. NADBank basically charges triple A financing rates. It's not—it's not the type of lending—not the type of rates that should be charged for the type of rates they are going to adjust.

Mrs. NAPOLITANO. Thank you, Mr. Chair.

Chairman MANZULLO. Thank you. The issues are all over the place. Before we conclude, and before I ask my questions, I want to thank everybody for coming here. I appreciate your patience.

I am going to limit my remarks on the steel issue. As far as I know, the only committee that held a hearing on the issue of steel was our Small Business Committee. There are 17 full committees in the House of Representatives. Several of them would have direct jurisdiction, including Ways and Means, on the issues of tariffs. And no one would even touch this subject.

Our committee did for a couple of reasons. Number one is that we were being contacted both by management and by union. Unions—with the steel consumers. There are actually more union members involved in steel consuming than there are in steel producing, which is a pretty interesting aspect.

In fact, in a hearing that we held on July 23rd of this year, a fellow by the name of Robert Herrman, who was the head of the United States Steelworkers Local 735–14, which represents 250 workers of A.J. Rose, in Ohio, testified that he thinks that the union workers who use the steel are being treated like second-class union workers to the union workers that manufacture the steel. (See Hearing Serial No. 107–66) This is not an easy issue.

And I would say to you, Mr. Bonds, that the issue is not with the unions. The issue is with the dang steel companies that are gouging, and with the Attorney General that refuses to answer our letter where we asked for an inquiry as to why these domestic steel companies have to gouge.

In fact, the word that they used in their language, is, quote, "profit recovery," end of quote, that they have been gougers. The U.S. steel producers, and I name them, Bethlehem Steel, LTV, you go right down the lineup, we have evidence of their gouging—We have a book of Steel Letters that I delivered to the Secretary of Commerce, where Bethlehem Steel says, "All right, because of the steel shortage we had to raise prices." Excuse me. They created it with the Section 201 which was done simply for political purposes. Because the steel shortage, the steel companies have unilaterally broken steel supply contracts with steel distributors or directly with the steel-using manufacturers and used the word profit recovery to say they want more money.

That is not the fault of the unions. I listened to your testimony, and the premise of it is correct. In fact, you will find, Terry, that if you interview 100 steel-using industries, 99 will agree with the basic premise that they would be willing to pay a little bit more for the price of steel in order to keep manufacturing here stateside.

I have a huge industrial base back home, and there isn't one person in that group that is being hit, such as some of the people here, that doesn't agree with the basic premise.

The problem is called greed, and it's the greed on behalf of these steel manufacturing companies, that they think they can come in there and arbitrarily raise prices, and really—and I hate to use the word since it is made of steel—put the screws to the people that are using the steel.

And I know you agree with me, that these steel companies, you can only charge so much before they become noncompetitive.

We talked to a fellow yesterday. Here is the irony of it. We have a company in Ohio who testified at our hearing in Washington that had a contract to supply a steel-made product to another American company. He had an American manufacturer that used an American steel to supply an American purchaser, the best of all the worlds.

Because of the increase in the price of U.S. steel to the domestic steel user, that company has to lay off people, and guess which country they lost their steel contract to supply a U.S. manufacturer? They lost it to China. I'm sorry, it was a New Jersey company, and it was a union company.

And what we are seeing here is the ill-fated results of what happens in a classic trade war, which was started for political purposes.

Now, I agree with the fact that we should not give up our protections. In the area that I represent, I testified before the U.S. International Trade Commission, on a Section 332 petition that was filed by the National Tooling and Machining Association. These are the little guys that obviously do tooling and machining.

And the basis of my testimony there was similar to the 201 by showing that there has been a tremendous hit in the tooling, the machining, and also the molding industries. Using the same argument as yours, Terry, that what is going to happen is that people who make the molds go offshore. You want to be able to make a mold, to make a shell casing, for example, in a time of national emergency. What we found, what Phil actually found in doing the research is the Bureau of Labor statistics, which does the core research for the number of jobs that are in any particular sector, stated that the city of Rockford has only 570 tool and die jobs. Now, this was a city founded by the Swedes in the 1850s that brought with them their expertise in carving wood, and they actually invented the lathe in Rockford. This is where it all started. In the process of developing tools to carve the wood, when the machine age came along and steel came along, they took that artistry of wood carving and turned it to the artistry of steel carving, and thus the birth of the tool and die industry in Illinois.

My dad was a union machinist, and was a union carpenter, and came up through the ranks in that way. But what we found was the Bureau of Labor statistics does not understand the city of Rockford, when they say only 570 people are employed in the tool and die industry. Now, two shops alone employ over 570 people. And what we were trying to do is to try to educate our own Department of Labor, that, get this, the United States government does not understand the importance of manufacturing in this country. It has no clue. Because they do not have the correct figures.

In Rockford, Illinois, with 150,000 people, we have 1,100 factories, most employing less than 100 people. And if our own U.S. Government does not have the correct figures, does not have a clue as to what is going on in the manufacturing, Terry, how could they have any clue as to what is going on in the manufacturing of steel, and its importance in America?

Mr. BONDS. In the first place——

[Applause.]

Mrs. NAPOLITANO. Now you understand why I invited him.

Chairman MANZULLO. And steel is manufacturing.

Mr. BONDS. Do what?

Chairman MANZULLO. Manufacturing of steel is manufacturing. You are included in with that segment.

Mr. BONDS. Well, I think in the first place, if you look at the reason that prices have risen, it is not altogether to do with the 201. I mean, we have closed 20 million tons of domestic steel capacity here in this country. Thirty-five steel companies are bankrupt right now. Seventeen of them have gone out of business.

So I am not sure there is anything particularly wrong with steel companies who have been losing money for the past decades to want to make profit. If they don't make profits, we are not going to have a steel industry, and we are competing with a steel industry worldwide that is subsidized by its federal governments, that where they provide national health care, and our steel industry in this country just simply cannot compete. Prices must rise.

And even though prices have risen, they are still below where they were in, you know, three years ago, and below the 20-year average. So if we are going to have an economy and a national defense system and infrastructure, we must have a steel industry.

Chairman MANZULLO. I understand. But my question, which is more of a comment, is that when you testified, you said, well, what we need here is balance, and I turned to Phil Eskeland, and I said, the man understands what is going on——

Mr. BONDS. I do.

Chairman MANZULLO [continuing]. But you can't justify price gouging, and I don't think you are. For example, if every steel mill in this country were still operating at 100 percent capacity, during normal times, and don't even look at the market today, that would only fulfill 75 percent of the demand.

So there is just no way that the American guys can fulfill 100 percent of the demand that is going on in this country so you have to bring in the imports.

But the point that I am trying to make with some of the fellows here, what Anita is testifying to, the price of your steel went up, what, 20 to 40 percent?

Mr. BONDS. Forty.

Chairman MANZULLO. Yes, it went up 40 percent. And the tariffs are only 30 percent. And if you take some of the folks back home, we have got a shortage situation. This is the weirdest thing in the world. I am the guy that got tool grade steel excluded from the tariff, because those are the cutting knives, the very high-density steel that you need for the knives, because the tool and die industry would have been devastated on it. We worked with the USTR on that all the time. But we have a situation going on back home, follow me closely on this, because this is what happens when you impose these tariffs.

The foreign company that was supplying this particular type of steel, which a U.S. steel manufacturer said they could fulfill, but as to which there is a letter on file saying that they cannot make fulfillment, that foreign steel manufacturer is going to set up operation in the United States to be in direct competition with the domestic guys. That is being brought about by the tariffs, Dave is raising his eyebrows over there, saying this has got to be the weirdest thing in the world. But it's what happens when we get into these trade wars.

Now, the European Union is in the process of slapping retaliatory tariffs against the United States because of the tariffs. Now, one of the things they want to slap tariffs on is Harley-Davidson motorcycles. Okay? Now, you know what could happen is if those retaliatory tariffs are slapped, if the EU imposes retaliatory tariffs on the motorcycle industry, that entire motorcycle manufacturing sector in the United States could leave this country and go overseas and set up shop. We are dealing with huge, huge repercussions of what is going on here.

My entire life in Congress has been in manufacturing. Before that when I practiced law, when as a sole practitioner in a town 35 miles away from Rockford, Illinois, I never had less than 65 to 80 pending petitions for bankruptcy because of the devastation that took place in 1981. It is not just steel.

It's the fact that Paul O'Neill is a great American, formerly with Alcoa. He believes in a strong monetary policy for the United States, and the stronger our dollar is the better. Even though it's taken a 10 percent reduction from the EU in the past several years, our guys in Rockford are still having enough difficulty dealing with the Chinese, but now they got to deal with the Germans and Italians particularly on the sales of the machine tool industry.

There is a huge show that is going to be started in a few days in Chicago, probably some of you go to here, on machine tools. It's not because of cheap imports that are from China; it's because of U.S. domestic monetary policy that makes us unable to compete with the Germans and the Japanese, who have several times gone in there and shored up the value of their own currencies, and the United States does nothing about it. And, I am a Republican. Complicated issues. Very complicated issues. Go ahead, Terry.

Mr. BONDS. I don't disagree with a lot that you have said. The problem is, I don't think there was a choice. The international—the

ITC voted six to nothing to institute this policy, and the president agreed with it, with the ITC.

Chairman MANZULLO. Right.

Mr. BONDS. The reason is because I don't think there was a choice. If there would not have been action taken we would not have a steel industry. We are not even sure we are going to assist steel industry now.

Chairman MANZULLO. We agree with you.

Mr. BONDS. But I certainly agree with you on another point, it is not just steel. It is manufacturing in total in this country. I represent in the southwest people who make copper, the copper mines. We once had 60,000 members in that industry. Now there's probably less than 3,000, and aluminum, the same way. I worked for Alcoa at Point Comfort, Texas as a millwright before I went to work for the United Steel Workers.

My home plant at Point Comfort, Texas, is now in danger of being closed. We are in danger of losing manufacturing in this country, and the only people that we can turn to to help us is our government, and we need help.

Chairman MANZULLO. Terry, as you said it, it's a matter of balance; it is a matter of fairness. Now, the steel companies have until I believe it's September 5th to come up with a plan for restructuring. Regardless of where you go in this country, we have that problem with manufacturing.

But let me make these observations. We came up with a list of ten reasons why manufacturing is getting hit, and among those are the steel tariffs. Anything that happens in this country that makes it less competitive for American manufacturers is bad news across the board. We haven't even gone into what it has cost the little guys especially for the tremendous spikes and the high costs of health care insurance premiums.

That led to your legacy cost and you're bankrupt there. We had Dr. Roger Ferguson, who was vice chair of the Fed, come out to our Congressional District last week. He is second to Greenspan. He is an economist you can understand, which is sort of unusual, but that's why I asked him to come out I asked Greenspan as a matter of a courtesy, but I really hoped that Dr. Ferguson would have come out, and he chose to do that.

He sat down with our local manufacturers for the number one purpose of whenever the Fed decides to change the interest rate, they should look at all these economic indicators. We especially wanted him to bring into consideration the indicator that looks at what is going on in machine tool sales, because if machine tools aren't being ordered, that means no new products are coming out on the market, and that's the first indicator of an economic slowdown.

The testimony of the men and women involved in manufacturing back home came down to this issue; can the United States ever have a recovery from the recession without buttressing up its manufacturing base? I asked Dr. Ferguson to work with me on an econometric model.

For the first time in 150 years the city of Rockford, Illinois, has gone to more jobs in the service sector from those in the manufacturing sector. Some of the increase in jobs is a debt collection company that opened up in Rockford, and that's a job, it is employment, et cetera. That's the first issue, that he has agreed to work with us on.

The second thing is if you don't have an economy based on manufacturing, in addition to mining, agricultural, then who is going to be leading in this country?

And Grace and I share the same concern. We vote differently on the trade issues. I have two young men working for me on the committee have been in Shanghai now for two weeks that have been trolling for contracts with the Chinese companies, and American companies doing business in China. If this product, for example, is made in China, 52 percent of the content represents a product that is shipped into China. Are you with me?

What we found out when I was in China in January, and I will go back probably in November or January again, is that the American manufacturers that have picked up and moved from the United States to China have a whole developed system over there of civilian procurement. They go out and access companies around the world, looking for materials to put into the stuff in China, for either domestic consumption in China or for exports.

We can still be competitive, even in China, in certain areas if the American companies that have left behind the little guys with whom they were doing business, would simply turn their eyes to the West and say, "We can still access from American manufacturers."

Now, what does that do? It changes the conversation on trade because there is nothing that will bring more hallelujahs and high fives and shouts back home, when a little guy lands an international agreement.

And second of all, it shows that free trade does in fact work. We don't even use the word "free trade" any more, it's called fair trade. The word free trade indicates that somebody is getting something for nothing and somebody is being gouged. And so the word free trade shouldn't appear on any more trade agreements. It should not be the North American Free Trade Agreement; it should be the North American Fair Trade Agreement, because if it can't be sold on the basis that it is fair, then it shouldn't be passed.

And so what we are doing is we are working with American companies and set up a program called America's Jobs First whereby American companies and foreign companies who are interested in maintaining a manufacturing base in this country will start using American companies. This is where the Department of Commerce has to get involved. Somebody has to sit down with the American companies and say, "You may save money by outsourcing back home."

And let me conclude on this note. I have talked too long already. I sit on the Financial Services Committee, and the main guys came in from WorldCom MCI, crook de la crap. These are the scumbags of society who come in and do what they have done to their workers. One of the interesting people that came in is a fellow who I call "Grab Man." It is Grubman. He was the stock analyst. His contract was terminated, and he got a golden parachute of $30 million. Just amazing. Terry, I don't think you make that much. Not quite.

But somebody asked him a question. He is the stock market analyst with the financial house of Salomon, Smith, and Barney. Somebody asked him a question, and his answer to this really says where we are in America today in our state of manufacturing and in our state of business. He was asked how did we get to this point where we could have a system whereby there is so much greed within this system? And he said, "The problem with America's companies today is that there is no long-range planning. The longest range plan that goes on is the next quarterly dividend."

Now, I submit to you, the difference between a dividend of 28 cents and 27.9 cents could mean an American company being involved, and preserving the American manufacturing base. So if everything is driven based upon what that next quarterly dividend is, how do you bring about change in short-term thinking?

We had a guy back home, Jack Packard, who ran a company called Alcoa Tool before it got bought up by a major international company. Even during the height of the depression or recession of 1981, he didn't lay off one person. He contacted all of his shareholders, there was a huge number, and said, "You can vote us out of office if you want but we are not going to incur a dividend until we all work through this thing, for two reasons. Number one, these people have families, and number two, where are we going to get the work force if we let them go now?" So we just continued to struggle with that.

Grace has a request that for the first ten people that line up there from the audience, we are going to take ten one-minute statements, not questions. Everybody get in line. And then we will limit it to one minute, because then we will close up here, and I have to go to San Diego. Okay. Go ahead.

Mr. BEILKE. Mr. Chairman, Congresswoman, I just want to say how glad I am to have the opportunity to be here to show my appreciation for the effort your office made, along with the SBA, in helping me start my business. My Wiener Schnitzel franchise in Pico Rivera just got off the ground, and it's a two-and-a-half-year dream on my part to operate my own business. I live in the city that I opened the business, and I feel it's a great opportunity.

I would like to thank the efforts of the SBA. I know Albert Alvarado is here, the director of the L.A. office, along with Lorenzo Flores, the assistant director, and they provided—being able to work with them directly provided me with great insight on what I was getting into, made me really dig down and do the research I needed to do. I learned the SBA isn't necessarily an agency that just giftwraps a bag of money for you. They make you make sure you know what you are doing, what you are getting into, and I think obviously that's the best way to proceed, and I feel comfortable, and in fact—and also I'll mention obviously working with Grace's office and her staff, helping me through the process——

Chairman MANZULLO. One minute is up. Do you want to state your name and spell the last for the record.

Mr. BEILKE [continuing]. Yes. My name is Ron Beilke, B-E-I-L-K-E. And I also want to present something for Grace and for Alberto. Be real quick.

[Applause.]

Chairman MANZULLO. Okay, appreciate that. Next witness. State your name and spell your last name.

Ms. BRUCE. Mr. Chairman, Congresswoman Napolitano, my name is Edna Bruce, E-D-N-A, B-R-U-C-E. I have the pleasure to serve as Director of the County of Los Angeles, Office of Small Business. We would not have an Office of Small Business if the Board of Supervisors had not been concerned that too many county contracts were going to large corporations, $4 billion of contracts, and we would not have a Small Business Office if we had not gotten a grant from the Economic Development Administration, two grants actually from them, specifically for international trade.

We also have had two grants from the Department of Defense, and I want to say how nice of you to have the hearing here, because I can see my good friend Bill Redway, and Frank Ramos, from the Department of Defense, and local friends Hugh Loftus, and Alberto Alvarado, they have been very kind to us.

I want to say just one thing and then I will close. We have had four trade missions, specifically for small businesses. One to South America, two to the People's Republic of China, one to South Africa, and one next month to the People's Republic of China. One of the major problems——

Chairman MANZULLO. Edna, your minute is up.

Ms. BRUCE [continuing]. Oh, thank you. Sorry.

Chairman MANZULLO. Anybody else that wants to come up here for one-minute testimony? Dale?

Mr. CONGELLIERE. Dale Congelliere from the Walker Corporation (See page 170).

Chairman MANZULLO. Spell the last name for the record.

Mr. CONGELLIERE. C-O-N-G-E-L-L-I-E-R-E. I had one question that I wanted to ask and that is for the steel industry, or the steel manufacturers industry producers. Why is it that Nucor made profits for so long in this economy, and why is it that they did such a great job in making profitable steel, whereas all the other ones were going under at the same time?

Chairman MANZULLO. Does anybody want to handle that? Nucor is a mini mill. Did you want to try and handle that, Terry?

Mr. BONDS. Nucor was, I guess, a prime example of the mini mills which re-melted scrap. A lot of the large integrated mills that made steel from iron that they made from ore, they just couldn't compete with it.

Chairman MANZULLO. Much cheaper to melt the scrap than it is to work from the ore.

Mr. BONDS. A lot of the integrated mills are now trying to go to that mini mill strategy, but it takes a lot of capital and when you are losing money, and you are strapped with all of the baggage that they have——

Chairman MANZULLO. Different equipment.

Mr. BONDS. They are having trouble getting to—the financing to go to that mini mill strategy.

Mr. CONGELLIERE. I was just going to recommend that we as a nation or in this industry look to some similar situations like that that we can come up with some more profit.

Chairman MANZULLO. Okay. Dale, your time is up. Anybody else that wanted a one-minute? Come on up. Go ahead.

Mr. WOLFE. My name is Charles Wolfe, and my company is C. Wolfe Industries.

Chairman MANZULLO. Want to spell your last name, Charles?

Mr. WOLFE. W-O-L-F-E. We are a contract manufacturer. We are in Congresswoman Napolitano's district. We are job producers of steel parts. That's all we do, is make parts from steel. We know our business very well. We have contracts with some of our suppliers. We have limited our cost increase at this point to about 25 percent.

If we were buying in the open market we would be paying 40 or 50 percent more for our steel. Our major customers have contacts in Asia. They buy over there. We are under pressure to keep our prices down. We cannot pass this along.

The other things that have happened is that we are faced with the inability to get steel, and the quality of what we are getting is going down. There is a disregard for quality, period, and we buy from mixed metals, but we are all in this thing together. This tariff is not working. This cost our company $45,000 last month, compared to the prices we paid for steel in January and February.

Chairman MANZULLO. Appreciate your testimony. Anybody else want to give a one-minute? Okay, Ms. Napolitano. Why do I have a hard time? Is it Italian names? I have a hard time. Napolitano. Do you have any concluding remarks?

Mrs. NAPOLITANO. Well, you have another——

Chairman MANZULLO. Oh, I'm sorry, go ahead.

Mr. JENSEN. Robert Jensen, J-E-N-S-E-N. I work for North Star Company (See page 171). I want to thank you for the opportunity for coming, Mr. Chairman, Mrs. Napolitano. We are a custom roll former. In the year 2000 we rolled form 62 million feet of product. Much of that in steel. Today, we are one of Mace Metal's customers. Also today we are faced with shortages. About 70 percent of everything we do goes into the construction industry, much of which we have to have what is known as graded steel. It is unavailable. If it is available, the prices have gone up 40 percent. We are looking at more increases this month and by the first of the year. We have had suppliers cancel contracts for blanket orders, and we are noticing a 20 percent reduction in sales, last year, and at least another 15 percent reduction on sales this year because now we are starting to get finished goods, competing goods coming in on performance suppliers.

Chairman MANZULLO. Thank you. Anybody else? Okay. Oh, our State Assemblyman here from California. And thank you so much, Grace Napolitano, Congresswoman, for bringing this hearing to your communities here.

You want to spell your last name for the record, for the court reporter?

Mr. CARDENAS. C-A-R-D-E-N-A-S, Tony Cardenas. I represent the San Fernando Valley, just down the ways a little bit, little warmer than it is here, and I just wanted to come here today to listen to the hearing. It was very informative.

And also I brought with me a representative from Rayes Construction, minority-owned business, 8(a) approved union business that does concrete work. They do big storm drains and bridges and things of that nature. And I was encouraging them to come. To be quite honest with you, they're kind of intimidated, "What am I going to go to a hearing for?" I said, "I will be there with you. I will explain to you." Forgive me for the whispers in the background. I was just explaining to him how important it is to notice the connections and to listen to everything that is going on. Working with government can be quite complicated, but when you really get down to it there is a lot of good people there who want to put the product out, who want to help our local businesses. And that's why you are here. Thank you.

Chairman MANZULLO. Tony, appreciate your input. Anybody else? Okay, Grace, concluding remarks.

Mrs. NAPOLITANO. Thank you, Chairman Manzullo. I think all of you can understand the frustrations that the Small Business Committee has, when it has the different federal agencies testifying, especially when they don't meet their minority caps, the minority owned, women owned, veteran owned, disabled owned, et cetera.

But you also must understand that we are but one of the many committees that deal with small business, and with all the other issues. You need to be able to be more vocal as business people, to your elected representatives, to your agencies that are within your reach that you know about. You need to be proactive. Like Assemblyman Cardenas was saying, you need to understand how government works. If you don't, ask, and if you don't ask, you won't know, and you won't get the assistance, as Mr. Beilke has. He came to me, and we put him in with the SBA.

There are many things that hamper the ability of small business to be successful. Let's not have government be one of them. I certainly thank my Chairman for consenting to come to California during this heat wave. And, Tony, I'll argue we probably were as hot as you were in the valley, because this is the first time we have had this high of heat in this area.

But I thank all the panelists that came, Director Bonds and Mr. Thompson, my good friend, and hope that this will not be the last one, Chairman Manzullo, because you can see the need in this area. When you have 12 million people just in the L.A. County, you have hundreds and thousands of businesses that need help, and we could certainly be able to put that expertise to work in your area.

We need to maybe communicate with some of your businesses and see how we can help each other. I don't want my businesses to go to your state, but I certainly would want to know what we can do to help.

To all of you, thank you for enduring with us. Ron Uwi from the Business magazine is here. A lot of people who didn't get a chance to speak because this is all formulated to get information from the agencies so you can hear and listen and learn, and please contact them. Before they leave this building, get their card, get their number, interact with some of the businesses that are here. We have already had some of the businesses talk to each other. This is where you come in, you the business people. It isn't like, well, I am shy, I don't want to talk. I don't mean to disparage anybody, but you need to be more outgoing, and participating, so that people can hear and see where your problems are, and hopefully guide you to an agency that can assist you, and being able to make that connection so you can be successful in your business.

Thank you from the iron workers and the people who came here to testify on the steel industry's woes, and I agree with you, there is a lot that can be done. We have the pros and the cons, and we need to listen to both sides, which we have today.

On the small business export, I think we have a lot of potential, I mean, a tremendous potential, for small business to get involved. Their problem is, as you all know, they don't have the time to come and sit with an agency to find out how they can prepare themselves to go do the exporting, and with the small business issues that Mr. Manzullo and the rest of the committee, I can't thank him enough, because he has been, as you've heard, an advocate, a tireless advocate for small business, and he sits and he argues with the generals and with the agency heads to the nth degree, short of getting rude with them, in fact, I think we all do, because we are frustrated at their inability to hear what we hear from you the business people, you, the ones in our back yard, who come to us with your problems that can't get addressed by those agencies.

So, again, thank you very much, everybody, for being here, and Mr. Manzullo, I certainly want to make sure that—I've already thanked staff before, but I don't know that you know who they are. My staff please stand up, Edla, Bernie, Homa, Ray, Amelia, and you see some of the staff outside. These are the guys that put this together. And my husband walking in the door, the other Napolitano, that you can't mention it, Mr. Manzullo. It's amazing. Thank you very much.

[Applause.]

Chairman MANZULLO. I want to again thank you, Grace, for your leadership. Those of you who are represented by Congresswoman Napolitano, you just don't realize the tremendous advocate that you have in Washington. She is a very close friend of mine, and a person who really keeps on top of things. You know, Grace, perhaps we should take credit for this. As we have been having this hearing, the SBA put out a press release that I got on my Blackberry e-mail. It says, "SBA to bring more export financing to small businesses through the enhanced Export Express loan program." See, that is just the result of you and I being here and the folks coming in to testify already.

In conclusion, I want to thank everybody for coming. The people that are here from the government, their biggest concern is that they are out there ready, willing, and able to let you know of the services that are available from them. They spend more time on that trying to bring you into the loop so they can help you out.

I hope this has been of help to the people that have been here. Again validate parking at the sign at the table, and this committee is adjourned.

[Whereupon, at 12:15 p.m., the committee was adjourned.]

HOUSE SMALL BUSINESS COMMITTEE

Field Hearing, September 3, 2002

Written Testimony of
U.S. Small Business Administration Regional Administrator Bruce Thompson

INTRODUCTION

Mr. Chairman, Congresswoman Napolitano, and Members of the Committee, thank you for convening this field hearing to discuss the important issues of federal procurement and international trade as they relate to small businesses.

I am Bruce Thompson, the U.S. Small Business Administration's (SBA) Regional Administrator for Region 9. I am pleased to be here today representing Administrator Hector Barreto and, having the opportunity to discuss SBA's role in these areas. Here with me in the audience is Alberto Alvarado, our District Director for Los Angeles, and some of his very capable staff, Martin Selander, SBA's USEAC representative, and Nick Manalisay a procurement center representative.

It is the mission of the SBA to help entrepreneurs realize the American dream of owning and growing their own business. I think President Bush said it best when he said, and I quote,

> "The role of government is to create an environment in which people are willing to take risk, an environment in which people are willing to risk capital, an environment that heralds the entrepreneur and the small businessperson."

I am pleased to report that over the last three years SBA's Los Angeles District Office has led the country in providing $2.8 billion in financing to more than 6,964 (7,000) small businesses. With special dedication to minority and women-owned businesses, the office has facilitated over $1 billion to 4,079 businesses owned by this fast growing group of small entrepreneurs.

The SBA is committed to representing small business men and women as an effective and efficient 21st century national organization that focuses on simplification, innovation, and dedication, in order to create a climate in which entrepreneurship can be both encouraged and sustained. A climate that utilizes the best business practices of the marketplace ensuring that small business has a maximum opportunity to compete for available procurement dollars.

PROCUREMENT

Under the leadership of President Bush, the SBA is taking the lead on his agenda for small businesses – and, that includes federal procurement. The President has asked the Office of Management and Budget to report to him this fall on plans regarding two procurement issues and how they impact small business:

- Full and open competition and,
- Contract unbundling.

The SBA is working very closely with OMB on this report.

The SBA is committed to innovating and simplifying how we deliver our products and services to the U.S. small business community. For 34 years the SBA and industry have come together to conduct a procurement conference. This year the SBA included "matchmaking" as part of this event. *One thousand* appointments between qualified small businesses, federal agencies, and prime contractors regarding real, short term contracting opportunities were conducted. The SBA is taking that program to 12 locations across the country over the next 12 months.

Additionally, the SBA is conducting a thorough top-to-bottom review of the 8(a) business development program to ensure the effective management and efficient delivery of this program to the nation's small business community. The SBA is developing an on-line 8(a) application that will dramatically simplify the process and make it more user friendly thus, encouraging more companies to take advantage of this valuable program.

The SBA is also making use of technology to teach business how to do business with the federal government. The SBA is developing a self-paced, technology-empowered procurement academy to train entrepreneurs in this specific skill set.

Finally, the SBA is restructuring its workforce, including its procurement center representatives, for more effective management, utilization, and integration of programs and services.

Specifically, in your district Congresswoman, we are very cognizant and supportive of the President's goal to improve small business's access to federal procurement opportunities. Locally, according to the Federal Procurement Data System, during Fiscal Year 2001a total of 170 Federal Government procurements were awarded to small business concerns in the district for $15.9 million.

Some of these firms that have achieved significant success through the SBA's procurement programs are:

- Cabral Roofing and Waterproofing in Montebello with $5 million in 8(a) Business Development support this year alone has established itself as one of Southern California's most experienced commercial roofing contractors;
- Philatron International. Philatron, founded by Phillip M. Ramos, Jr., has grown into a highly respected multi-million dollar electrical/electronic wire, cable, and hose manufacturer with over 100,000 square feet of modern, well equipped and efficient facilities in Santa Fe Springs. The company is a graduate of the 8(a) Program and continues to prosper as an innovative manufacturer considered the world's foremost expert in coiled cables and hoses.

Often the SBA's role is to champion our area's small businesses underscoring their capabilities when these businesses are challenged. One such case is Solo Enterprise Corporation located in the City of Industry. The firm was awarded a contract to provide the Federal Government with Ammunition Drum Assembly Partitions for use in the Army's 20mm gun. Unfortunately, the firm was initially found to be non-responsible based on a Pre-Award Survey indicating that Solo had quality control problems. Solo Enterprise was referred to the SBA and appealed the contracting officer's determination that it was unable to fulfill the requirements of the specific contract. We performed an independent on-site Certificate of Competency survey and determined that in fact, Solo Enterprise, was technically capable of performing on this contract and that the quality control problems noted were incorrect and unjustified. It is satisfying to note that Solo Enterprise is currently performing successfully on this contract and is expected to deliver the items on or ahead of schedule.

Just as common is the need for the SBA to provide sometimes urgent help to a small business entrepreneur. We recently received such a request from the Defense Logistics Agency to assist Process Fab, Inc., a woman-owned business located in Santa Fe Springs. Process Fab was seeking HUBZone certification. The firm had been notified that it would take "several months" for their certification application to be processed which, if true, would have impacted their ability to receive subcontract awards. The SBA was able to provide the firm with its HUBZone certification within 7 days. We are pleased to note that HUBZone subcontract awards to Process Fab, Inc. are now pending from Aerojet, Northrop–Grumman Aerospace and Marine Divisions and Lockheed–Martin Missiles and Space.

Currently, 147 local small, minority, small disadvantaged, women, Veteran (including Vietnam Era) and HUBZone firms are registered in the SBA's Pro-Net Database.

Recognizing the importance of business development training to the evolution of the growth of small firms, the SBA has provided training to area businesses. Two examples of local area firms receiving the SBA Executive Education procurement and management training through our contractor Northwest Procurement Institute are KFI Fastners in Santa Fe Springs and MTM Construction in Hacienda Heights. This extensive all encompassing training initiative fully acquainted KFI and MTM with federal proposal preparation, contract negotiation and bidding strategy procedures.

INTERNATIONAL TRADE

With regards to international trade, opportunities are growing exponentially. Today's businesses, large or small, must think globally. Here in California, we know that better than anybody.

The President sought and Congress recently granted Trade Promotion Authority – TPA. This authority will open markets for U.S. exporters through a new round of global trade negotiations. And, trade is very good for America's small businesses. 97 percent of America's exporters are small businesses with fewer than 500 employees and, two-thirds of these small exporters have less than 20 employees.

To stay at the forefront of innovation, U.S. small businesses need access to foreign markets and a level playing field. The SBA has technical assistance and loan products geared specifically for export. Also, the SBA is a partner with our sister federal agencies in U.S. Export Assistance Centers – USEACs. There are 19 USEACs across the country. Each of these Centers offers the Export Trade Assistance Partnership Program – ETAP. There are USEAC locations in Southern California.

This Program offers effective and customized assistance to new-to-export companies looking to enter the global marketplace. In essence, ETAP helps small businesses become export-ready. Class curriculums typically include seminars on international market research, financing, global marketing tools, cultural etiquette, pricing & quotations, international agreements & contracts, insuring shipments, and much more. Many ETAP courses incorporate foreign trade events to encourage participants to begin the export process once the actual course work is completed.

In addition to technical assistance, the SBA provides small businesses with financial assistance to encourage their expansion into international markets. The SBA has three finance tools developed exclusively for export development. They are:

- Export express
- Export working capital program EWCP 250g's MAX
- International trade loan program

The SBA's new Export *Express* loan program, offering a maximum loan amount of $250,000, is geared toward small businesses that have exporting potential but, require funds to cover the initial costs of entering an export market, to buy or produce goods, and/or to provide services for export. It has the flexibility to use loan proceeds for most business purposes, including expansion, equipment purchases, working capital, inventory, or real estate acquisitions. Also with this new program, loan proceeds may be used to help finance such items as participation in overseas trade shows or trade missions, standard certifications, and modifications of a company's website to accommodate export transactions.

A local example of a firm that used Export Express is Korea Crest -- an exporter of piping insulation and industrial chemicals. Korea Crest received a working capital loan used in part to attend the 13th international conference & exhibition on liquefied natural gas in Seoul, Korea. The SBA, in association with California Center Bank, financed the trade promotion costs including conference registration and the purchase of an exhibitor's booth. Paul Lee, the international department vice president of California Center Bank in Los Angeles, who underwrote the guaranty application commented that, "this unique loan program can provide much needed trade promotion financing to American exporters, and we look forward to providing financing assistance to many more export businesses through the SBA."

We recognize that many small businesses have difficulty obtaining short-term working capital because their collateral is tied up with long-term loans. The SBA's Export Working Capital Program -- EWCP -- is designed to help these small exporters by supporting transaction-based loans. The EWCP is very flexible and can support single transactions or a series of multiple transactions. The program covers pre-shipment working capital, post-shipment exposure or a combination of the two.

To make the EWCP even more user-friendly for exporters and lenders, the SBA and the Export-Import Bank of the U.S. (Ex-Im) divided the export finance market, with the SBA extending guarantees of $1 million and less and, Ex-Im Bank handles all guarantees over $1 million. The two agencies also developed a joint export loan application form and harmonized other program elements.

Locally, we have provided nearly $5 million in Export Working Capital financing to area business with 60% of this assistance going to minority entrepreneurs and 25% to women-owned businesses.

An example is AC Medical Supply, a sole proprietorship owned and operated by Nancy Chun, which exports wholesale medical supplies from a commercial warehouse in Santa Fe Springs. The firm holds exclusive distribution status on most of the goods it exports to Korea, and has been granted an export license by the Korean Minister of Health for the distribution of medical products. All export sales are made via letter of credit, typically from Korean hospitals with SBA Export Working Capital Program assistance sought on a pre-shipment basis against the letters and, in limited cases, contracts or purchase orders. The increased liquidity has allowed AC Medical Supply to continue to expand and pursue additional customers and product lines while reducing its cash flow challenges.

Another example at the cutting edge of technology is Santa Fe Springs' Universal Aqua Technologies. This company is a leader in the design and manufacture of reverse osmosis water purification, desalination, and bottling systems. The company exports these systems to nearly 100 buyers in 64 countries with export sales accounting for approximately 80% of total revenues. The firm used SBA's co-guaranty program in conjunction with the State of California's Export Finance Office to finance those sales.

The SBA has also had a very successful partnership with the State of California's Export Finance Office – whereby, we jointly guaranty loans made to eligible small business exporters. The SBA's co-guarantee agreement with the California Export Finance Office was renewed by the Agency earlier this month for an additional two year period. Since its inception, the SBA's local International Trade Office has financed 470 export transactions for $207 million.

Recently, the SBA and Ex-Im have entered into a "small business initiative" memorandum of cooperation. The first phase of this initiative is to leverage marketing resources across the SBA and the Ex-Im to raise awareness among lenders ad exporters. Another phase of the initiative is to make our financing products more compatible, flexible, and streamlined so that one application form can be used for either agency's loans.

TRADE ADJUSTMENT ASSISTANCE

Lastly Mr. Chairman, you also wanted to discuss trade adjustment assistance for minimizing any adverse effects of trade agreements. The SBA offers the International Trade Loan Program for those small businesses that have been adversely impacted by import competition.
This program was designed to help small businesses improve their competitive position By providing eligible firms with necessary financing to support their exports or upgrade their physical plant & equipment. Under this program, the SBA can provide a repayment guaranty to commercial lenders for up to $1.25 million dollars in combined working-capital and fixed asset loans, including any other current SBA loan guarantees.

Set up by NAFTA

Additionally, here in Los Angeles, the North American Development Bank administers a loan program called the U.S. Community Adjustment and Investment Program – or, CAIP. Through the Department of Agriculture's Business & Industry Loan Guarantee Program and the SBA's 7(a) and 504 programs, the CAIP provides financial resources in U.S. communities that need assistance in adjusting to changes in trade patterns with Canada or Mexico associated with NAFTA. The goal of the program is to create new private-sector jobs in affected communities and, to preserve existing private-sector jobs that are at risk of being lost in affected communities.

The SBA began offering 7(a) loans through this program in August of 1997 and to date has made 438 loans for a total amount over $140 million. The offering of the 504 loan through CAIP began in October of 2000 and, to date, 39 loans have been made in the cumulative amount over $32 million. It is estimated that through both programs the SBA has helped to create and or preserve over 5,000 jobs.

CONCLUSION

In general, the SBA programs can help people start a business, change or modify their business plan, assist with advertising to different markets, or any other management need and financing. As is evident from this brief compilation, the SBA's Los Angeles District Office, Government Contracting, and International Trade units are proud of the service they have provided to small, minority, and women-owned business. While Administrator Barreto continually reminds us that much remains to be done, it has been exciting and rewarding to work with the area's entrepreneurs to support their business growth, thereby creating jobs and building stronger neighborhoods

The SBA is here to serve you as well as to listen to how we can serve you better.

Thank you. I'll be pleased to answer questions.

TESTIMONY OF THE

DIRECTOR OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

OFFICE OF THE UNDERSECRETARY OF DEFENSE FOR

ACQUISITION, TECHNOLOGY & LOGISTICS

BEFORE THE U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

September 3, 2002

Mr. Chairman, Congresswoman Napolitano:

I want to speak to you today about the Department of Defense (DoD) and its procurement activities within the small business arena. We at the DoD consider small business to be a high priority. The very fact that approximately 88 percent of all DoD prime contractors are small businesses demonstrates how important the small business world is to this Department. Additionally, our dependence on small business is increasing; in FY 2001 the number of small businesses receiving contract awards grew by 1,825 – an increase of 8.2 percent over FY 2000. Of these 1,825 additional firms, 584 were owned by women and 355 were located in historically underutilized business zones (HUBZones). We exceeded the statutory goal of 5 percent contracting with small disadvantaged businesses (SDBs), spending 5.7 percent of our prime contracting dollars on purchases from SDBs. Small businesses received over $50 billion of DoD procurement funds last year, alone. The DoD regards the contributions of small business as critical and invaluable.

There has never been a more vital need for small business support within the DoD. Neither this Department nor our nation could have recovered from the shocking events of September 11th so quickly and effectively without the small business community. Small businesses provided the critical surge capacity the DoD needed to begin rebuilding the Pentagon and take on the task of fighting terrorism. These business owners immediately responded to a broad agency announcement issued by The Office of the Secretary of Defense for new ideas to counter this terrorist induced perturbation. They have great ideas, innovative technology, and can respond to our needs with flexibility, speed, and agility.

The Department of Defense has established the Small Business Reinvention Program.[1] This highly challenging policy assigns responsibility and accountability for the Program at the most senior levels within DoD and includes solid metrics for gauging success. Each military department and defense agency is responsible for annual small business improvement plans. These plans detail special initiatives unique to each DoD component that will enhance small business participation. Each DoD component has targets, and performance will be monitored. Under this initiative, the secretaries of the military departments and directors of the defense agencies will report semi-annually to Undersecretary E.C. "Pete" Aldridge, who in turn will inform the Deputy Secretary of Defense on their performance against the improvement plans and targets.

It is important that we stay in touch with the concerns of the small business community that supports our requirements. The Undersecretary has, consequently, established small business forums. The DoD Office of Small and Disadvantaged

[1] E. C. "Pete" Aldridge, Undersecretary (Acquisition Technology & Logistics), memo to secretaries of the military departments and directors of defense agencies on "Small Business Program Reinvention" dated May 16, 2001. Available at <www.sadbu.com>.

Business (SADBU) staff has already met with a Wichita, Kansas group of small businesses that produce aircraft components. The SADBU office has strategized with women owned business leaders, brainstormed with Native Americans and represented the Secretary of Defense on the Board of Directors of the National Veterans Business Development Corporation. These forums identify prime and subcontracting barriers enabling us to discuss and develop recommended solutions with department leadership and the chief executive officers of the major defense firms. Additionally, we appreciate the support from the Small Business Administration and we look forward to working with them in the future.

The Army, Navy, Air Force and defense agencies small business offices are also doing their part to help the Department meet its goals. They, along with over 500 small business specialists across the nation, are my means to transform the small business acquisition culture in the DoD. The Department's specialists will foster a cultural shift in the attitude of the acquisition workforce towards small business through new teaching modules. The OSD-SADBU office, in partnership with the Defense Acquisition University, is creating the first small business training module for executives and program managers. These new modules will explain why the Department's acquisition workforce should value the contributions of small business. Future training initiatives will focus on improving the use of Historically Black Colleges and Universities / Minority Institutions (HBCU/MIs) and we intend to reinvigorate training about historically underutilized business zones (HUBZones) – including Native American reservations which are predominately located in HUBZones. They are also developing training modules about contracting with women-owned and Service-disabled veteran-owned small businesses.

DoD continually strives to enhance its overall small business performance, particularly to achieve the goals recently established for woman-owned small businesses, HUBZones, and service disabled veteran owned small business. There are positive trends. In Fiscal Year (FY) 2001, $51.8 billion of DoD procurement spending went to small business firms, with $28.3 billion of this going to small business prime contractors.[2] This marks the first time in its history that the DoD Small Business Procurement Program has surpassed the $50.0 billion threshold.

I reaffirm the DoD's commitment to small business as a valuable and integral part of the defense industrial base. Thank you for the opportunity to appear here today.

[2] Referenced from the WHS Services Directorate for Information Operations & Reports.

TESTIMONY OF THE

MANAGER OF PROCUREMENT TECHNICAL ASSISTANCE CENTER

AND OFFICE OF SMALL BUSINESS OF THE COUNTY OF LOS ANGELES

BEFORE THE U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

September 3, 2002
12700 Norwalk Boulevard, Norwalk CA

Mr. Chairman, Congresswoman Napolitano, and distinguished members:

I appreciate the courtesy you are extending to Los Angeles County in giving me the privilege to present this testimony.

I am Debbie Cabreira-Johnson, Manager of the Los Angeles County Procurement Technical Assistance Center, funded by the Department of Defense Logistics Agency. The Procurement Technical Assistance Center, or PTAC, is one of the program activities of the County Office of Small Business.

The County has a population of approximately 12 million, a greater population than 42 states, with more than one million in the County unincorporated areas, ranging from a few blocks to hundreds of square miles in the Antelope Valley. There are 88 cities within the County's borders, the largest of which, of course, is the City of Los Angeles.

The population is changing with 46% Hispanic, 34% white, 13% African-American, and 7% Asian. In addition, the County has specific ethnic groups, including 2.5 million Mexicans, almost 300,000 Koreans, 250,000 Salvadorans, and 225,000 Armenians. More than 100 languages are spoken in area schools.

As members of the Small Business Committee, you know how critical small business is to this nation's economy. In Los Angeles County, there are approximately 250,000 small businesses, 96% of which have fewer than 100 employees.

The County Board of Supervisors created the Office of Small Business. They appointed a Small Business Commission to provide advice and support to help small business grow and to do business with Los Angeles County. The Board adopted 62 recommendations to make small businesses more competitive in bidding on County contracts. The most recent action was July 23 when the Board adopted a local Small Business Preference Program which gives Los Angeles County-based small businesses a 5% bid preference over a company which is not a small business.

The Board is aware that the small business sector is responsible for creating almost all of the new jobs. This is critical because the County overall had 76,900 fewer jobs in

December 2001 than it did when employment peaked in December 1989. The four counties surrounding Los Angeles collectively gained 69,600 jobs whereas Los Angeles lost 31,300 in 2001. The County's unemployment rate is also higher: 6.3% while Orange and San Diego Counties have rates lower than 4%.

Small businesses are also adversely affected by national trends. Access to capital, difficult for most small businesses in the best of times, is more restricted during the current economic situation. The lack of trust in large public firms has also affected the viability of many small firms.

We are one of five PTACs in the State of California, the only PTAC in Los Angeles County; many of our inquiries and clients come from the surrounding areas. Businesses are hungry for the information and tools they need to obtain and perform successfully under government contracts. We are constantly deluged with requests from businesses needing to know:

- where, how to find open bids
- how to complete the application
- what are the Federal Acquisition Regulations
- basic contracting/purchasing procedures

In order to service the many businesses and cover the County's vast area, we hold regular, monthly training courses at the PTAC headquarters and quarterly workshops throughout the County to disseminate information.

For the first 18 months of our operation, the L.A. County PTAC has recorded the following:

Number of vendors registered on county database	9000 (approx)
Vendors in 34th Cong. District	212
Number of L.A. County PTAC clients	423
Number of small business awards (from Federal, State and local agencies)	18
Total Dollars	$7,428,380
Number of classes held	42
Avg. number of attendees at County Workshops (quarterly)	300
Avg. number of attendees at monthly classes	50

I believe the PTAC's presence has made a positive impact in the community. We can report success in our outreach and networking efforts with small businesses, helping them with procedures and financing, and with their attaining contract awards. However, the mission is ongoing—obstacles such as contract bundling still confront and hurt small firms. It is imperative that the PTACs continue helping small, capable firms pursue government contracts in whatever capacity possible.

We commend this Committee for listening to the needs of small business and Representative Velasquez for introducing two bills (H.R. 1324 and H.R. 2867) aimed at helping small business in the federal procurement arena.

We applaud the Senate Defense Appropriations bill which included an additional $5 million for the PTAC program; however the House version did not. When Congress reconvenes after Labor Day, we hope that the final bill includes additional funding for the program. The extra money would allow Statewide and tribal programs to take advantage of higher caps and would also ensure that few programs if any would be cut. We urge the House Defense Appropriations Subcommittee to agree to the Senate's increased funding level for the Procurement Technical Assistance program.

BUNDLING

Contract bundling and other obstacles continue to make it difficult for small firms, which have few resources, to compete and bid on federal contracts. Although contract bundling may offer economic efficiency from an operations standpoint, small firms are being harmed by the process in many ways. In a report titled "The Impact of Contract Bundling on Small Business: FY1992-1999" by Paul Murphy, he concludes:

- As the average size of a bundled contract grows, the number of small firms bidding on that contract declines
- Increased contract bundling may have adverse effects on the ability of women- and minority-owned small firms to receive federal contracts
- While some small firms may do well under the bundled contracts, thousands more will remain unable to bid on contracts as either a prime, a joint partner, a sub-contractor, if at all.

On a local level, the County faces severe budget issues, because the County's programs largely are caseload-driven. Some departments may seek to consolidate contracts in a cost-saving effort which further reduces the potential for contracting with small businesses.

This leads directly to your interest in addressing the practice of "contract bundling" or contract consolidation. Small businesses nationwide are capable of fulfilling contracts, but are thwarted by contract bundling, and an agency culture that teaches procurement officers that "bigger is better."

The Small Business Commission sponsored a Small Business Economic Summit in December 2000. In preparation for that event, we sent an e-mail to all of the vendors on the County's procurement data base and asked what their most critical problems were, citing a list of 19 issues. The companies were asked to rank the issues from 1 (most critical) to 10 (least critical). We had more than 400 responses from a 4,000 vendor base. The responses were as follows:

--Insufficient access to/knowledge about contract opportunities	86%
--Inadequate information from government agencies	82%

--Difficulty in competing with large corporations	81%
--Government red tape, overlapping agency roles, not sure who is responsible	79%
--Lack of response from government agencies	75%

In March, the President pledged that the Director of the Office of Management and Budget (OMB) would review contracting practices at federal agencies with significant procurement activities to determine whether their contracting practices reflect a strong commitment to full and open competition. He also pledged that OMB would consult with small businesses on this issue. OMB did conduct a public hearing to address these issues, but, unless we are mistaken, OMB has yet to report the results of the review to the President. Their report is to include recommendations for administrative action and proposed legislation.

It is our understanding that the federal government has missed its mandated 23% procurement goal for small firms. We commend Representative Kerry for the legislation he introduced designed to strengthen the offices of Small and Disadvantaged Business Utilization in each federal agency, establish a Small and Disadvantaged Business Ombudsman for Procurement in the Small Business Administration, and raise the federal government procurement goal for small business prime contracting to 30%.

INTERNATIONAL TRADE

The County Office of Small Business has received two grants from the Department of Commerce Economic Development Administration (EDA) designed to assist small businesses in international trade. Large corporations don't need federal help.

Thanks to that support the Office has sponsored trade missions to Argentina, Uruguay, and Chile; two to The People's Republic of China; and one to South Africa. A third trade mission is planned for The People's Republic of China in November. The EDA grant has also funded a trilingual business-to-business database which gives companies the ability to access the database in Spanish, English, and Mandarin Chinese at no cost.

We commend the government's trade promotion agencies, under the leadership of the Department of Commerce, Trade Promotion Coordinating Committee, for completing The 2002 National Export Strategy. This is an impressive report which highlights three objectives: opening markets, stimulating economic development in emerging markets, and broadening the base of U.S. exporters. While the goal is to improve export capability for U.S. companies of all sizes, special attention is given to the needs of small and medium-sized enterprises (SMEs), the largest untapped resource for American exports.

The report cites specific assistance given to SMEs by other countries: Korea, France, Canada, the Netherlands, United Kingdom, and Spain. It is interesting that some of these countries provide assistance to individual companies for participation on a trade mission or for exhibits at trade fairs. It would be most helpful if similar programs could be implemented here.

We discovered, unfortunately, that the cost of the Department of Commerce Gold Key Service often makes a trade mission unaffordable for small companies who want to go on a trade mission and want to start exporting. On our South Africa trade mission we had only two companies who could afford the extra $800 for two days' of meetings, one in Johannesburg and one day in Cape Town. Although we were in those cities for two days, the companies could not afford the charge for the additional day. (There is an additional fee for a second day.) Fortunately the California Technology, Trade and Commerce Agency helped us in South Africa at no charge.

On our trade missions to China, the cost would have been $1500 for three days of meetings in three cities, plus the cost of an interpreter at $125/day. None of our companies could afford that. In China we had some limited assistance from their All China Federation of Small and Medium Sized Enterprises.

The 2002 National Export Strategy makes recommendations which, if implemented, will make significant improvements to SMEs' export potential. We commend the following:

-A "beginning-to-end" focus, staying with a company from initial inquiry through the completion of a transaction and any follow-up;

--Speeding up export financing where government guarantees or insurance are involved;

The report indicates there may be pilot projects undertaken to finance front-end engineering and design studies and developmentally sound projects in certain middle-income countries. As I mentioned, I am Manager of the Los Angeles County Procurement Technical Assistance Center. I work constantly with small companies to assist them in contracting with the Department of Defense prime contractors and other federal agencies. We schedule major "Contracting Connections" workshops quarterly, usually attended by approximately 300 businesses. I also conduct biweekly, personalized training courses to help companies learn the federal bidding process.

We have a database of more than 34,000 companies in Los Angeles County who want to export. We have a County-operated high technology incubator close to the Pasadena Jet Propulsion Laboratory. We can identify a company in Los Angeles County to participate in one of your pilot projects.

Mr. Chairman, Honorable Members, thank you again for the privilege of presenting this testimony. Please let me know if you have questions.

Testimony

STITCHES UNIFORMS / G. S. DUNBAR & CO. INC.

201 W. OAKMONT DR. MONTEBELLO, CA. 90640
333 S. FOURTH ST. MONTEBELLO, CA. 90640

CONGRESS of the UNITED STATES
House of Representatives 107th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, D. C. 20515

Dear Members of Congress,

First I would like to say Thank You for the opportunity to discuss our experience with the procurement process of the Department of Defense in general, and specifically, the DSCP.

The following is a summary of our experience with regards to Solicitation
SP0100-01-R-0037 IPFU T-SHIRT, LONG AND SHORT SLEEVE
IPFU SHORT SLEEVE 449,952
IPFU LONG SLEEVE 449,952

SP0100-01-R-0037 this is an over view of some information that might be helpful.
SP0100-01-R-0037 was issued by:
Defense Supply Center Philadelphia
Building 6-D
700 Robbins Ave.
Philadelphia, Pa. 19111
Purchasing Officer is Sarah Brunner 215-737-7018
Contracting Officer is Harry Streibich
This acquisition is a set aside 100% for small business

1) Last years award was to Comfort Technologies in North Carolina. The price was 5.99 for the short sleeve and 7.77 for the long sleeve. We submitted 2 bids. One at 5.99 for the short sleeve, and 7.68 for the long sleeve. And one at 5.89 for the short sleeve, and 7.59 for the long sleeve. On 1 million units you can see that the price savings can be significant.

2) Our bid was placed as Stitches Uniforms/G. S. Dunbar & Co. Inc. a joint venture. This was because Stitches Uniforms will handle the financing, logistics, and fabric procurement. G. S. Dunbar will manage the manufacturing of the garment. Stitches Uniforms is listed on the SBA Pro-net web site as a small minority owned business. G.S. Dunbar is listed as a woman owned minority owned business. Stitches Uniforms has an 8a application in with the SBA but they have made it very difficult and we feel that we don not need the pricing favor ability allowed under 8a.

3) Our printing subcontractor is T-Shirts Illustrated in Sylmar, Ca. T-Shirts Illustrated is a woman owned small business.

Our problem with this procurement is simple. Stitches Uniforms and G. S. Dunbar & Co. Inc. produced the requested garment for a lower price and has not been awarded the contract.

The facts are as follows:

- Comfort Technologies 1564 Union Rd. Suite A Gastonia, N. C. is the current supplier of this garment. They have been supplying this garment for the last 4 years. In each of the last three solicitations Comfort Technologies has increased their price 10%. The first year there were three bidders, the second year there were two bidders and the third year Comfort Technologies was the lone bidder. The last solicitation was awarded with a bid of $5.99 for the short sleeve T and $7.77 for the long sleeve T.
- Stitches Uniforms bid was for $5.89 for the Short Sleeve and $7.69 for the Long Sleeve. The garments we submitted, as well as past performance were sufficient, as noted in exhibit A.
- Beginning November 2, 2001 we received requests every 30 days to extend our offer, which we did.
- On April 12, 2002 we were notified that the solicitation was being changed from a sealed bid to a negotiated buy, and our offer would be extended another 30 days. We subsequently lowered our price to $5.49 for the Short Sleeve and $7.49 for the Long Sleeve.
- On July 24th 2002, we were notified that there would be another negotiation and the offer would be extended another 30 days. We did not lower our price on these items. We are standing with our current offer.
- The price on the last negotiations was $5.49 for the Short Sleeve and $7.49 for the long sleeve. This is a savings, on the same garments, to the government of **$350,962.56.**
- Stitches Uniforms / G. S. Dunbar & Co. Inc. are minority and woman owned minority businesses. Stitches Uniforms is classified by the SBA as Small Disadvantaged Business.

The following are the opinions and beliefs of the management of Stitches Uniforms / G. S. Dunbar & Co. Inc. A Joint Venture based on information gathered and conversations with the DSCP and Kyle Consultants Inc., a Washington based procurement consulting firm.

1. **When the DSCP asks for extensions on a procurement that is a way for the DSCP to continue to purchase the items in question from the current source. This obviously makes it easier for the purchasing agents involved by reducing the new paperwork involved with a new contractor.**
   a) We have been extending our offer to the DSCP for nearly one year with no explanation of why we must do this. When pressed for a reason the contracting personnel has been very uncooperative with our requests for information.

2. **When a sealed bid is changed to a negotiated buy we were told that it is frequently done to let the incumbent supplier know that they are no longer the lowest bid. This gives them an opportunity to revise their pricing strategy.**
   a) We have now been through two rounds of negotiations. This tells me and my associates that Comfort Technologies is being given a second opportunity to match our pricing and therefore be awarded the contract.
   b) When pressed on why we were negotiating the contract again we were met with hostility.
   c) At this time we contacted FOIA to see if we had any recourse in finding out why the bid was changed and were told that information is provided at the discretion of the purchasing agent and or officer. Given our conversation with the procurement officer we decided not to press the issue and risk alienating the procurement officers.

NOTES:

The following are business and competition issues, and the opinions of the management of Stitches Uniforms and G. S. Dunbar & Co. Inc., with regards to the United States Government and the objective of opening up Federal Contracts to new contractors.

- We are led to believe that entities such as the SBA and the House Small Business Committee were formed, and function, for the purpose of fostering competition and promoting small businesses throughout the United States. What our research has shown however, is that a disproportionate number of contracts to provide clothing for the military are awarded to the southern and north eastern part of the country, to the same contractors over and over. In the two and a half years that I have been researching contract awards through the DSCP clothing and textiles I have not seen one contract awarded to a firm in California. I am not saying that there have not been any, but I have not seen **one** award to a manufacturer in California. G. S. Dunbar was in the 8(a) program for 10 years before they were awarded their first contract. The total award was a relatively small $300,000. I am here to question why this is the way it is. Is California not part of the United States? California has an incredible wealth of garment production expertise and ability, yet manufacturers here are snubbed when it comes to government procurement.

There is something to be said for proximity to the capitol. The ability to frequent seminars and meet with procurement officers should not be underestimated. But the fact that in this instance we are able to produce the same garment for less should stand on it's own. What is the bid process for? We felt that given the hostile nature of the procurement officers toward our inquiries that a trip to the capitol would not serve much purpose. We believe that that the proposal should stand on it's own in order to receive full consideration for award. If it is necessary to meet with the procurement officers in order to satisfy their questions we would be more than happy to attend any requested meeting. That request has not been forthcoming.

- Another important issue that I feel the government needs to address has to do with competitive pricing. In the case of SP0100-01-R-0037 Stitches Uniforms / G. S. Dunbar & Co. Inc. was able to bid this garment at a price roughly 8% less than our competitor. Comfort Technologies is based in North Carolina where the minimum wage is $5.15. The minimum wage in California is $6.75. It takes 68.5 persons working 8 hours a day to produce 3,800 T's. (the amount necessary to fulfill delivery on this contract) The cost in wages alone to a company in N.C. is $2,822.00. The cost to a company in California is $3,699.00. That is **EVERY DAY. THAT IS AN ADDITIONAL ANNUAL COST OF $228,002.46 TO A COMPANY IN CALIFORNIA.** Companies in California also have to pay more for workers compensation insurance, property insurance, health insurance, rent and or the cost of property, freight to and from because most of the mills left are in the south and east. My point is not to cry foul. My point is that the government is subsidizing this particular contractor over and above a reasonable profit. Shouldn't that be something that a committee such as this should pay attention to? I am not asking the government to pay more to purchase from a company in California, but do you think that it is right, from a competitive standpoint, to pay more from a company who actually pays less to have it made? Do you think that there is something wrong with that? I do. The $228,000 a year in wages in California go to 68 families who buy goods and pay taxes. Who have children and want to buy homes and better their lives. The $228,000 a year in profit in North Carolina don't have the same social benefits.

In closing I would like to thank all of you for taking the time to listen to the concerns of U. S. citizens and companies here in California. I don't believe the purpose of this is to receive any favoritism to our situation, but to bring to your attention the issues that companies in California, that wish to work for the government, face. In our case we are able to produce the same product for less money, despite higher production costs. Yet we have not been able to win this award. We have been rebuffed in nearly every attempt to gather information from the procurement officers, and have twice been told that the bids are being re-negotiated. Do you see our frustration at the process? Companies in the south pay less to make a product and sell it for more and seem to be given preferential treatment when it comes to awards of clothing and textiles. The proposal process is supposed to give the contracting officers adequate information to make a sound purchasing decision. If the proposal is satisfactory, and the product is satisfactory, and the price is lower, then what is the problem?

Thank You,

Eric Espinoza
Stitches Uniforms / G. S. Dunbar & Co. Inc. a joint venture.

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MASTER RESEARCH & MANUFACTURING, INC.

Aerospace High Performance Spherical, Rod End Bearings
Critical Structural Machined Components & Assemblies

13528 PUMICE STREET • NORWALK, CA 90650
Phone: 818/898-1461 • Fax: 818/898-0039
E-Mail: MAG747@aol.com

SPEECH GIVEN BY ADRIANA GRIPPA ON SEPTEMBER 03, 2002

Good Morning

Ladies & Gentlemen:

I would like to start my comments with a personal thanks to Donald Manzullo, chairman of this hearing, and Congress Woman Grace Napolitano

My name is Adriana Grippa. I am the President of Master Research and Manufacturing, Inc., a Company who specialize in the fabrication of critical aerospace components and assemblies.

My husband Miguel and I started our small company some 25 years ago and are proud to say that we have been doing business with the Department of Defense for 20 of those years. Overall, we enjoyed a good business relationship with the Procurement Offices and an excellent relationship with the Administration and Quality Representatives from DCMAO (Defense Center Management Administration Office) offices in Van Nuys and Norwalk. The last few years, however, have been very difficult because of our dealings with the Defense Supply Center-Richmond. For those of you who are not familiar with this Agency, it is now the procurement center for most of the military hardware needed by the Navy and the other Armed Forces.

Through the years, we received over 800 contracts from Department of Defense supply centers located all over the country. To name a few, Aviation Supply Center Philadelphia, Saint Louis Army Aviation Center, Robbins Air Force, and Rock Island Army Depot. The procurement process always went through the normal steps, as follows:

Government Agency solicits request for Quote
Suppliers submit quotes
Contract is awarded to the lowest bid,
Items are manufactured in compliance with contract requirements.
Items are then inspected, approved and delivered, and payments made.

We can't recall an occasion where the terms and conditions of the contract were changed by the procuring office AFTER AWARD. According with the Federal Acquisition Regulations and standard business practices, to do so requires a bilateral agreement from the Government and contractors.

However, in the last two years in dealing with the Richmond Center, 10 contracts have been modified unilaterally by the Procuring Office **AFTER AWARD**, without regard to the consequences to our company, our rights, and in violation of the Federal Regulations. It's almost as if the Richmond Center is intentionally trying to injure its small business base.

I say "Small Business Base", because we are not the only contractor experiencing these problems. We attended an open house at Richmond some months ago and heard many of the same complaints from other business owners. These modifications after award have caused severe financial hardship and continue to do so.

Our business goal is to produce good quality products for the aerospace industry on schedule and at a reasonable price. To do so, we have to concentrate our efforts in two main areas, Quality Control and Lean Manufacturing.

Now our time is spent correcting procurement blunders and after-the-fact modifications to the item being manufactured. We have even been forced to hire a contract specialist and have retained legal council just to deal with the growing problems.

The most common and most expensive contract modification we are experiencing is the change of items to "Flight Critical Item Status". Categorizing an item as "Flight Critical" restricts procurement to purchase only from approved sources, in most cases just the prime contractor. Some are items that we have manufactured and that have been in use for many years. Besides, critical nature or not, we have proved our capabilities to build them. And we have seen many items categorized as "Flight Critical" that has nothing critical on it.

When the status of the item is changed AFTER AWARD and we have already started the manufacturing process, it forces us to stop working and freezes the funds already invested. For example, after a recent contract award, we purchased a special material from DUPONT, the only authorized fabricator. After we received this material and paid $50,000.00 for it, we received a stop work order from Richmond and a request to submit a SAR (Source Approval Request), because the item had been reclassified to "FLIGHT CRITICAL". This special made material has been sitting in our warehouse and our money tied up for six months, waiting for our SAR to be approved.
The Procurement office's response to our complaints has only been, "We are so sorry".

This chart below represents another example of how the taxpayer money is wasted.

As you can see, we received and successfully completed two contracts for this item. After we received the third one, oooppps, a brain decided that the status of the item should be changed to "Flight Critical".
We submitted a SAR, which took 18 months to be approved by the Navy. In the meantime, another order was awarded to the Prime Contractor, the only approved source. And finally, our parts were purchased to meet an emergency need before we received our SAR approval.

In this example, $177,000.00 taxpayers dollars were wasted because of a senseless restriction. In addition, it smacks of discrimination against a small business and collusion between the big primes and the Government.

And this is just the tip of the iceberg. I wish to have more of your time to tell you about other troublesome histories. I know that you may have more important issues to deal with, but if we let procurement officers continue with this behavior, they will drive our company, and who knows how many more, out of business. Besides, the amount of money wasted may be tremendous, and I think justifies an investigation.

In conclusion, I have several proposed questions you may ask the Secretary of Defense:

1) Why is Richmond restricting procurement of items previously manufactured by Small Business, and accepted? Is there a new hidden policy to prevent small business to compete on Government Contracts?

2) Why is the Procurement Office requesting source approval **AFTER CONTRACT AWARD,** interrupting the manufacturing process, and severely affecting the financial health of the small business?

3) Why is the Navy's Technical Department and Richmond Procurement taking so long to approve Small Business Source Approval Request, and qualify them for competition?

And finally:

4) Is lobbying from prime contractors causing harm to the small business owner, and harm to us, the taxpayers, because of the collusion in pricing?

I hope that you can use your power to solve the obvious problems within the Government procurement system and especially those at the Defense Supply Center's Richmond. As a Small Business Owner and a Taxpayer, I thank you for the opportunity to bring this case to your attention.

PURCHASE HISTORY

Part Number: 65261-08013-041 NSN 1620-01-126-6031
CAP ASSEMBLY – MAIN LANDING GEAR
SIKORSKY HELICOPTER MODEL H53

- Contract SP0740-97-M-4841 awarded to MRM on 11 July 1997. **31** Assemblies at **$491.00** each
  Inspected, approved and delivered on 16 January 1998

- Contract SP0460-00-M-3698 awarded to MRM on 01 February 2000. **33** Assemblies at **$460.00** each.
  Inspected, approved and delivered on 31 August 2000

- Contract SP0740-00-M-4971 awarded to MRM on 27 September 2000. **20** Assemblies **at $460.00** each

- Notification received from DSCR on 20 October 2000. Due to item been reclassified "Flight Critical Item", a SAR (Source Approval Request) is requested from our company.

- SAR issued by MRM and sent on 20 November 2000.

- Letter received from DSCR on 13 April 2002. Authorization to ship completed parts denied until approval of SAR is received.

- DSCR awarded contract N00383-97-G-012N to Sikorsky Aircraft (Prime Contractor) on 25 May 2001.
  90 Assemblies at a price of **$2,431.09 each**.
  Total cost of contract $218,798.10.
  Total cost if purchased from MRM $ 41,400.00

- This represents an increase in cost to the Government and Taxpayers of **460%**

- **20** Pieces Inspected, Approved and Delivered on 22 February 2002. Shipment authorized without SAR Approval by DSCR Procurement Leader, due to urgency need.

- **Master Research and Manufacturing received SAR approval on 31 May 2002, eighteen (18) months after submitted.**

Testimony of David Bearden
Deputy Assistant Secretary of Commerce for Economic Development
House Committee on Small Business, Field Hearing Norwalk, California
Tuesday, September 3, 2002

Introduction

Chairman Manzullo, I would like to thank you and Representative Napolitano for the opportunity to appear at this field hearing of the House Committee on Small Business and to discuss the Economic Development Administration's (EDA) Trade Adjustment Assistance (TAA) program for firms. My comments will briefly summarize the history, process, and results of the program.

History

EDA's Trade Adjustment Assistance for firms program was originally authorized under the Trade Act of 1974, as amended. Congress recently extended the authorization of the program through September 30, 2007, under the Trade Act of 2002, which President Bush signed into law last month, on August 6.

The purpose of the TAA for firms program is to help manufacturing and producing firms that have lost sales and employment as a result of increased imports of similar or competitive goods. The program is a unique federal response for mitigating the problems that firms encounter as a result of changing trade patterns. It is also fully consistent with the concepts of free trade. Rather than relying on quotas, tariffs, or other trade barriers, the TAA for firms program helps trade-impacted firms become more efficient and competitive within the global marketplace.

Since 1978 the Department of Commerce has supported a national network of Trade Adjustment Assistance Centers (TAACs) to help injured firms in navigating through this process. Currently, there are twelve TAACs in the network. California, for example, is served by the Western TAAC, which is sponsored by the University of Southern California. It is located at 3716 South Hope Street, Suite 200, Los Angeles, California 90007, and may be contacted at telephone number (213) 743-2732. This contact information, along with a summary of my remarks about the Trade Adjustment Assistance for firms program will be available in paper form for all who are interested and will be provided to Representative Napolitano's office.

Process

There are three steps that a firm must undertake to attain assistance under the TAA for firms program: certification, preparation and approval of an adjustment proposal, and implementation of the adjustment proposal.

In the first step, EDA determines if a firm is eligible for assistance under the TAA program. The firm submits to EDA a petition and other information, which documents how it has been adversely impacted by increased imports. A TAAC will assist a firm, at no cost, in preparing this petition, in assembling the necessary supporting documentation, and in submitting it to EDA for consideration. EDA, essentially using a "reasonable person test," must find that a firm reduced employment by 5 percent or 50 employees (whichever is less) and lost sales, and that increased imports of goods similar or competitive with the goods made by the petitioning firm contributed significantly to those losses. If EDA makes those findings, it issues the firm a certificate of eligibility to apply for assistance under the TAA program.

The second step involves the preparation of the firm's adjustment proposal and its approval by EDA. A certified firm must have an adjustment proposal approved by EDA before it can receive assistance under the TAA program. A TAAC will assist a firm in preparing and submitting the adjustment proposal to EDA. The firm must pay the TAAC at least 25 percent of the preparation cost of adjustment proposal, and the TAAC will pay the remaining share out of the funding it receives from EDA. The adjustment proposal is essentially a strategy for guiding the firm's recovery. EDA expects the adjustment proposal to include an unbiased diagnosis of the firm's strengths, weaknesses, threats and opportunities, and to identify specific technical assistance tasks that will help the firm in its recovery efforts. Among other things, the tasks may include technical assistance in such areas as marketing, product development and diversification, computer system enhancements, production and industrial engineering, and export promotion.

The third step in the TAA program is the implementation of the firm's adjustment proposal. Once EDA approves a firm's adjustment proposal, the firm may request assistance from the TAAC in paying for the implementation of its adjustment proposal. Usually, the firm selects a private consultant to provide the technical assistance tasks outlined in its adjustment proposal. In most cases the certified firm pays 50 percent of the consultant's fee and the TAAC pays the other 50 percent. A TAAC may pay up to $75,000 as its total share of the technical assistance implementation costs for the tasks outlined in a firm's approved adjustment proposal.

Results

Let me take a moment to share with you examples of the success some firms have had using the TAA Program. We have seen instances of firms that have increased their sales between 13 and 40%, and have decreased their production material costs by almost 40%. The following examples, however, are actual firms that were assisted by the Western TAAC:

- A contract manufacturer of printed circuit boards received assistance in developing a strategy to focus its marketing efforts on customers needing more complex printed circuit boards with higher quality standards and in gaining an ISO-9002 certification standard for its products. Since completing the TAA program, the firm's sales have increased by 40 percent.

- A die casting firm received assistance in developing and implementing an improved computerized process monitoring and control system to enhance the firm's flexible manufacturing capabilities. Since completing the TAA program, the firm's sales have increased by 13 percent and its production material costs have decreased by almost 40 percent.

A 1998 evaluation by the Urban Institute compared certified firms that prepared and implemented adjustment proposals with certified firms that did not. Those firms that implemented their adjustment proposals survived at statistically significant higher rates, added as opposed to losing more employees, and achieved an almost double increase in sales. For the TAA dollars invested in technical assistance implementation, the Urban Institute concluded that by the fifth year after certification, the program: supported one job for every $3,451 invested, and generated $87 in sales for every dollar invested.

Conclusion

Finally, I would like to point out that interested parties may wish to visit the web site of the trade adjustment assistance for firms program, www.taacenters.org, for a more detailed description of the program and its administration. This web site also provides the addresses, telephone numbers, web site addresses and service areas of the twelve TAACs. Questions may also be directed to EDA's Planning and Development Assistance Division at (202) 482-2127.

Thank you, again, Mr. Chairman, for the opportunity to briefly discuss EDA's TAA for firms program. I would be happy to answer any questions.

TESTIMONY OF

DAVID G. HOLBERT
Executive Director of Western Research Application Center,
University of Southern California, School of Engineering

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS

FIELD HEARING, NORWALK, CALIFORNIA.

SEPTEMBER 3, 2002

Thank you, Chairman Manzullo, Congresswoman Napolitano and members of the Committee for the opportunity to testify regarding the Trade Adjustment Assistance for Firms program (TAA for Firms). I am the Executive Director of the University of Southern California's Western Trade Adjustment Assistance Center (Western TAAC), as well as the President of the American Business Council (ABC).

Among the members of ABC are the twelve organizations that contract with the U.S. Department of Commerce through the Economic Development Administration (EDA) to operate Trade Adjustment Assistance Centers or TAACs. These Centers, created under the Trade Act of 1974, are the front line service providers of TAA for Firms.

Speaking on behalf of the TAA Centers, we deeply appreciate the past support of Congress to authorize and fund this program. Those decisions have saved and created thousands of jobs helping to maintain economic stability in communities across the nation.

The purpose of TAA for Firms is to assist producing firms adversely affected by imports. The Trade Act of 1974, in addition to creating the TAA Centers, specifies general criteria for firms to qualify or become certified as trade-impacted, and delineates the general program activities of business planning and technical assistance.

My testimony will address three questions: why TAA for Firms is particularly effective for trade-impacted firms, the Program's outstanding results, and some suggestions for improvements to the Program.

The work of TAA Centers is to identify eligible firms, assist them with qualifying, provide consulting for recovery planning and technical assistance implementation, handle all programmatic matters, and monitor company performance. The TAACs follow a philosophy of consistency, individuation, and meticulous follow-through for these challenging business turn-around projects. Indeed, TAACs carry out all aspects of the Program save rendering certain judgments reserved by the Dept. of Commerce (certification of a firm as trade-impacted and acceptance of a firm's recovery plan). Over years, the TAA Centers have shared information and best practices, and developed a highly effective methodology for fostering business recovery. Together with help from EDA, the Program has made many adjustments in rules and practices to keep current with economic conditions and improve quality.

The essential benefit of the Program is cost-shared technical assistance. The Program and participating firms each pay a share (usually half) of the cost for outside expertise to accomplish specific objectives designed to bring new capabilities into service and restore competitiveness. Private sector consultants, who are experts in their respective fields and industries, perform the detailed work of implementing technical assistance. There are strict limits on the amount of assistance for any one firm. In addition to Program sponsored efforts, all participating firms invest in other aspects of business renovation such as training and equipment. In fact, TAA for Firms assistance is a small, albeit critical, share of the total cost of business recovery.

While the Trade Act does not specify the size of a business that may be eligible, the large majority of participating firms employ fewer than 500. Nearly all are manufacturing or agricultural firms. Most are family-owned or closely held. Typically, the principal owner is the chief executive, the firm operates from a single location, and the firm's product is part of a micro-category for which no specific records, public or private, are maintained.

Characteristics of these small firms and the nature of trade-impact often combine to create a crisis for otherwise viable companies. The companies tend to be capital intensive and face rapidly changing technology that places constant demands on working capital. These private firms lack equity funding options and have obvious limits on debt capacity. Trade impact often arises rapidly and presents strong price competition. Often, business decline occurs before correction can be implemented. Despite the conspicuous expertise required to found and build a small business, firms typically find they are lacking in the specific knowledge on which to base a successful turn-around in an environment of trade-impact. Even with highly competent management and excellent opportunities, these firms require outside expertise to evaluate strategy and implement new technology. While resources may be available for other aspects of recovery implementation, outside expertise or consulting is typically funded from working capital, which, in many cases, is depleted in the trade-impacted firm.

Larger firms facing trade impact may rely upon internal financing or turn to sourcing abroad. Small firms do not have these options. Most importantly, a temporary and correctable crisis, can threaten the livelihoods of employees and the life's work of owners. Further, since trade impact tends to occur pervasively in particular industrial segments, entire fields of industry can be threatened with the potential of being lost forever to the U.S. industrial base.

By assisting firms with planning in strategy and implementation of outside expertise, TAA for Firms brings an essential component of recovery into the trade-impacted firms near-term operations. By helping to source and monitor as well as partially fund this technical assistance, TAA for Firms makes implementation a reality at a time when its need is greatest yet least feasible. The TAA for Firms program immediately adds confidence to a firm's recovery plan, speeds business recovery, and relieves pressure on working capital. It often surprises observers that a common outcome of recovery is expanded exporting; indeed, export-led recoveries are not at all uncommon. Yet nothing is more logical when competitiveness has been established based on performance and capability.

The results of the TAA for Firms program have been outstanding. Annually, the TAACs conduct a self-directed evaluation of the Program by polling all firms actively participating or having completed the Program within three years. During the five years from 1997 through 2001, the TAACs monitored implementation for 511 companies with just under 50,000 employees and $6.4 billion in sales (average size: 98 employees, $12.5 million in sales.) In the two years prior to participating in the Program, these firms lost 12% of employment and 10% of sales. Since starting the TAA for Firms program, the firms grew a startling 29% in sales. The firms dramatically slowed the rate of job loss, at the same time gaining 18% in productivity, more than double the national rate of labor productivity growth.

Program funding of just under $63 million for the five years yields a cost of $1,260 per job impacted -- a fraction of the cost of worker retraining. In 1998 the Urban Institute conducted an independent analysis and concluded that the Program provided the federal government with a return on investment between 261% and 348%. The study further demonstrated that participating firms far exceeded growth of firms that were eligible but did not participate, and even out-performed similar firms in general. These results are all the more remarkable considering that each participating firm had experienced a decline in sales and employment in an environment of rising imports in the two years prior to starting the Program.

Throughout this testimony I have referred to "trade impact" without having defined the term, yet I am confident everyone present knows what I am talking about. I have stood with company owners in their fields and factories both of us convinced that the firm is trade impacted but challenged to demonstrate this in terms of acceptable documentation. Surely it is necessary to define standards and proofs; this is the essence of fairness and efficiency. However, this program would greatly benefit from clarification of what constitutes trade-impact and careful thought as to the methods by which it may be demonstrated.

Allow me to enumerate some situations that, at present, would be unlikely to generate a certification of trade-impact: the only U.S. producer of a product; a firm in a rapidly growing industry that is increasing in sales yet losing market-share to imports; all firms who petition during the early stages of a recession; many firms whose product is not discretely defined in the Harmonized Tariff Code; a firm that experienced a sharp decline due demonstrably to imports, but over one year ago; a firm that has had the foresight to observe demonstrable impact prior to it's most severe damage; and family farms.

The method by which firms demonstrate trade impact has changed little in two decades. A petition for certification of trade impact with all of its attachments is a bulky package indeed, and one that no company I know of has endeavored to complete without many hours of assistance from TAAC staff. The Trade Act specifies sixty days to evaluate a petition but it often takes longer in practice. Meanwhile, the Department of Labor's TAA for Workers program, which also certifies firms as trade-impacted, does so based on a one page form with limited attachments that are designed to be acted upon with a few hours of evaluation effort. The Urban Institute's 1998 evaluation of TAA for Firms strongly recommended a revision of the certification criteria and process as have evaluators prior and since.

No doubt the content of the Trade Act is imprecise and I am certain efficiency is a foremost objective of the Economic Development Administration. In the mean time, the pace of trade liberalization has not slowed nor has the volume or pace of imports. I would ask both the Department and Congress to consider anew the subject of what constitutes trade-impact and how it can be demonstrated in a petition for certification.

The level of appropriations for TAA for Firms since 1994 has been between $8.5 million and $10.5 million dollars annually. Most observers find this startlingly low. Indeed, the sum of approved funds for projects that are postponed pending new resources is a figure well in excess of $10.5 million - an entire year's appropriation. The President's proposed budget includes $13 Million for TAA for Firms – this is a most welcome endorsement and the only substantial increase proposed in recent years. Weeks ago, Congress passed legislation authorizing TAA for Firms for six years and recommending appropriations of $16 Million annually in each of these years. The ABC, itself, evaluated the structure of TAACs and concluded that the maximum efficiency of the current network would be achieved at this same figure of $16 Million. The timing of these initiatives coincides with the rapid pace of trade liberalization initiatives and the passage of Trade Promotion Authority. I believe it is safe to predict increased trade-impact among the nations small farms and manufacturers. Yet, without positive efforts, level appropriations would appear to be the most likely outcome. I urge the members of the Committee to help see the optimum level of appropriations, $16 million, through the various processes of the Congress.

In the Trade Act of 1974, Congress created TAA for Firms in order to save and create jobs and help American farms and manufacturers compete internationally without creating artificial trade barriers. Your wisdom in establishing this effective trade remedy is now obvious. The Program's ancillary benefits, while perhaps unforeseen by Congress at the time, have contributed to saving economically threatened communities, mitigating the trade deficit, and generating millions of dollars in tax revenues. However, two matters would benefit from the committee's insights and recommendations, these are criteria and methods for demonstrating trade-impact in individual firms, and the level of appropriations for the Program.

Finally, I would be remiss not to emphasize that the small business owners that participate in this program face genuine crises of survival. We are told, that firms like these are the bedrock of the economy and engines of job growth. Their individual stories are dramatic and compelling. Some observers are surprised to learn that, at first, owners are usually reluctant to seek assistance through TAA for Firms and that unjustified or opportunistic participation is anathema to their conduct. These businesses deserve better than an obscure process for qualifying and a partially unfulfilled promise for assistance. I beseech the committee to use its influence to foster effective criteria and processes for firm certification and adequate resources for the Program's operation on behalf these business recoveries that are so valuable to employees, communities and the nation as a whole.

I will conclude by again thanking the Committee for hearing this testimony and your attention to this important matter for the nations small farms and manufacturers as well as the many and valued jobs represented at these enterprises. Thank you.

Testimony of Mary Delmege
Senior Advisor to the Trade Promotion Coordinating Committee
House Small Business Committee California Field Hearing

Mr. Chairman, Representative Napolitano and Members of the Committee:

Thank you very much for including us in this hearing. This provides an excellent opportunity to highlight the importance of trade for our economy and to talk about how small and mid sized businesses are participating in global trade. I'd also like to discuss current efforts to ensure that the resources that are available to help small businesses participate in international trade are delivered in a coordinated manner. Finally, I'd like to share with you some examples of small California firms that have recently succeeded in selling into overseas markets.

Overview

With regard to the importance of trade, the facts speak for themselves: Exports have accounted for 30% of US economic growth since 1989 and 97% of the US businesses that export are small and mid sized firms. In developing the National Export Strategy this year, we surveyed more than 1,000 small and mid-sized exporters.* One of the things that we learned was that many small and mid sized exporters regard trade as a core element of their business and expect it to serve as a continuing source of revenue growth. Many of them also view their export sales as an important source of diversification when domestic sales are flat or declining. The majority of the firms surveyed have experienced growth of more than 5% annually in the past three years and expect that their export sales will continue to grow more than 5% annually in the next three years. Of the small businesses (under 100 employees) that export, 60% derive more than 20% of their total sales from exporting. Forty-four percent of the mid-sized exporters report that 20% of their total sales come from exports. There is no doubt about the fact that trade provides tremendous benefits for small and mid sized U.S. businesses. It is well worth the time and effort we are spending to make sure that trade services are well coordinated and effective.

The National Export Strategy

The Trade Promotion Coordinating Committee was established in 1993 by executive order, pursuant to the 1992 Export Enhancement Act to provide a unifying framework to export promotion and export financing. It is an interagency committee, chaired by the Secretary of Commerce, which each year publishes the National Export Strategy.

This year, the TPCC developed the National Export Strategy through a process of reaching out to US firms in order to better understand their needs. In addition to the survey mentioned before, we conducted one-on-one interviews and focus groups with companies throughout the US. We also looked at trade promotion programs of other industrialized countries to learn as much as possible about their best practices. All of this input was used to develop a series of recommendations, including steps to provide better customer service and expanded outreach and education. Many of the specific recommendations for better customer service are focused on training. Although users of services are generally pleased, many of them told us that they would like to see better coordination between agencies. They expect more seamless client service than the agencies currently provide.

As a result of these recommendations, an interagency task force is developing a training proposal aimed at making sure that trade specialists who interact with clients are well versed in the full array of services available. Trade specialists should be able to match the needs of the client with the most appropriate resources. Many small and mid sized exporters told us that they have trouble figuring out where to go for help. They would appreciate it if someone could guide them through the maze of available assistance. The goal of a well integrated, interagency training program is to deliver just this kind of help. The training will consist of short term, classroom style sessions, on-line resources and longer term rotational job details. By equipping trade specialists with increased skill sets, we will be able to better respond to exporters and potential exporters who expect more integrated service. The Commercial Service currently has over 300 international trade specialists in the field and our goal is to develop them as true account managers who are able to provide clients with access to the full array of trade services.

At the same time, it is important to point out that this is not a new effort. Rather than try to reinvent the wheel, we are attempting to build on our most successful efforts and institutionalize those best practices. The 1993 National Export Strategy called for the creation of US Export Assistance Centers where Commerce, Ex-Im Bank and SBA are co-located. These were designed to be "one stop shops" for exporters, where they could access counseling, research, and marketing assistance, as well as trade finance. One of the first four US Export Assistance Centers was here in Southern California and helped to serve as a model for how integrated trade services should be delivered. This work continues today as the three agencies work side by side, calling on clients and helping a great many small California businesses expand through exporting. The Southern California network of offices leads the country in numbers of successful export transactions reported by our clients. So far this fiscal year, these offices have counseled more than 1,100 clients and reported 480 completed transactions worth a total of $180 million. Many of these companies have received assistance from the US Department of Commerce, SBA, Ex-Im Bank and other TPCC agencies.

To cite a few specific examples, one of our specialists here in Los Angeles recently helped a small company in Santa Fe Springs, resolve an issue with the Mexican Customs authorities. Her efforts led to the successful shipment of $30,000 worth of refurbished electronic equipment.

In another case, the staff at the local US Export Assistance Center helped an apparel manufacturer in Vernon, link up with our Commercial officer in France. Through a series of "gold key" meetings, the company was able to expand their distribution network and generate sales in excess of $160,000 in 2001 and $200,000 this year.

A third example, concerns a Whittier firm that specializes in the manufacture and of electrical power systems and electrical components. By helping them understand NAFTA requirements and complete a certificate of origin, our trade specialist was able to help them complete a $16,000 sale of equipment to a buyer in Mexico.

These are just a few examples of local firms that have benefited from the trade services available locally. By providing these very productive trade specialists with additional training and resources, we are confident that we can increase the scope of assistance available to small and mid-sized firms. The training effort, along with implementation of the other recommendations in this report, are part of an overall effort to respond to the changing needs of small and mid sized firms that want to grow their businesses by getting involved in international trade.

* Report Card on Trade II: Assessing the Effectiveness of U.S. Government Support to Small and Midsize Exporters. Kenan Institute. June 12, 2002

TESTIMONY OF WILLIAM REDWAY
GROUP VICE PRESIDENT, SMALL AND NEW BUSINESS GROUP
EXPORT-IMPORT BANK OF THE UNITED STATES
HOUSE SMALL BUSINESS COMMITTEE CALIFORNIA FIELD HEARING
SEPTEMBER 3, 2002

Mr. Chairman, Representative Napolitano and Members of the Committee:

I am happy to be here today representing the Export-Import Bank of the United States (Ex-Im Bank). Thank you for allowing me the opportunity to testify about our efforts to support small business throughout the country, and in particular, in California.

Ex-Im Bank provides competitive financing solutions so businesses large and small can export. Ex-Im Bank exists to aid in the financing of U.S. exports, thereby helping to preserve and support jobs here in the United States. We do this by helping finance the export of US goods and services through direct loans, loan guarantees, and insurance. These are transactions that would not go forward without us, and they take on particular importance during times of international economic slow down. The exports come from large and small businesses in almost every state and most Congressional districts. Ex-Im Bank offsets the support provided by the export credit agencies of our major competitors in Europe, as well as the Canadians and the Japanese. We also will support exports that offer a reasonable assurance of repayment that the private sector finds too risky at that moment because of the market involved and / or the length of time required for repayment. Finally, and importantly, pursuant to our charter, we do not compete with private sector financing.

Last fiscal year we supported $12.5 billion of US exports to markets around the world. We approved 2,124 small business transactions, which represent 90% of all of our transactions in fiscal year 2001. Small business represented 18% of the exports the Bank supported by dollar value and Ex-Im Bank intends to grow this amount.

We recognize that small business provides the greatest source of job growth in the U.S., and we continue to improve our small business programs and services. We are successful because we listen to you, to our customers, and to our partners. Today I want to tell you of our success reaching out to small businesses and helping to provide the financing necessary to make a sale.

Working Capital:
Ex-Im Bank has a long-standing commitment to providing programs and services to small businesses. Over the past few years, we have seen dramatic growth in one of our most important programs, the Working Capital Guarantee Program. This program is renowned in the export-financing arena for encouraging commercial lenders to make Ex-Im Bank-guaranteed loans to small businesses. We recognize that small businesses, particularly those owned by minorities and women, face a number of hurdles in obtaining commercial financing. Small businesses typically lack capital, collateral and the financial history to persuade banks to issue a loan. And, often, when a small business

begins to compete in the export market, it lacks productive capacity and finances to produce the export.

Loans made under Ex-Im Bank's Working Capital Guarantee Program can be used for the costs and expenses of manufacturing the export item or providing a service. Last year, we approved $660 million in working capital loans. 90% of these loans supported small businesses. These loans supported approximately $3 billion in export sales, making this small business program one of the most significant in the Bank. This financing product has grown 71% since FY98. When credit tightens, small businesses tend to be more adversely affected than larger companies. Our working capital product provides lenders with a tool to accommodate the credit needs of small businesses. We are proud of its recent growth and we are committed to its future success. Our loan guarantees – even those small in dollar amount – have enabled small businesses to hire new employees or buy equipment to produce an export, thus allowing them to complete multi-million dollar export sales. And, by increasing the coverage of working capital loan guarantees for minority- and women-owned firms from 90 to 100 percent, we have given them greater access to financing for pre-export costs.

Insurance:

Our export credit insurance is also mostly used by small businesses. Last fiscal year, we issued 1,723 export credit insurance policies to small businesses, or ninety-eight percent of the total number of Ex-Im Bank policies. These policies protect a U.S. exporter's sales to foreign buyers—mostly on a short-term basis. We have several types of policies including one for "very small businesses" with limited export sales and experience. This policy has extra benefits such as no first loss deductible, a simplified premium rate schedule and special financing features.

We are presently automating all of our insurance products so that a small business can apply for coverage through the Internet, have the majority of the underwriting decisions made electronically, and have the policy issued electronically. This will make our programs more accessible to small businesses and give them faster better service. We expect this project to be complete in 2004.

Outreach and Marketing:

Two years ago, we changed the way we went about marketing our financing products in order to use our resources more wisely and in very targeted fashion. Most of our outreach is executed in partnership with our sister trade agencies, the Department of Commerce (DOC), the Small Business Administration (SBA), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA). It's aggressive, comprehensive and cost-effective.

Ex-Im Bank and its programs are projected across this country through our eight regional offices. Five of these offices are co-located through the United States Export Assistance Centers (USEACS). We have placed our offices in strategic locations (Miami, DC, New York, Chicago, Houston, and three in California). These states constitute approximately 60% of the exporter concentration in the U.S. Our offices are augmented by nearly 40 city/state partners nationwide. Our city/state relationship is a 15-year initiative that represents a great example of federal/state cooperation. Finally, we cross-train with DOC and SBA in the remaining USEACs where we do not have an actual presence to ensure DOC and SBA professionals are kept up-to-date on new initiatives at the Bank.

Our outreach approach to small businesses is straightforward: to ensure US exporters are aware of Ex-Im Bank's various financing tools to pursue international sales opportunities. Because small businesses are frequently unaware of the value of exporting and of Ex-Im Bank, the Bank has an aggressive outreach campaign.

- Direct Mail: we deliver more than 300,000 mailings to build awareness and generate qualified leads for follow-up by our regional office staff. Our mailings are direct and to the point. We track each mailing with source codes in order to measure success and failure. Direct mail allows the Bank to target niche and important markets in a cost-effective manner. For example, this year we have delivered targeted mailings to exporters of environmentally beneficial goods and services, minority- and women-owned exporters and medical equipment exporters.

  Additionally, Ex-Im bank has led a joint direct mail initiative with the U.S. Commercial Services and Census Bureau's Foreign Trade Statistics Division. This year we will deliver 50,000 joint direct mail pieces. Not only is this partnered approach cost-effective (it reduces our costs by 2/3rds) it gives the recipient a comprehensive view of the suite of services offered by our respective institutions.

- Seminars: Educational seminars have long been a primary tactic of many of the trade agencies. We continue to offer seminars, but we are doing things a bit differently. Firstly, we are doing more and we are targeting them with more precision. Secondly, we have taken them outside of Washington and slimmed them down to one-day mini-courses. Thirdly, we almost always either partner with Department of Commerce, a city/state partner or include one of our sister agencies in the program. For example, this summer Ex-Im Bank participated in a Department of Commerce-hosted exporter seminar in Bakersfield, California.

- Trade Associations: Working with key trade associations, we market the Bank's financing tools to their membership. Trade association interaction also allows the Bank to channel its message to key audiences such as minority groups. For example, the Bank has partnered with the National Minority Suppliers Development Council (NMSDC) for the past two years. This partnership allows the Bank to interact and market our services to exporters who are members of the NMSDC at their trade shows and regional chapters.

Additionally, the Bank is actively involved in trade shows. Attending trade shows where hundreds, sometimes thousands of exporters and buyers are amassed is a very cost-effective outreach tactic for Ex-Im Bank. Partnering with DOC and Census Bureau makes our approach even more effective. Leads generated from our trade show activities are our fastest growing, cost-effective tactic. We want to continue this successful enterprise with DOC and Census Bureau and expand it.

Due to the predominance of the State of California as the nation's largest exporter, Ex-Im Bank assigns six full-time employees to its California offices in Long Beach and San Francisco. Covering ten other states in addition to California, these six employees during the first ten months of the current fiscal year 2002 have made sixty-one public presentations, seminars and symposiums exclusively to California exporters.

Seven of these presentations were Ex-Im Bank of the U.S.-sponsored seminars, six were DOC-sponsored, two were sponsored by SBA, and six by the Small Business Development Corporations and the Centers for International Trade Development of the State of California. An additional twenty of these presentations were given to private sector interests including commercial banks and international trade associations in the state. Nineteen of the presentations were given to international trade groups that were sponsored by universities, national and local government agencies, and chambers of commerce, including the University of Southern California, The University of California campuses of Hayward and Irvine, California State University campuses of Fullerton and San Francisco, the World Trade Centers of Los Angeles, Long Beach, San Francisco and Sacramento, the District Export Council of San Diego, the Chambers of Commerce of Vernon and Beverly Hills, the Monterey Institute of International Studies, Santa Ana College, SCORE, USAID/GTN, and the US Trade and Development Agency

The geographic coverage in California of these outreach seminars and presentations included the cities of Anaheim, Bakersfield, Beverly Hills, Buena Park, Chico, Carmel, Costa Mesa, Cupertino, Hayward, Irvine, Long Beach, Los Angeles, Manhattan Beach, Monterey, Newport Beach, Oakland, Ontario, Riverside, Sacramento, San Diego, San Francisco, San Marino, Santa Ana, Santa Clara, Santa Maria, Torrance, Vernon, and West Hills.

An estimated 2,056 attendees were on hand for these seminars.

Ex-Im Bank, through its Long Beach and San Francisco offices, made a further outreach in the first ten months of this fiscal year by personally making 2,056 marketing contacts with and 477 direct sales calls on exporters. Marketing contacts with exporters are general and informational in nature, while direct sales calls are face-to-face and have the purpose of presenting the exporter with a value proposition wherein applying for an Ex-Im Bank program is proposed as a means to increasing the exporter's foreign sales volumes.

Future Focus:
As for where the Bank intends to go from here, Congress recently increased from 10 percent to 20 percent the amount of the Bank's aggregate loan, guarantee and insurance authority that the Bank shall make available to small business in each fiscal year. Last

fiscal year the Bank was at 18%; we look forward to growing further. Congress also directed the Bank to place an emphasis on conducting outreach and increasing loans to socially and economically disadvantaged businesses, small businesses owned by women and small businesses employing fewer than 100 employees. Additionally, the Bank is working on and has been directed to implement technology improvements that are designed to improve small business outreach, including allowing customers to use the Internet to apply for the Bank's small business programs.

Conclusion:
In conclusion, Ex-Im Bank is proactively marketing Ex-Im Bank products to achieve small business goals. While the global economy has changed significantly since our inception in the 1930s, we remain true to our mission: to support US jobs through exports. I would like to thank Congress for your support of the Bank's efforts and am happy to answer any questions you may have.

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Enhancing Cross-Border Linkages Between U.S. Hispanic Communities and Latin America: The Untapped Potential for Western Hemisphere Economic Prosperity

Dr. Raul Hinojosa-Ojeda
North American Integration and Development Center
UCLA

Testimony Prepared for Presentation to the Committee on Small Business
U.S. House of Representatives
September 3, 2002

Norwalk, California

Enhancing Cross-Border Linkages Between U.S. Hispanic Communities and Latin America: The Untapped Potential for Western Hemisphere Economic Prosperity

Dr. Raul Hinojosa-Ojeda
North American Integration and Development Center
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Testimony Prepared for Presentation to the Committee on Small Business,
U.S. House of Representatives,
September 3, 2002

This testimony explores the current and future potential patterns of inter-action and integration between the U.S. Hispanic Community and Latin American economies. First, the relative size and importance of the U.S. Hispanic community is situated in the context of the Western Hemisphere. It is estimated that the U.S. Hispanic community is actually the largest Latin American economy in the world in terms of value added. In addition, we estimate that the U.S Hispanic community is also much more inter-connected with Latin America than is the rest of the U.S. economy through a variety of flows, including migration, remittances, telecommunications, travel, as well as trade and investments, particularly via small businesses.

Second, the current dynamics and impacts of integration between U.S. Hispanic Communities and Latin America are reviewed. The current pattern of integration is shown to generate significant positive gains in income and employment to some elements of the Hispanic Community, yet we also find disproportionately high negative impacts that accentuate and perpetuate patterns of dislocations and inequality on both side of the U.S.-Latin American relation. Both the positive and negative impacts of NAFTA are reviewed, including the participation of U.S. small business in increased trade, as well as the current patterns of job losses, community dislocation, migration and remittances.

In the third section we review the potential gains from shifting to an enhanced pattern of economic interaction between the U.S. Hispanic community and Western Hemisphere economies. This shift would have to include increased financing of transnational Hispanic small businesses for enhance trade and investment. This new policy approach would also have to include a significant legalization of current and future migration from Latin America, as well as a major push for the leveraging of the $25 billion in Hispanic remittances for augmented savings and investment. This dual focus on enhanced flows of migrant labor and remittances should be specifically geared towards (1) a major development of decentralized micro banking, internet connectivity, energy generation and other small business based productive projects in immigrant sending regions, as well as (2) the empowerment of social capital organizations within transnational migrant communities.

We estimate potentially large gains to be obtained from such a strategy of increased economic interactions and integration between the U.S. Hispanic community and Latin America. Such a policy approach focused on Hispanic small business, remittances leveraging and legalized flows of migrant labor could be the most significant growth component of a proposed Free Trade Area of the Americas.

I. Relative Dimensions and Inter-Connections of the U.S. Hispanic Community and Latin America

World-wide there is a growing interest in the importance of migrant Diaspora communities for advancing and widening the benefits of global economic integration. This is due to the large and still growing migration and remittance flows, as well as the growing economic weight of these communities in sending and receiving countries and their crucial potential role in further accelerating cross-border economic integration. It is estimated that in 2002 there are at least 170 million foreign born immigrant in countries around the world (Table 1). Global remittances by immigrant workers are conservatively estimated at $100 billion by the IMF. While these flows are clearly large and expected to grow, NAID Center estimates that the total value added generated by Diaspora communities world-wide has already reached a total of $ 2.2 trillion, representing the 3rd largest economy in the world, outranked only by the U.S. and Japan. (Hinojosa, NAID Center, 2002b).

The economic power and importance of these Diaspora communities are expected to grow considerably. In fact, the current migration numbers are actually very small compared to the total world population, representing a smaller percentage than were migrating around the world during the peak of the last major wave of globalization at the beginning of the 20th Century. It is estimated that the current era of migration could expand rapidly in the next decades, particularly given the growing demand for population in the developed countries of the world (CSIS 2002). The NAID Center estimates that a growth in migration could actually be extremely beneficial for the world economy, generating much more growth and long term benefits than all the impacts of trade liberalization agenda being negotiated in the current WTO "Doha Round" (Hinojosa, 2002b, see also Rodrick, 2002).

The economic importance of Diaspora communities is particularly significant in the context of the Western Hemisphere. The U.S. Hispanic community, for example, can be shown to be the largest Latin American economy in the world in terms of value added. Table 2 shows a variety of estimates of the economic importance of the U.S. Hispanic community. Traditional estimates are based on mean household income, which given the growing number of Hispanic households in the U.S. (9.6 million), yields an impressive total of $400 billion. This Hispanic purchasing power is indeed rapidly approaching Mexico's entire GDP. But a more accurate estimate should be based on the entire economic contribution of the Hispanic community to total U.S. economic output. We employ a technique that estimates the sectoral per-capita value added of Hispanic workers compared to the national sectoral per capita GDP. This methodology yields an estimated total Hispanic value added of $1 trillion dollars. This means that if the U.S. Hispanic community were a separate economy, it would not only be the largest Latin American economy, but it would also be the second largest economy in the U.S. (only California is bigger), the second largest in the Western Hemisphere (after the U.S. and bigger than Canada), as well as the seventh largest economy in the world.

Hispanic businesses in their own right are also very important contributors to U.S. economic activity. According to the most recently available U.S. Economic Census data (1997 published in 2001), Hispanics owned almost 1.2 million of the 20.8 million U.S. non-farm businesses, employing over 1.3 million persons and generating $186.3 billion in business revenues. In just ten years, from 1987 to 1997, the total number of Hispanic owned firms rose by 232%, compared to only 16.8% growth of all U.S. firms. Hispanic women owned 28% of firms and were the fastest growing of any new business segment. The sales and receipts of Hispanic owned firms rose an even more impressive 48.9% from 1992 to 1997 (http://www.census.gov/prod/ec97/e97cs-4.pdf), which if extrapolated to 2002 could indicate a $250 billion Hispanic business community. In particular states and regions, the contribution of Hispanic business is even more central to economic growth, indicated by the share of new business created by Hispanics in California (xx%) and Los Angeles County (xx%).

Density of Cross Border Linkages between the U.S. Hispanic Community and Latin America

The U.S. Hispanic community is not only a very formidable part of the U.S. domestic economic might, but it is also a leading conduit for vitally important international connections through trade, investment, migration, remittances, travel and communications. Clearly important, yet surprisingly unexplored, are issues that include the relative size, linkages, and cumulative network potentiality that the U.S. Hispanic community represents for the U.S. relations with Latin America. The central proposition is that the vast array of Hispanic transnational social capital provides a dense network for facilitating a multiplicity of inter-actions. Many of these interactions are very little explored and documented, representing huge economic opportunities. Ignoring their potential as well as the obstacles that stand in the way of their development helps reproduce the dynamics of inequalities in the U.S. and Latin America.

Trade:

The Hispanic community is particularly active in the most trade intensive sectors and regions of the U.S. economy. Hispanic workers are disproportionately more highly concentrated in trade intensive sectors such as manufacturing and agriculture (Table 3). Hispanic workers are more than 50% as likely to be employed in the tradable sectors of the U.S. economy (34%) than are white workers (22%). Hispanic businesses are also more represented in many of the sectors with high amount of trade activity with Latin America, including food, agriculture, apparel manufacturing, travel services, and communications. Hispanic workers and businesses are particularly very concentrated in those states and regions of the U.S. that are most involved in trade with Mexico and Latin America, including California, Texas, Florida, and Illinois (Table 4). The ten states with the top 10 largest Hispanic communities, which contain 85% of Hispanic businesses, are also responsible for more than 50% of U.S. exports to Latin America.

Being concentrated in sectors and regions with strong trade linkages can produce both strong positive gains as export as well as negative impacts from imports and production shifts abroad. As we shall see below in the analysis of NAFTA impacts, while Hispanics workers and firms have received strong benefits from exports, they are also in potential danger of being affected by import penetration and production relocation. The crucial position of the U.S. Hispanic Community with respect to trade with Latin America places it in a strategic position that deserves special attention in the upcoming negotiation for a US-Central America and Western Hemisphere Free Trade Area.

The other measure that is significant is that migrant labor and Hispanic Businesses also strongly support the non-traded sector of the U.S. economy, particularly services. More than 94% of Hispanic business and 65% of Hispanic workers are in the non-traded and service sectors. The NAID Center estimates that this represents close to $600 billion in value added to the non-traded sectors. In effect, the Hispanic Diaspora of Latin America can thus be seen as providing a major boost to the U.S. economy through a transfer of resources that operates outside of the recognized trade and integration agenda.

Migration:

The full range of conduits for the contributions of U.S. Hispanics to Western Hemispheric economic growth and integration are much broader than just trade, and clearly deserve to be included as an integral part of any negotiations concerning regional economic integration. Migration, for example, is the largest U.S. international transaction, particularly with respect to Latin America. The U.S. is actually a relatively closed economy with respect to trade as a share of GDP, reaching only 24% in 2002. Trade with Latin America as a share of U.S. GDP is only 10%, and with Mexico it is only 5%, indicating only a modest potential for contribution to annual GDP growth though trade liberalization. Migration, on the other hand, plays a much more significant role in fueling GDP growth, representing more than 60% of annual labor market growth. Migration from Mexico alone contributes 35% to U.S. labor market growth, much more so to states such as California (90%) and Texas (75%).

Official flows and stocks of migration are clearly crucial to the overall value added of the U.S. Hispanic Community. It is important to note that undocumented migration also represents a significant contribution to U.S. GDP. Recent Estimates by the NAID Center (2001) place the value-added contribution of the Mexican undocumented population at $150 billion. Adopting extreme anti-immigrant policy recommendations (such as those of the Center for Immigration Studies or Proposition 187) would result in a dramatic drop in U.S. economic activity. A reduction in the undocumented Mexican immigrant population to zero would produce a dramatic drop in U.S. economic output (about $155 billion). This would also produce negative effects on the United States' fiscal balance as well as severe negative impacts on Mexican wages and income inequality.

Migration has not only been historically important for the U.S., but will be even more important in the future. Migration is not only crucial for future growth of population and employment levels in the U.S., but will be essential to maintain the financial health of Social security as well as a variety of other economic activities such as real estate and housing Market. As such, continued migration is crucial for the maintenance of the U.S. global economic and political leadership position and thus U.S. national security.

While low wages and low productivity are a problem, contributing to U.S. inequality, the answer is to improve conditions for immigrant to incorporate faster and better, not cut off the sources. Immigrant come in low wage, experience the fastest growth in wages and productivity over time. Legalization and incorporation into the legal and economic mainstream will only accelerate this process. We explore this dynamic below in detail, particularly making the point that migration and remittances should be included directly as a part of the negotiations of a FTA in the Western Hemisphere.

Remittances and Financial markets:

While Migration into the U.S. Hispanic community is very important for the health of the U.S. economy, it is also growing increasingly important for the health of Latin America. Total U.S. remittances are calculated by the IDB at $25 billion a year (IDB 2001), including 10 billion to Mexico and 5 billion to Central America. Representing XX% of total remittances from the U.S. The NAID Center research indicates that the actual numbers maybe significantly higher, with remittances in Mexico actually 30% higher (based on what is carried in cash). The total amount of money that immigrants save for remittance purposes is also at least 20% higher than what is actually received in Mexico, the balance being kept as free, commission and exchange rate charges by money transmitting companies. The total remittance funds to Mexico alone are thus estimated at 15 billion.

These funds are a very large part of the Latin American economies, typically representing much more than official aid, and in most countries, even more than total direct foreign investment and export earning. Remittances are particularly a much larger share total income of immigrant sending regions and villages. NAID Center research (2001B) indicates that in many cases, remittances represent over 100% of total income. Our surveys also indicate that remittances are not only very important to immigrant receiving households (sometimes representing all of disposable income for consumption and investment), but that are also very important for non-migrant households who rely on selling goods and services to remittance households. Remittances also represent a huge share of government investments, growing as a share of total public goods investments via collective remittances of transnational hometown associations (HTAs).

The NAID Center estimates that current multiplier effects of each dollar of remittances are already very significant (2x1) to local village income. Our research, however, also estimates that potential multiplier effects are huge. We estimate are that remittances with proper financial inter-mediation though banks and credit unions financing local productive project could produce multiplier effects of 20x1.

While potentially very positive, remittances can also have negative impacts. This will be reviewed in detail below, an could actually have negative cumulative causality effects. Extremely high costs associated with transfers, with no inter-mediation, means that there are current few options for these funds to be used productively. NAID transnational household surveys show that total financial service fees for immigrants can be as high as 23% of total income. Average expenditure on financing services and telecommunications together can be as high as 40%.

Communications and Transportation:

The transnational Hispanic community is one of the primary customers driving the telecommunication revolution in the Western Hemisphere. Mexico received the largest amount of U.S. long distance calling minutes than any other country in the world (6.8 billion). All of the Western Hemisphere amounted to 18.4 billion of the 34.6 billion minutes of traffic billed in the U.S. The total amount that U.S. long distance carriers billed for Western Hemisphere calls was 7.2 billion, and $3 billion for Mexico, more than any other country in the world. Just for Mexico, an addition $1.5 billion and 8 billion minutes total billed in the sending countries. And this is just the beginning as Mexico telecom penetration is tiny by international standards.

The transnational Hispanic community is also a prime contributor to expanded transportation services in the Western Hemisphere. Mexico is the number one travel destination by U.S. residents and the location where travel payments by U.S. residents is the highest U.S. Mexico is also the number one border-crossing destination with more than 656 thousand crossings per day in 2000.

II. Positive and Negative Dynamics of Cross-Border Integration between the U.S. Hispanic Community and Latin America

The current patterns of economic integration between U.S. and Latin America produce a variety of both positive and negative impacts. In order to understand how this occurs, it is essential to see how trade, investments as well as labor migration and remittance flows interact across multiple countries. We also need to analyze how cross-border economic integration generates a variety of cumulative causation processes, allowing us to focus on how to foster positive and redirect negative dynamics, a challenge that must be met via cooperation across borders.

The U.S. Hispanic community is clearly a major force in the current pattern of economic integration between the US and Latin America. Below we explore the particular role of the Hispanic community in the current dynamics of integration, establishing the basis for how initiatives specific to the community could make an important difference in moving the patterns of integration towards generating wider benefits across countries.

The U.S. Hispanic business, in particular, plays a central role in expanding trade and investments relations to more sectors in both economies, particularly the more labor intensive sectors where they operate. As trade and investment integration expands rapidly, the US Hispanic community clearly participates in a number of positive dynamics. As trade expands, workers and business experience gains from market growth and productivity growth associated with increased economies of scale and specialization. This increases the ability of Hispanic community to take further advantage of positive cumulative causalities of higher profits, new markets, and investment opportunities.

While patterns of positive cumulative causation are clearly evident in sectors throughout North America, these dynamics is not necessarily sustainable (in terms of incentives for innovation and future productivity growth) and are not expanding fast enough to be a major source of employment absorption, particularly in Mexico. Just as the Hispanic community is in the position to benefit from many opportunities of integration, however, Hispanics are also facing the brunt of negative impacts of dislocation. Hispanic workers and firms are also concentrated in low wage linked sectors on both sides where negative cumulative causality occurs frequently. Negative cumulative causation dynamics linked across national economies continue to produce a drag on low wage labor markets, reducing incentives for productivity enhancing investments in low wage sectors as well as the entire regional economy. Our analysis points to the need for major policy development efforts directed at both the investment-production-trade dynamics and the employment-wages-migration-remittance dynamics.

NAFTA: An Example of Positive and Negative effects

The NAID Center research on the Impact of NAFTA (2002a) has analyzed the process of integration and uneven development in North America as being driven by "dynamics of cumulative causation" that move relative incomes along positive (convergence) or negative (divergence) paths of evolution. The evidence clearly shows that NAFTA did not create the North American dynamics of growth and inequality, but neither has it significantly altered them. If anything, NAFTA appears to have only slightly accelerated both the positive as well as negative cumulative causation dynamics.

The NAID Center research also shows that a focus on Jobs "lost" and "gained" is a misplaced placed emphasis. In the aggregate, the total amount of jobs gained and lost is minuscule with respect to the over all churning of the labor market in North America. Our argument is that the crucial issues for U.S. and Latin American policy-makers are the factors and policies that can shift the pattern of North American integration towards greater growth, development and income convergence on both sides of the border. The fundamental issue for the future will continue to be the factors driving alternative paths of cumulative evolution in two major areas -- (1) investment-production-trade dynamics and (2) employment-wages-migration-remittance dynamics -- both of which together are the major drivers of regional income convergence and divergence.

NAID research on NAFTA shows that economic integration can generate a process of positive cumulative causation (PCC) whereby: (1) The operation of integration itself can open wider markets (both goods and capital); (2) generating the possibility for resource reallocation for specialized production to take root in regions of comparative advantage; (3) allowing for producers to take advantages of increased economies of scale; (4) generating rapid output and employment growth; (5) allowing the possibility for enhanced growth of incomes of both profits and wages; (6) which can allow for both growth of productivity and further innovation for both trading partners, allowing for (7) sustained growth of investment and consumption; (8) generating sustained income growth and upward income convergence on both sides of the border. In addition, this process can lead to a possibility for the transnational region as a whole to gain in relative competitiveness with respect to other regions around the world. Integration with PCC can generate relative productivity growth and a regional specialization in joint production for increased exports to third markets, attracting investment from outside the region, potentially being trade creating versus merely trade diverting.

NAID research also shows that economic integration between rich and poor regions can also produce a number of dynamics of negative cumulative causation (NCC). One scenario--the richer country gets richer--can operate via a process whereby: (1) High initial inequality conditions in resources and economies of scale favoring the rich can; (2) make the absolute competitive position of the rich region so high that poor regions cannot develop the sufficient scale to make investment viable to compete; (3) drawing resources (labor, capital) from the poorer region to the richer, en-riching the richer and impoverishing the poorer. Another NCC theoretical possibility exists--the classic "race to the bottom" scenario--whereby: (1) Under sufficiently large differences in "surplus" labor endowments with low differences in productivity and scale economies; (2) poorer countries can draw capital resources from the rich to the poor country (or abundant labor from the poor to the rich country) in order to produce at a more labor intensive yet lower productively choice of technique; thus (3) negatively impacting both rich and poor countries by reducing the overall intra-regional income potential and extra-regional competitiveness.

Role of Latinos and NAFTA :

Overall Jobs gains and job looses are only a small part of the picture, as NAID Center research has also shown. Total NAFTA TAA certified job losses are tiny compared to the over all churning of the economy. NAID estimates that while NAFTA TAA represent a perhaps 60% undercount, even this numbers is small in aggregate terms. Employment dislocations are concentrated in particular sectors and communities, however, that do produce significant negative impacts. NAID Center research has documented some of the most impacted regions and sectors and has found that they are highly concentrated with recent immigrant from Mexico and other places.

What is the case is that NAFTA TAA impacts are concentrated in particular regions and sectors where Latinos and immigrants predominate such as in southwestern states and, in particular, LA garments, Watsonville agriculture and El Paso textile. We have traced were these jobs have moved in Mexico. In some case, such as frozen vegetables moving form Watsonville to Guanaguato, literally the cousin got the same jobs!

What does seem to be the case is that Hispanic workers are in general more concentrated in the tradable sectors of the economy (Farms and manufacturing) and are concentrated in the largest employment and most labor intensive industries in the tradable sector, as well as in the regions which trade most intensively with Latin America. Table 3 indicates that the top 10 most intensive Hispanic sectors (comprising 30% of Hispanic versus 16% of white workers) compromise 66% of all NAFTA TAA dislocations. They also comprise 30 of Exports to Mexico, yet 76% of imports from Mexico. They also comprise slightly large share of Hispanic firms as compared to non-Hispanic firms (4.8% to 4.6%), yet comprise 65% of certified firms losing jobs to NAFTA.

What is interesting is that Hispanic workers are concentrated in particular industries in both the PCC and NCC sectors of the U.S. economy. Tables 5 and 6 show data for which sectors in the U.S. are experiencing patterns of positive and negative causality as defined above.

Beyond NAFTA: Migration, Remittances and transnational financial development

The US must also recognize that the current pattern of North American integration clearly exhibits negative cumulative causation dynamics, although not based on the simplistic "race to the bottom" anti-NAFTA metaphor. As in the case of positive cumulative causality, there is evidence of a common cluster of sectors on both sides of the border that share similar characteristics and linked dynamics. This cluster of sectors exhibits slower growth of trade, employment, productivity and wages. These sectors also share immigrant labor markets, linking migrant sending regions in Mexico with immigrant receiving and heavily Latino regions in the U.S.

This low-wage bi-national labor market is also absorbing the bulk of employment displacing effects from NAFTA and increased trade and plant relocation. These sectors include, for example, corn production in Mexico and garment production in the U.S. Not only are negative employment impacts highest in these sectors, but these low-wage bi-national labor markets also suffer the lowest levels of education and training spending. Finding employment to even sustain similar low wage levels after layoffs is very difficult, let alone making a transition to higher skilled export jobs. The negative pressures on these migration linked labor markets are compounded by a lack of productivity enhancing capital investment as well as low levels of human and social capital investment. Demographic growth is also highest in rural and urban low skilled sectors with low social investments, on both sides of the border. Adding to negative causality is that this bi-national labor market only has access to very limited labor, migration and political rights, compounding the inability to demand higher wages and increased social investments for their communities on either side of the border.

While remittance transfers are very substantial (nearly matching DFI), they are currently being underutilized in their current role of maintaining basic consumption levels among large segment of the poorest communities in Mexico and perpetuating an external dependence on their family networks in the poorest communities in the U.S. Low-wage migration is thus functionally maintained and reproduced, producing a short-sighted subsidy to the U.S. consumers of low wage goods and services. Over the long run, this maintains communities in poverty on both sides of the border and high levels of inequality in both countries. The US must recognize its long term stake in leveraging the migration-remittance dynamic towards increased financing of productive savings and investments in immigrant sending and receiving regions.

III. From Viscous to Virtuous Cycles: The Expansion of Positive Cumulative Causality in US-Latin American Economic Relations

In this section we review the potential gains from adopting a comprehensive integration agreement that would emphasize an enhanced pattern of economic interaction between the U.S. Hispanic community and Western Hemisphere economies. This new policy agreement, proposed as a part of the FTAA discussion currently under way, would have to include increased liberalization of trade and investment flows as well as a significant expansion of financing of transnational Hispanic small businesses involved in cross-border trade and investment. This new agreement would also have to include a significant legalization of current and future migration from Latin America, as well as a major push for the leveraging of the $25 billion in Hispanic remittances for augmented savings and investment. The central issue is how to redirect and transform the current patterns of trade, investment, migration, remittances, and financing from negative to positive cumulative causation dynamics.

The elements of this new transnational approach would include:

(1) –Enhanced Trade and Investments Integration

Increased trade liberalization combined with much grater emphasis on the role of Small Businesses in both the US and Latin America

- -Integrate small business and community agenda into the US-CA FTA and FTAA
- -Support and expand NADBANK
- -Help create transnational SME support and financing networks, working with local governments and NGO organizations

(2) -Enhanced Migration and Remittance Integration

Legalization of stock and flow will move towards:

- -increased wages in immigrant receiving regions
- -decreased demand for undocumented
- -increase investment in human capital

Leveraging of remittance for financial development throughout the transnational Hispanic communities in the U.S. and Latin America.

(1) Trade and Investment Integration

NAID Center research shows that a shift in US-Latin American economic integration towards a broad expansion of the dynamics of positive cumulative causality is both possible and feasible. The U.S. Hispanic Community is in a unique position to be mobilized for making the turnaround effort though economic development efforts. We estimate potentially large gains to be obtained from such a strategy of increased economic interactions and integration between the U.S. Hispanic community and Latin America. Such a policy approach focused on Hispanic small business, remittances leveraging and legalized flows of migrant labor could be the most significant growth component of a proposed Free Trade Area of the Americas.

The U.S. Hispanic community is clearly a major force in the current pattern of economic integration between the US and Latin America. We explore the particular role of the Hispanic community in the current dynamics of integration, establishing the basis for how initiatives specific to the community could make an important difference in moving the patterns of integration towards generating wider benefits on both sides of the border. The U.S. Hispanic business, in particular, can play a central role in expanding trade and investments relations to more sectors in both economies, particularly the more labor intensive sectors where they operate.

Clearly important, yet surprisingly unexplored, are issues that include the relative size, linkages, and cumulative network potentiality that the U.S. Hispanic community represents for the U.S. relations with Latin America. The central proposition is that the vast array of Hispanic transnational social capital provides a dense network for facilitating a multiplicity of inter-actions. Many of these interactions are very little explored and documented, representing huge missed economic opportunities. Ignoring their potential as well as the obstacles that stand in the way of their development helps reproduce the dynamics of inequalities in the U.S. and Latin America.

Empowering the Transnational Hispanic business and workers will generate income and productivity growth, expand integration and international markets for goods and services, and will benefit economies throughout both sides of the border. Network potentialities for trade and investments, new integrated markets, new transnational services for the financial, communication and travel needs. Addressing the needs of Hispanic workers displaced by integration, particularly immigrant workers, on both sides of the border is also crucial to broadening the positive impacts of integration.

Governments, International Financial Institutions, and large corporations should focus on policies that empower the transnational community on both sides of the border. Coordinated efforts should be an integral part of any agreement on regional integration. Much more than merely focusing on lowering tariffs, this would allow the igniting of economic agents that can expand the benefits of integration of markets of goods, services and capital directly to those being most left out now, enhancing the total economic benefits of integration for all.

(2) Enhanced Migration and Remittance Integration

Shifting towards more virtuous cycles of causation in integration will require coordinated policy and private sector action in the areas of trade and investment liberalization, as well as the liberalization, empowerment and leveraging of migration and remittances flows. The US Hispanic community can play a central role on this development. The central issue is how to redirect and transform the current pattern of migration, remittances, and financing from a negative to a positive cumulative causation dynamic. This dual focus on enhanced flows of migrant labor and remittances should be specifically geared towards (1) a major development of decentralized micro banking, internet connectivity, energy generation and other small business based productive projects in immigrant sending regions, as well as (2) the empowerment of social capital organizations within transnational migrant communities.

A recent UCLA NAID (2001) report concluded that a real comprehensive integration agreement, would have to include broad legalization of undocumented migration stock and future flow, combined with targeted economic development investments in migrant-sending regions in Mexico. This represents the best option for generating prosperity and equity in both the United States and Mexico. The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus among labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S.-born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in North America.

The NAID Center modeled an alternative policy scenario, including the "maximalist" version of the comprehensive proposal put forward by the Mexican Government, defined by President Fox as "the maximum level of benefits for the largest number of people." We consider the impact of such a comprehensive approach as having essentially two major aspects: one dealing with the **Demand side** of immigration (U.S. policies for legalization, visas and guest workers) and one dealing with the **Supply side** of out-migration (economic development in migrant-sending regions).

The results show that the maximalist versions of a combined demand and supply side policy response can produce dramatic results in terms of growth and equity for both countries. On the demand side, a broad legalization program that guarantees full labor rights to all current and future migrants has the best effect in terms of meeting U.S. labor demand with higher wages, lower inequality and higher productivity. On the supply side, the larger the level of investments in Mexico's migrant sending regions, the more rapidly the wage gap closes with the United States, migration declines and is replaced with Mexican demand for U.S. exports.

Demand side:
Full Legalization of Stock and Flow of North American Undocumented Migration

On the demand side, we model (1) the full legalization of the current stock of undocumented workers, and (2) the creation of a New Worker Visas Program for the future flow of temporary and permanent immigrant workers. A New Worker Visas Program is envisioned to include full labor rights, job portability, and a legalization sufficiently large to meet U.S. labor demand needs. Unlike the Immigration Reform and Control Act of 1986 legalization, which was applied to only a portion of the current stock of undocumented immigrants, the New Worker Visas Program would also include a future-oriented visa program that is needed in order to avoid replenishment of the undocumented population.

In this report, we consider two demand-side policy changes as the basis for running this set of scenarios in the NAID CGE Model.

(1) Legalization of the stock of all undocumented immigrants

- Provide legal immigrant status to all current undocumented immigrants from Mexico (approximately 3 - 4.5 million)

- Provide legal immigrant status to all current undocumented immigrants from all countries (approximately another 3- 4.5 million)

(2) Legalization of the future flow of immigrant workers through the establishment of a New Worker Visas (NWVs) Program

- Make available an adequately large number of NWVs based on historical levels of net new undocumented workers (300,000 a year from Mexico, for example), which could be adjusted with experience.

- NWVs would have the following characteristics:
  -renewable, based on evidence of employment, tax payments, and no criminal record
  -multiple re-entry, to allow for circularity of migration
  -full labor rights, full portability across jobs
  -path to legalization after five years of employment
  -require workers to make full social security and unemployment insurance payments, and give them the right to collect on this insurance

-no access to means-tested social services during NWV period

The report makes the case that an NWV-based legalization of the stock and flow will likely result in similar dynamics as those produced by IRCA. The impact of IRCA can be analyzed via the information published in 1996 by the United States Department of Labor based on an extensive survey on "Characteristics and Labor Market Behavior of the Legalized Population Five Years Following Legalization."

(1) Increase in wage levels for the undocumented immigrant labor markets.[1]

An NWV program would have the effect of shoring up the low end of the labor market. A legalization of both the stock and future flow of migrants would enhance the ability of immigrant workers to assert their rights, join unions, move across jobs, creating a new competitive floor for immigrant labor markets, thus actually reducing the demand for total immigration via increases in wages in the traditionally high exploitation labor market segments.[2]

(2) Increase in human capital investments by legalized immigrants

It is expected that an NWV-based legalization would also have similar effects on human capital investments as was seen in the years following IRCA. Studies show that amongst newly legalized immigrants, there was a surge of investment in language skills, education, training and general economic assimilation, particularly necessary for more effective and productive participation in an increasingly technological and information-based economy. This represented more than a doubling of the previous rate of human capital accumulation for most immigrant groups.[3]

Overall, the NAID Center CGE Model shows that legalization can generate net economic gains for the United States by offsetting declining immigration and wage and price increases related to legalization with productivity increases also attributable to legalization.

-Increase in prices for consumers of immigrant labor goods.
-Increase human capital investment (doubles), which will direct generate productivity growth
-Increase in productivity growth in other sectors of the economy, through new investments in labor-saving technologies and human capital.

[1] "Real wages of legalized undocumented workers rose an average of 15% in the 4-5 years following legalization, compared to declining real wages in the years prior to legalization. " (US. Dept of Labor, 1996 p.43)
[2] The first few years immediately post-IRCA saw a sharp decline in INS apprehensions, only to slowly increase in the 1990s as the path to legalization for new workers was closed. (Bean, Edmonston and Passel, 1991).
[3] Kossoudji and Cobb-Clark titled "Legalization, Wages, and Self-Investment" 1996, U.S. Department of Labor found that about 43 percent of Mexican men, 53 percent of those from Central America, 48 percent of those from other Western Hemisphere countries, and 44 percent of those from countries outside the Western Hemisphere undertook some type of skill enhancement training post-legalization.

Fiscal Impacts: Increased overall tax payments (both through formal economy, and higher wages/productivity) more than offset new social service demand (which is actually low compared to the native population and will be phased in).

Supply Side: Economic Development in Immigrant Sending Regions

Crucial to the long term success of the proposed new integral "five canasta" approach to North American labor migration issues will be establishing a credible and effective mechanism for the development needs in migrant sending areas in Mexico. President Fox has repeatedly stated his proposal for using the already existing North American Development Bank (NADBANK) for addressing regional disparities and reducing out-migration pressures.

On the supply side, we model the mobilization of a wide variety of private and public investment funds. We consider various levels of investments targeted specifically to the immigrant sending labor market in Mexico. We alternatively look at 5, 10 and 15 billion dollars mobilized annually for this purpose, measuring the effects of these investments in terms of employment, wages, relative inequality, and thus out-migration pressures. Combined with legalization in the United States undocumented labor markets, our CGE model results show that these relatively modest investment funds, along with existing remittance flows that are geared primarily for consumption, could make significant impacts in terms of reducing relative wage differences which induce out-migration.

The UCLA NAID report supports the case that President Fox makes for targeting the currently underutilized NADBANK funds (about $3 billion) for leading the mobilization of public and private investments into immigrant sending areas. Such a proposal could be a very effective mechanism for reaching a number of related goals, including: (1) fostering North American cooperation for a long term mobilization of private, public and multi-lateral resources, (2) tapping into credible amounts of resources that are already available, and (3) attracting a wide range of political support throughout the countries and constituencies of North America.

Because of its bi-national institutional capacity, mandate and resources, the NADBANK is arguably the key potential instrument that is capable of launching a credible strategy for helping to transform the bi-national migration and regional investment dynamics. Fostering such a transformation will require a two level trans-national strategy:

First, the NADBANK would focus on supporting the development of carefully crafted financial mediation mechanisms intended to increase savings and investments in immigrant sending and receiving communities in the United States and Mexico. Fostering cooperation with U.S. and Mexican agencies (such as SBA and NAFINSA), the NADBANK would provide technical assistance and matching capital resources to help develop financial platforms (such as micro-loan funds and credit unions) for remittances savings, both individual and collective, to leverage a wide range of local, state and national public and private investment funds in both Mexico and the United States These remittance-leveraged funds would be primarily used for employment- and income-generating, environmentally-sustainable, and community-oriented infrastructure and productive investments in targeted migrant-sending regions.

Second, in addition to developing transnational financial mechanisms, the NADBANK is in a unique bi-national position to foster the cooperation needed to address the most critical issue in migrant-sending regions: mobilizing technical assistance delivery and transnational social capital for supporting sustainable regional development projects. A NADBANK pilot project and TA grant program would build on NADBANK's proven track record in pre-project development and project grant facilitation along the United States-Mexico border which is one aspect of the bank that has received very positive reviews from community and environmental groups.[4]

Conclusions

We propose an alternative comprehensive policy approach, combining liberalization of trade, investments with increased U.S. migration and remittance in migrant-sending regions in Latin America. This combined approach is by far the best alternative for sustaining growth in the United States and reducing income inequality both in the United States and between the United States and Latin America.

The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus among labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S.- born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in the Western Hemisphere.

[4] See details on the BEIF and IDP programs on the NADBANK Web Site, http://www.nadbank.org.

Table 1 Global Indicators, 2000

	Population	GDP	GDP /cap	Migration	Remittances
World	6,057 m	31,315 bn	5,170 m	170 m	105,421 m
Developed	903	24,994	27,678	81	65,520
Developing	5,154	6,321	1,226	89	39,901
Global Diaspora	170	2,132	2,541	170	105,421

Table 2 Western Hemisphere Indicators

	Population	GDP	GDP /cap	Migration	Remittances
U.S.	282	9,601	34,100	25	60
U.S. Hispanics	37	1,094	29,567	13	25
Mexico	98	497	5,070	1	15
Other Latin Am.	418	1,398	3,670	7	10

Sources: World Development Indicators, World Bank (2002); United Nations; IMF; NAID Center (2002); Inter-American Development Bank; U.S Census
Note: Migration refers to Foreign Born

Table 3. Sector Table

Sectoral Distribution of U.S. Hispanic Communities

39 Sector	Detailed Industry	Percent Total Hispanic	Percent Total White	Relative Concentration of Latino/White Workers for Each Sector	% of Total Hispanic Firms for each Sector	% of Total Non-Hispanic Firms for each Sector	Relative Concentration of Hispanic/Non-Hispanic Firms for Each Sector	NAFTA-TAA Total: Sum of Certified Workers	NAFTA-TAA Total: Count of Certified Firms
	Tradables								
17	Food and kindred products	11.45%	4.32%	7.13%	0.18%	0.14%	0.04%	2.21%	1.93%
1	Farms	7.45%	2.62%	4.82%	-	-	-	1.53%	1.15%
20	Apparel and other textile products	1.51%	0.33%	1.17%	0.35%	0.26%	0.09%	27.49%	27.53%
2	Agricultural services, forestry, and fishing	1.95%	0.95%	1.00%	3.34%	2.32%	1.02%	0.00%	0.03%
16	Miscellaneous manufacturing industries	0.77%	0.47%	0.30%	0.24%	0.32%	-0.08%	2.12%	2.01%
8	Lumber and wood products and furniture	1.13%	1.01%	0.12%	0.27%	0.67%	-0.40%	4.71%	7.02%
9	Stone, clay, and glass products	0.48%	0.42%	0.05%	0.06%	0.14%	-0.08%	1.66%	1.85%
11	Fabricated metal products	0.93%	0.89%	0.04%	0.21%	0.31%	-0.10%	5.50%	5.57%
26	Leather and leather products	0.10%	0.06%	0.04%	0.03%	0.02%	0.01%	2.35%	2.13%
19	Textile mill products	0.34%	0.32%	0.02%	0.03%	0.04%	-0.01%	6.27%	5.74%
25	Rubber and miscellaneous plastics products	0.62%	0.62%	0.01%	0.03%	0.08%	-0.05%	3.06%	3.67%
24	Petroleum and coal products	0.11%	0.11%	0.00%	0.00%	0.01%	-0.01%	0.08%	0.11%
3	Metal mining	0.02%	0.04%	-0.01%	0.00%	0.01%	-0.01%	0.37%	0.17%
18	Tobacco products	0.07%	0.10%	-0.02%	0.00%	0.00%	0.00%	0.10%	0.08%
6	Nonmetallic minerals, except fuels	0.04%	0.07%	-0.02%	0.00%	0.03%	-0.03%	0.04%	0.03%
21	Paper and allied products	0.40%	0.42%	-0.03%	0.02%	0.04%	-0.02%	2.84%	2.97%
5	Oil and gas extraction	0.19%	0.23%	-0.05%	0.15%	0.58%	-0.43%	0.37%	1.01%
4	Coal mining	0.01%	0.07%	-0.06%	0.00%	0.01%	-0.01%	0.00%	0.00%
10	Primary metal industries	1.38%	1.45%	-0.06%	0.02%	0.04%	-0.01%	2.48%	2.32%
23	Chemicals and allied products	0.78%	0.89%	-0.11%	0.01%	0.05%	-0.04%	1.36%	2.01%
15	Other transportation equipment instruments and related products	0.37%	0.56%	-0.18%	0.02%	0.06%	-0.05%	4.88%	4.98%
13	Electronic and other electric equipment	1.04%	1.40%	-0.37%	0.08%	0.14%	-0.06%	17.89%	14.75%
22	Printing and Publishing	0.96%	1.37%	-0.42%	0.31%	0.59%	-0.28%	0.54%	0.87%
12	Industrial machinery and equipment	1.27%	1.86%	-0.59%	0.24%	0.42%	-0.18%	5.20%	5.88%
14	Motor vehicles and equipment	0.99%	1.63%	-0.64%	0.02%	0.07%	-0.04%	4.63%	4.06%
	Sub-Total	34.34%	22.20%		5.63%	6.35%		97.69%	97.85%

Table 3. Sector Table

Sectoral Distribution of U.S. Hispanic Commu

		U.S. Exports 2000		U.S. Imports 2000	
39 Sector	Detailed Industry	Sector % of Total Exports to Mexico	Sector % of Total Exports to the world	Sector % of Total Imports to Mexico	Sector % of Total Imports to the world
	Tradables				
17	Food and kindred products	3.03%	2.22%	1.91%	2.32%
1	Farms	3.46%	3.81%	2.36%	1.28%
20	Apparel and other textile products	4.90%	3.31%	7.67%	5.83%
2	Agricultural services, forestry, and fishing	2.49%	3.55%	0.41%	0.80%
16	Miscellaneous manufacturing industries	0.11%	0.20%	1.53%	5.27%
8	Lumber and wood products and furniture	1.06%	1.14%	0.96%	2.68%
9	Stone, clay, and glass products	5.05%	3.45%	1.27%	1.29%
11	Fabricated metal products	3.41%	1.23%	3.00%	2.57%
26	Leather and leather products	11.80%	8.50%	1.12%	1.83%
19	Textile mill products	0.03%	0.29%	0.70%	0.86%
25	Rubber and miscellaneous plastics products	12.76%	17.83%	1.06%	1.73%
24	Petroleum and coal products	0.54%	0.70%	0.87%	3.47%
3	Metal mining	2.78%	1.27%	0.03%	0.10%
18	Tobacco products	0.70%	0.24%	0.00%	0.04%
6	Nonmetallic minerals, except fuels	0.75%	1.29%	0.16%	0.19%
21	Paper and allied products	8.18%	10.73%	0.32%	1.65%
5	Oil and gas extraction	0.93%	3.98%	8.00%	6.58%
4	Coal mining	0.08%	0.40%	0.00%	0.03%
10	Primary metal industries	0.74%	0.33%	2.95%	4.04%
23	Chemicals and allied products	23.21%	16.41%	1.77%	6.47%
15	Other transportation equipment Instruments and related products	0.01%	0.57%	3.96%	6.47%
13	Electronic and other electric equipment	3.76%	1.27%	28.95%	17.65%
22	Printing and Publishing	4.44%	14.53%	0.22%	0.36%
12	Industrial machinery and equipment	5.78%	2.61%	9.01%	12.16%
14	Motor vehicles and equipment	0.02%	0.15%	21.75%	14.34%
	Sub-Total	100.00%	100.00%	100.00%	100.00%

Table 3. Sector Table

Sectoral Distribution of U.S. Hispanic Communities

	Non-Tradables								
30	Wholesale trade & Retail trade	20.45%	19.55%	0.90%	15.54%	17.78%	-2.24%	0.07%	0.22%
34	Personal services Business services Auto repair, services, and parking Miscellaneous repair services Other services Private households	10.82%	11.96%	-1.14%	30.18%	27.70%	2.48%	0.34%	0.73%
7	Construction	8.45%	6.64%	1.81%	12.71%	11.08%	1.63%	0.19%	0.17%
38	Educational services	5.07%	8.06%	-2.99%	0.68%	1.33%	-0.65%	0.00%	0.00%
36	Health services	4.67%	8.09%	-3.42%	3.73%	4.88%	-1.14%	0.00%	0.00%
35	Motion pictures & Amusement and recreation services & Social services & Membership organizations	3.93%	5.27%	-1.35%	6.13%	6.54%	-0.41%	0.03%	0.06%
27	Transportation	3.88%	4.11%	-0.22%	6.74%	3.82%	2.92%	0.12%	0.14%
31	Finance, insurance	3.62%	6.48%	-2.86%	1.36%	2.88%	-1.52%	0.13%	0.03%
39	Government	2.64%	4.11%	-1.47%	-	-	-	0.00%	0.00%
28	Communications	0.99%	1.40%	-0.41%	0.24%	0.30%	-0.05%	0.00%	0.00%
29	Electric, gas, and sanitary services	0.61%	1.06%	-0.45%	0.06%	0.16%	-0.09%	0.96%	0.36%
37	Legal services	0.53%	1.06%	-0.53%	0.83%	1.74%	-0.92%	0.00%	0.00%
32	Real estate	-	-	-	3.36%	8.23%	-4.87%	0.00%	0.00%
33	Hotels and other lodging places	-	-	-	0.15%	0.47%	-0.32%	0.00%	0.00%
	Industries Not Classified (Unspecified)	-	-	-	12.66%	6.75%	5.91%	0.47%	0.45%
	Sub-Total	65.66%	77.80%		94.38%	93.65%		2.31%	2.15%
	Total	100.00%	100.00%		100.00%	100.00%		100.00%	100.00%

Source:
Relative Concentration for Hispanic/White employment
NAID center http://naid.sppsr.ucla.edu
Relative Concentration for Hispanic/non-Hispanic firms
Minority-Owned Business Enterprises, U.S. Census Bureau, 1997 Economic Census, Mar. 6, 2001
http://www.census.gov/prod/ec97/e97cs-4.pdf
NAFTA-TAA certified workers and firms
Nadbank NAFTA-TAA database as of August 2002 http://naid.sppsr.ucla.edu
U.S. Exports
http://www.bea.doc.gov/bea/dn2/gpox.htm
Note:
Relative Concentration of workers is a calculation of sectoral distribution of Total White employment per sector subtracted from sector distribution of Total Hispanic employment per sector
Relative Concentration of firms is a calculation of sectoral distribution of Total Non-Hispanic firms per sector subtracted from sectoral distribution of Total Hispanic firms per sector
NAFTA-TAA sectoral distribution of is a summation of certified workers and firms across the years 1994-2002 as a percentage of total certified workers and firms across the the years 1994-2002

ble 4. Gegraphic Table

Geographic Distribution of U.S. Hispanic Communities & Links with Latin America

	2000 Population		Mexico	Central America	America	NAFTA-TAA 2000	
Market	Hispanic or Latino (of any race)	1997 Hispanic-Owned Firm Concentration	% of Total 2000 Trade to Specified Region	% of Total Trade 2000 to Specified Region	% of Total Trade to Specified Region	Sum of Certified workers	Count of Certified firms
Alabama	1.70%	0.24%	0.73%	2.58%	0.51%	2.86%	1.40%
Alaska	4.10%	0.12%	0.01%	0.02%	0.01%	0.24%	0.70%
Arizona	25.30%	2.41%	2.06%	0.28%	1.24%	0.46%	0.70%
Arkansas	3.20%	0.22%	0.34%	0.22%	0.12%	0.36%	0.70%
California	32.40%	28.07%	13.91%	8.81%	9.93%	7.29%	6.53%
Colorado	17.10%	1.74%	1.34%	0.10%	1.25%	1.29%	1.63%
Connecticut	9.40%	0.55%	1.07%	2.50%	1.67%	0.79%	1.86%
Delaware	4.80%	0.07%	0.40%	0.29%	1.64%	-	0.00%
Florida	16.80%	16.18%	1.89%	21.27%	17.87%	1.72%	2.10%
Georgia	5.30%	0.98%	2.33%	3.51%	2.12%	5.32%	3.03%
Hawaii	7.20%	0.35%	0.00%	0.00%	0.02%	-	0.00%
Idaho	7.90%	0.24%	0.12%	0.05%	0.06%	0.03%	0.23%
Illinois	12.30%	2.59%	3.27%	3.23%	6.12%	3.60%	1.63%
Indiana	3.50%	0.36%	2.42%	0.71%	2.79%	3.36%	3.50%
Iowa	2.80%	0.11%	0.19%	0.17%	0.41%	0.30%	0.70%
Kansas	7%	0.30%	0.68%	0.75%	0.94%	0.37%	0.23%
Kentucky	1.50%	0.12%	0.79%	5.17%	0.63%	2.90%	2.33%
Louisiana	2.40%	0.55%	0.30%	0.53%	0.51%	0.02%	0.23%
Maine	0.70%	0.05%	0.04%	0.02%	0.14%	0.93%	1.17%
Maryland	4.30%	0.93%	0.51%	0.27%	0.61%	-	0.00%
Massachusetts	6.80%	1.06%	1.10%	0.61%	1.58%	1.14%	0.93%
Michigan	3.30%	0.83%	15.93%	1.07%	4.77%	5.60%	4.66%
Minnesota	2.90%	0.30%	1.25%	1.53%	1.42%	0.72%	1.17%
Mississippi	1.40%	0.08%	0.56%	0.70%	0.15%	3.21%	2.80%
Missouri	2.10%	0.34%	1.27%	0.97%	1.69%	0.36%	0.23%
Montana	2%	0.08%	0.07%	0.00%	0.01%	0.52%	1.17%
Nebraska	5.50%	0.12%	0.19%	0.51%	0.19%	0.19%	0.23%
Nevada	19.70%	0.55%	0.11%	0.05%	0.13%	-	0.00%
New Hampshire	1.70%	0.06%	0.10%	0.04%	0.33%	0.27%	0.23%
New Jersey	13.30%	3.01%	2.07%	3.84%	4.83%	1.69%	1.17%
New Mexico	42.10%	2.36%	0.18%	0.02%	0.06%	1.58%	0.70%
New York	15.10%	8.69%	3.17%	5.19%	6.36%	4.00%	4.66%
North Carolina	4.70%	0.61%	2.06%	10.89%	2.08%	9.54%	10.49%
North Dakota	1.20%	0.04%	0.01%	0.02%	0.03%	-	0.00%
Ohio	1.90%	0.54%	5.56%	1.42%	2.32%	2.15%	2.10%
Oklahoma	5.20%	0.36%	0.47%	0.70%	1.22%	0.37%	1.63%
Oregon	8%	0.50%	0.54%	0.25%	1.15%	4.40%	5.83%
Pennsylvania	3.20%	0.66%	2.71%	3.23%	3.41%	8.77%	10.02%

Table 4. Gegraphic Table

Geographic Distribution of U.S. Hispanic Communities & Links with Latin America

	2000 Population		Mexico	Central America	America	NAFTA-TAA 2000	
Market	Hispanic or Latino (of any race)	1997 Hispanic-Owned Firm Concentration	% of Total 2000 Trade to Specified Region	% of Total Trade 2000 to Specified Region	% of Total Trade to Specified Region	Sum of Certified workers	Count of Certified firms
Rhode Island	8.70%	0.18%	0.09%	0.17%	0.11%	-	0.00%
South Carolina	2.40%	0.17%	1.90%	2.18%	0.69%	3.33%	3.73%
South Dakota	1.40%	0.02%	0.06%	0.02%	0.02%		0.00%
Tennessee	2.20%	0.30%	1.62%	2.13%	1.51%	5.39%	5.13%
Texas	32%	20.06%	23.78%	9.69%	12.56%	5.85%	7.23%
Utah	9%	0.40%	0.11%	0.20%	0.32%	3.20%	0.47%
Vermont	0.90%	0.07%	0.02%	0.13%	0.04%	-	0.00%
Virginia	4.70%	1.14%	0.82%	0.83%	1.37%	2.55%	1.63%
Washington	7.50%	0.84%	0.57%	2.14%	1.15%	2.75%	3.26%
West Virginia	0.70%	0.08%	0.24%	0.02%	0.20%	3.43%	3.26%
Wisconsin	3.60%	0.25%	1.02%	0.99%	1.70%	-	0.00%
Wyoming	6.40%	0.10%	0.01%	0.01%	0.02%	-	0.00%
United States		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source:
Population Data
http://www.census.gov/csd/mwb/1992/view/h_pr.tx
Hispanic Firm Concentration
Minority-Owned Business Enterprises, U.S. Census Bureau, 1997 Economic Census, Mar. 6, 2001
http://www.census.gov/prod/ec97/e97cs-4.pdf
Trade Data
www.ita.doc.gov/
http://ese.export.gov/SCRIPTS/hsrun.exe/Distributed/ITA2002/StateId/SFtkhVIXLpzN43zhs9RZtiUrZZ_vA-UyJh/HAHTpage/HS_NS_StatesMap_New
NAFTA-TAA certified worker and firms
Nadbank NAFTA-TAA database as of August 2002
Note:
Trade distribution by state to the specified Latin America region is the state's trade relative to total trade by state to the specified region
Hispanic and White population percentages are the number of Hispanics and Whites relative to the total state population
Hispanic-Owned firms concentration is the number of Hispanic firms for each state relative to the total number of Hispanic-owned firms in the U.S.

NAFTA-TAA Table

Ranked by State and C Decisions

All Decisions			C Decisions			
State	Sum Of certified worker	Count of certified firm	State	Sum of certified worker	Count of certified firm	Rank by Certified Worker
AK	952	6	TX	44216	346	1
AL	18907	89	NC	43995	294	2
AR	16342	89	PA	35583	312	3
AZ	5521	54	CA	28602	218	4
CA	39883	275	GA	24602	164	5
CO	4863	43	NY	23453	173	6
CT	4036	34	TN	20380	165	7
DE	75	2	AL	17548	77	8
FL	16466	153	MI	17265	137	9
GA	29923	204	IN	16107	102	10
IA	2559	21	IL	14063	81	11
ID	4547	59	WI	14049	105	12
IL	18745	129	VA	13296	88	13
IN	24128	151	AR	13127	65	14
KS	3102	20	SC	11816	84	15
KY	13954	92	KY	11743	72	16
LA	7058	21	MO	11613	90	17
MA	6880	84	OH	11502	78	18
MD	410	4	OR	11191	143	19
ME	3789	38	FL	10747	67	20
MI	25550	191	WA	9744	109	21
MN	6596	56	NJ	9185	83	22
MO	16846	122	LA	7052	18	23
MS	4264	16	MN	5306	45	24
MT	1495	40	AZ	4715	39	25
NC	59048	365	MA	4597	57	26
ND	468	5	CO	4461	37	27
NE	632	9	OK	4154	21	28
NH	671	16	MS	4099	14	29
NJ	13404	119	ID	3990	41	30
NM	1724	17	UT	3461	18	31
NV	1226	18	ME	2796	31	32
NY	29385	265	CT	2325	29	33
OH	14876	99	IA	1888	20	34
OK	4570	25	KS	1819	12	35
OR	17584	261	PR	1458	3	36
PA	57175	500	NM	1408	11	37
PR	1458	3	WV	1345	15	38
SC	14567	99	SD	1344	14	39
SD	1344	14	MT	1171	24	40
TN	24617	210	AK	952	6	41
TX	55535	460	NV	778	9	42
UT	3509	21	WY	632	14	43
VA	15115	103	NH	609	12	44
VT	551	7	VT	544	6	45
WA	13467	179	MD	410	4	46
WI	20995	178	ND	395	2	47
WV	3206	32	NE	314	3	48
WY	1048	25	DC	0	0	49
			DE	0	0	49
			HI	0	0	49
			RI	0	0	49
Total	633,066	5,023		475,850	3,558	

Source: Nadbank NAFTA-TAA database as of August 2002, http://naid.sppsr.ucla.edu

NAFTA-TAA Tables of Certified Workers and Firms

Ranked by State, 1994-2002

State	1994 Sum of Certified workers	1994 Count of Certified firms	1995 Sum of Certified workers	1995 Count of Certified firms	1996 Sum of Certified workers	1996 Count of Certified firms	1997 Sum of Certified workers	1997 Count of Certified firms	1998 Sum of Certified workers	1998 Count of Certified firms	1999 Sum of Certified workers	1999 Count of Certified firms	2000 Sum of Certified workers	2000 Count of Certified firms	2001 Sum of Certified workers	2001 Count of Certified firms	2002 Sum of Certified workers	2002 Count of Certified firms
AK	280	1		0		0	500	1		0	58	1	114	3		0		0
AL	260	3		0	525	1	2,004	10	1,293	14	3,387	15	1,353	6	3,870	15	4,856	13
AR	150	2	2,600	2	1,535	7	1,350	8	1,808	12	1,629	11	170	3	3,001	12	884	8
AZ	1	1	78	2	450	5	165	4	1,048	12	2,319	7	220	3	178	4	256	1
CA	545	11	1,233	9	3,672	28	2,685	25	3,359	21	4,546	26	3,454	28	4,515	41	4,593	29
CO	235	2	1,138	5	617	4	25	1	273	4	135	4	609	7	670	8	759	2
CT		0	100	2	31	2	500	2	200	2	729	6	375	8	223	4	167	3
DC		0		0		0		0		0		0		0		0		0
DE		0		0		0		0		0		0		0		0		0
FL	1,479	3	553	4	254	5	1,643	11	901	8	1,346	7	813	9	1,679	12	2,079	8
GA	1,330	9	1,105	6	2,020	19	2,975	26	3,036	20	3,859	23	2,521	13	5,206	29	2,550	19
HI		0		0		0		0		0		0		0		0		0
IA		0	83	1		0		0	244	2	583	8	143	3	381	4	454	2
ID	4	1	1,494	5	417	7	870	4	283	11	182	4	13	1	542	6	185	2
IL	485	4	1,201	7	771	11	575	6	998	9	1,358	9	1,704	7	5,558	15	1,413	13
IN	622	5	876	6	3,504	11	2,261	17	1,340	9	2,294	11	1,592	15	2,279	14	1,439	14
KS	15	1	90	1	779	2	300	1		0	213	3	175	1	72	1	175	2
KY	191	3	401	6	274	4	339	2	689	3	2,137	13	1,375	10	3,866	18	2,471	13
LA		0		0	778	3	3,435	5	70	1	581	4	9	1	2,179	4		0
MA	217	3	284	5	114	3	900	7	979	10	198	3	441	5	878	12	586	9
MD		0	86	1		0		0	304	2		0		0		0	20	1
ME		0	52	1	180	1	525	4	597	2	424	10	539	4	267	4	212	5
MI	158	5	1,327	7	933	9	2,594	22	1,347	10	2,696	16	2,654	20	2,349	25	3,207	23
MN		0	70	1	266	4	266	3	632	4	687	8	343	5	1,756	10	1,286	10
MO	496	3	688	5	875	6	1,729	17	568	7	2,600	15	1,521	12	2,343	14	793	11
MS		0		0		0		0		0	1,464	4	169	1	1,543	6	923	3
MT	160	1	10	1	225	3	358	8		0	35	1	248	5	121	4	14	1
NC	365	2	1,278	7	3,812	23	8,062	38	6,411	38	8,757	56	4,519	45	5,634	53	5,157	32
ND		0	300	1		0		0		0		0		0	95	1		0
NE		0		0	220	1		0	4	1		0	90	1		0		0
NH		0	110	1		0	29	2	65	2	193	3	130	1		0	82	3
NJ	284	3	2,130	14	1,589	12	785	9	1,076	12	1,445	16	802	5	782	8	292	4
NM	50	1	40	1	82	2	138	3	350	1		0	748	3		0		0
NV		0	6	1		0	166	2	39	2	295	2		0		0	272	2
NY	5,234	12	3,199	19	1,046	15	2,875	24	3,615	26	2,071	19	1,894	20	2,403	22	1,116	16
OH	566	4	546	5	1,944	12	2,113	15	260	3	1,387	10	1,018	9	1,018	9	2,650	11
OK	97	2	18	2	80	1	35	1		0	102	2	175	7	158	2	3,489	4
OR	60	1	381	10	1,521	24	748	11	1,265	18	1,170	17	2,086	25	2,530	24	1,430	13
PA	1,440	14	3,248	18	5,090	36	3,596	30	3,632	36	3,065	33	4,152	43	7,594	62	3,766	40
PR		0		0		0		0	1,090	2	368	1		0		0		0
RI		0		0		0		0		0		0		0		0		0
SC	1,040	7		0	884	5	1,568	8	1,946	16	1,168	7	1,575	16	2,149	14	1,486	11
SD	65	1		0		0		0	306	2	254	4		0	404	4	315	3
TN	1,140	6	420	4	2,963	20	2,300	24	3,835	27	2,936	18	2,553	22	2,686	27	1,547	17
TX	1,616	14	3,915	30	4,510	49	3,715	44	3,925	42	9,576	71	2,773	31	5,403	40	8,783	25
UT		0	16	1	191	3	85	1	742	2	109	2	1,517	2	586	5	215	2
VA	877	5	542	4	172	2	1,261	13	1,813	14	2,019	22	1,206	7	3,626	12	1,780	9
VT	276	1	85	1		0	38	1		0	30	1		0	115	2		0
WA	1,307	19	1,168	14	894	12	510	8	2,619	10	834	11	1,301	14	906	18	205	3
WI	139	2	1,591	5	2,279	10	1,142	10	632	7	1,749	9	1,624	14	3,505	28	1,388	20
WV		0	724	5	259	4	305	4	55	1		0		0	2	1		0
WY	55	1	307	1	30	1		0	128	8	112	3		0		0		0
Total	21,139	153	33,493	221	45,786	367	55,470	432	53,777	433	71,100	516	48,718	435	83,072	594	63,295	407

Source: Nadbank NAFTA-TAA database as of August 2002, http://naid.sppsr.ucla.edu

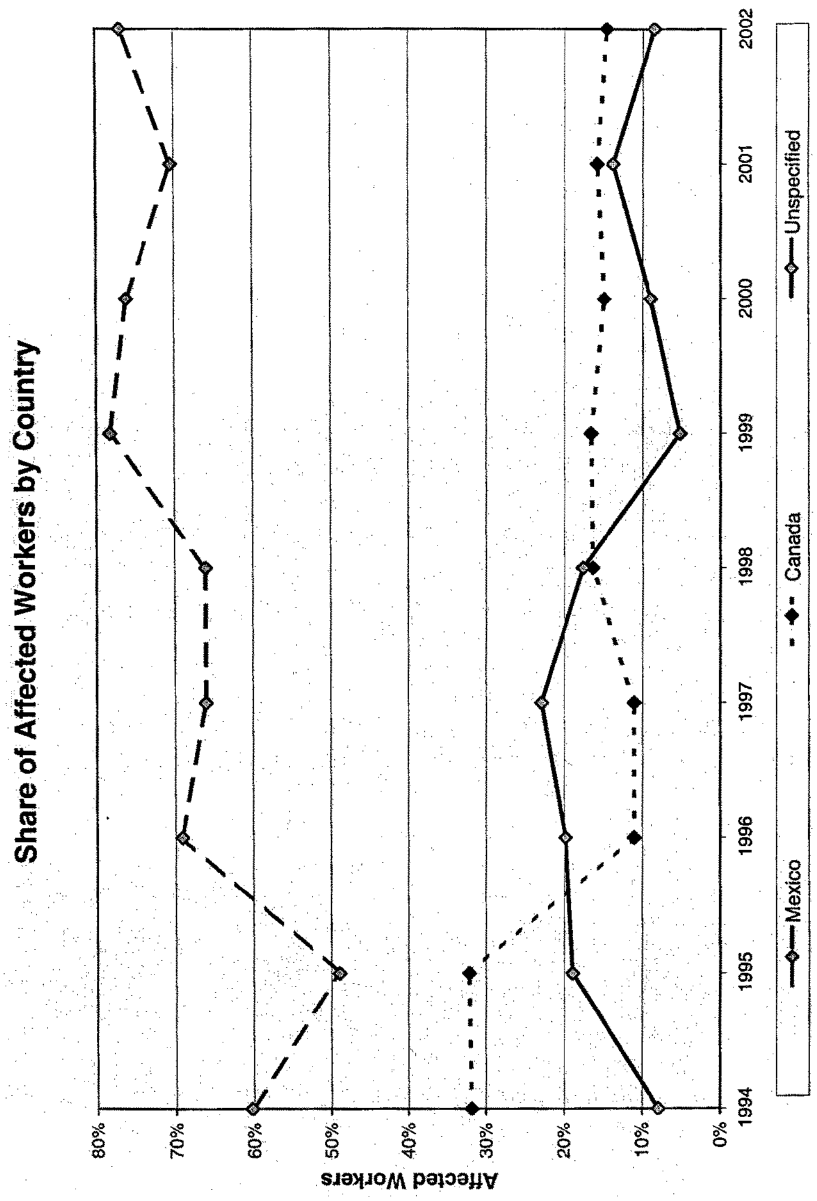
NAFTA- TAA Certifications for All Industries 1994-2002

Grouped by Country and Unspecified Country

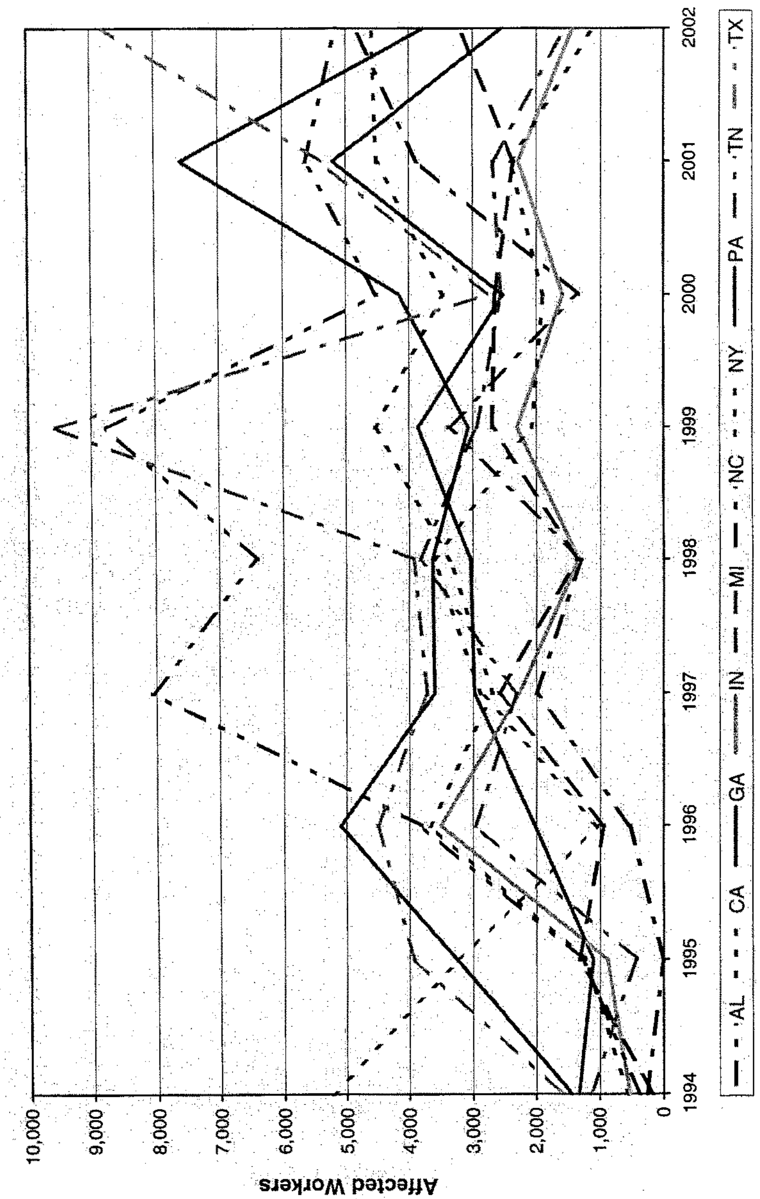
	1994		1995		1996		1997		1998		1999	
Decision/ Impact Code	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms
C1, C3, C6- All Mexico	12,735	100	16,391	119	31,655	227	36,632	278	35,526	268	55,586	361
C2, C4, C7- All Canada	6,739	47	10,782	69	5,052	69	6,132	67	8,792	64	11,796	113
C5, C8- Unspecified Country	22,804	159	6,320	33	9,079	71	12,706	87	9,459	101	3,718	42
Total	42,278	306	33,493	221	45,786	367	55,470	432	53,777	433	71,100	516

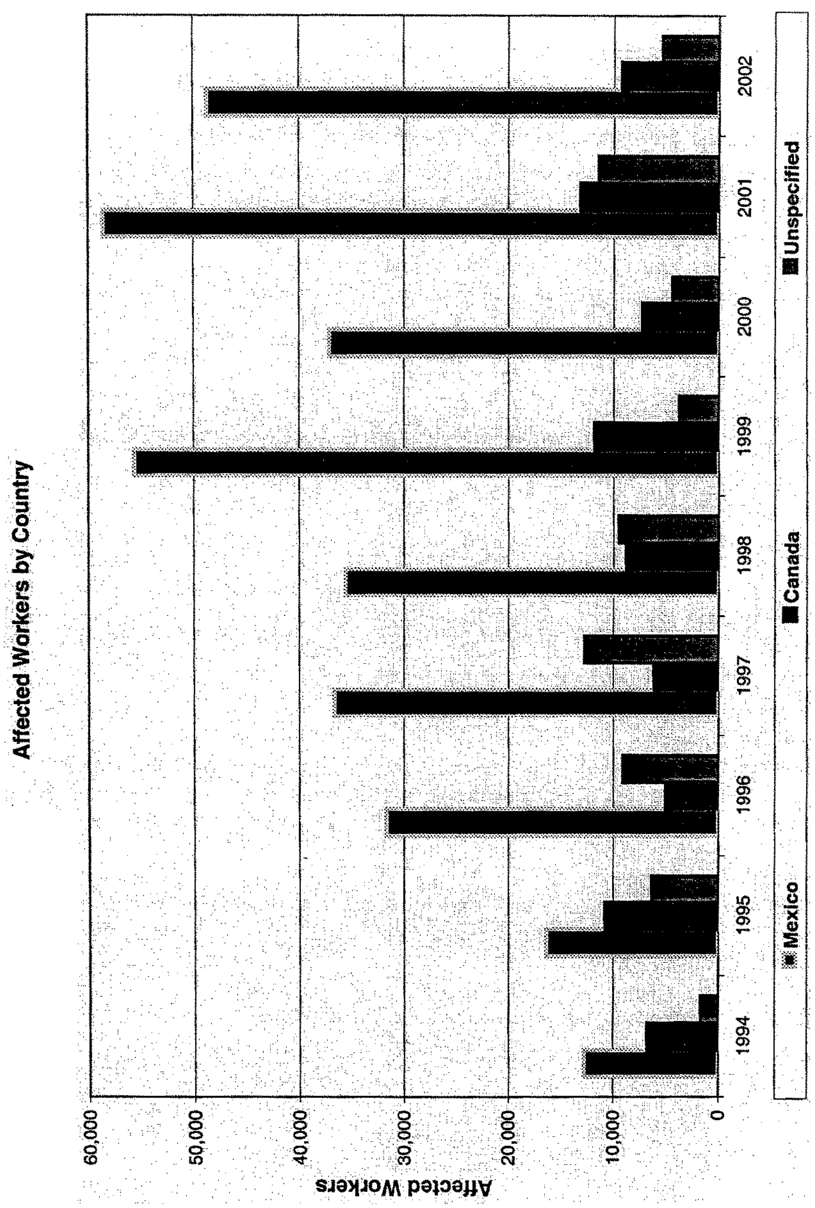
	2000		2001		2002	
Decision/ Impact Code	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms	Sum of Certified Workers	Count of Certified Firms
C1, C3, C6- All Mexico	37,075	307	58,479	390	48,658	259
C2, C4, C7- All Canada	7,264	81	13,163	112	9,237	89
C5, C8- Unspecified Country	4,379	47	11,430	92	5,400	59
Total	48,718	435	83,072	594	63,295	407

Source: Nadbank NAFTA-TAA database as of August 2002, http://naid.sppsr.ucla.edu


Share of Affected Workers by Country
Affected Workers
80%
70%
60%
50%
40%
30%
20%
10%
0%
1994
1995
1996
1997
1998
1999
2000
2001
2002
Mexico
Canada
Unspecified

Top Ten States with Total Affected Workers in All Years




Affected Workers by Country
Affected Workers
60,000
50,000
40,000
30,000
20,000
10,000
0
1994
1995
1996
1997
1998
1999
2000
2001
2002
Mexico
Canada
Unspecified

Remarks for the House Committee on Small Business
September 3, 2002
Norwalk City Hall Council Chambers

Mr. Chairman and members of the Committee:

My name is Hugh Loftus and I am the Director of the Community Adjustment and Investment Program (CAIP) for the North American Development Bank (NADBank). I am pleased to be with you today and to have the opportunity to provide you with information on the history and operations of the program.

The CAIP was one of several programs created with the passage of the Nafta Agreement. It was conceived as a program to assist local communities adjust to impacts, specifically job losses, associated with and attributable to changing trade patterns with Canada and Mexico following passage of Nafta. Specifically, it was to help those communities that were deemed likely to be in need of special adjustment assistance in creating replacement jobs due to perceived problems, such as an already high rate of unemployment.

The CAIP was capitalized by a 10% allocation of the $1.5 billion U.S. share of funding committed to the NADBank, $150 million. In reality this amounted to $22.5 million in cash and $127.5 million in "callable capital". This later amount represents a pledge of the U.S. government to purchase additional shares of NADBank stock upon a request of the Bank's Board of Directors. Callable capital is a commonly used device that effectively transfers to development banks like the NADBank a high level of creditworthiness in support of their borrowing of funds in the credit markets. In the case of the CAIP, it was established that the callable capital was not to be made available for use in the program, either explicitly or implicitly, so the CAIP was effectively limited to $22.5 million.

The nature of what the CAIP would be and do was devised by a Finance Committee composed of four Federal Agencies; Treasury, HUD, SBA and USDA, working with a Presidential Advisory Committee. This group which spent over 18 months discussing how the program should be structured, made several significant findings and decisions including:

1. The CAIP would be focused on assisting communities that had been negatively affected by the Nafta as opposed to individuals or companies.
2. Because of its very limited funding, the CAIP would seek wherever possible to use existing government resources and provide enhancements rather than creating an entire new program and new infrastructure.
3. The program would be focused on assisting with private sector job creation and preservation by providing business entities with assistance securing loans.
4. Special assistance would be provided in conjunction with the business loan guarantee programs of the SBA and the USDA, both of which had histories of limited availability due to the nature of their Federal funding, to assure their availability to targeted communities.

5. Direct loans that met the CAIP's job goals could be considered where no government loan guarantee program could be used.

By Executive Order, the CAIP is administered by the NADBank under the direction of the previously noted Finance Committee. The Treasury Department serves as permanent chair of the Committee and, since the program's inception, they have added the Department of Labor and the Economic Development Administration to the initial members bringing the Committee membership to 6. Details on all aspects of the CAIP and its current Guidelines are available on the web site: www.nadbank-caip.org.

The CAIP program began active operation in 1997 with a pilot in 25 communities in 10 states. Today, following several changes in program guidelines, there are 275 CAIP eligible counties in 31 states and Puerto Rico. Currently, a county is or can be eligible if it meets one of the following criteria:

1. It is a rural county (as defined] that, in the 36 month period preceding consideration, has suffered Nafta related jobs losses equal to or greater than 300 or in an amount greater than 2% of the county's civilian labor force and, that has had an employment rate for the preceding 12 months that is on average at least 1% greater than the national average.
2. It is an urban county (as defined] that, in the 36 month period preceding consideration, has suffered Nafta related jobs losses equal to or greater than 500 and, that has had an unemployment rate for the preceding 12 months that is on average at least 1% greater than the national average.
3. It is a "border county" defined as a county which has any portion of its footprint falling within 100 kilometers of the U.S./Mexico border, the defined operation area of the NADBank per the Nafta Treaty.

Eligibility is usually determined through the pro-active efforts of the NADBank, which involve the regular review of all U.S. Department of Labor certifications of Nafta related job losses and changes in unemployment rates. It may also be secured through application by communities and involve making a determination of job losses using other sources of data and securing the approval of the Finance Committee. Once approved a county remains eligible for an initial three-year period and can receive one year renewal following the initial period if the county continues to have an average unemployment rate at least one-percent greater than the national rate.

To try and meet its goals, the CAIP targets the job creating potential of the small business community and attempts to stimulate interest and expansion in CAIP communities by existing and prospective businesses. The CAIP's first effort was to establish partnerships with the loan guarantee programs of two Federal Agencies, the SBA and the USDA. The CAIP provides assistance by increasing the availability of these programs by increasing each Agency' s ability to provide guarantees. Additionally, the CAIP can be used to cover borrower costs, i.e., guarantee fees, that are associated with these Federal Programs and are frequently considered obstacles by businesses.

The CAIP requires the following of businesses that wish to use this assistance:

1. At least one job must be created or preserved within 24 months of the loan for each $70,000 of the portion of the loan that is guaranteed.
2. The majority of any loan must be used for business expansion purposes, as opposed to refinancing.

This part of the program was initiated October 1997 and to date has assisted with 639 loans for over $415 million in 27 states. These loans are projected to create or save 13,681 jobs at a cost of $816 per job.

Because the USDA program called the Business and Industry Loan Guarantee Program tracks job creation as a regular part of its operations, we were recently able to complete an internal survey of those loans made through the CAIP. These loans accounted for 110 of the 639 and equaled $227 million. Even considering that not all borrowers surveyed have had the full 24 months allowed to complete the projected job creation, the survey determined that more than 100% of the job goal has already been reached.

The remaining CAIP Agency loans are with the SBA, divided between their loan guarantee program, the 7 (a) Program which accounts for 480 loans, and the SBA 504 Program that was added to the partnership in 1999 and accounts for 49 loans. A further survey covering those businesses assisted by the SBA is a planned next step.

While serving as a direct lender to businesses was originally seen as a primarily activity for the CAIP, the scarce resources forced the CAIP to put significant limits on this activity. A CAIP direct loan can only be considered in cases where conventional financing or a Federal Agency program loan is not available or appropriate. Additional requirements are:

1. The CAIP portion must represent less than 50% of the total loan request.
2. There must be one job created for each $35,000 of the CAIP portion of the loan.
3. The loan should have the potential to act as a potential catalyst for broader development opportunities within the community.

To date the CAIP has participated as a direct lender in five cases with two additional loans approved but never funded due to outside circumstances. Approved loans amount to $3,330,000 and are expected to assist in the creation or preservation of over 200 jobs.

The initial CAIP capital, the $22.5 million, is specifically restricted from use as grant funds by the NADBank's charter. However, it became clear early on that business credit alone is a very limited response to diverse community needs. In some communities the aftermath of a major plant closure and related job loss brought economic activity to such a low level that there were no prospective borrowers. There was clearly an additional need for assistance in the form of grants for the kinds of activities that were not going to generate a cash flow for repayment, but were necessary prerequisites for many communities to create jobs. Recognizing this, in both fiscal year 1999 and 2000 Congress appropriated $10,000,000 to the Treasury Department for the CAIP. Of this amount, $13,400,000 was later transferred to the NADBank to allow the CAIP to establish a grant component. Ideally, a grant program to assist communities with their economic development needs would have a flexible funding cycle to match up with needs as they arise. However, as time and circumstances did not permit it in this case, the funds were made available through a time limited solicitation process that resulted in two rounds of grants through which 39 grants were approved in 19 states. Grantees have projected that through these grants 9800 jobs will be created. As with other CAIP programs, details on individual grants are available on the CAIP web site.

After five years of existence and operations at the local level, several things have been learned about the CAIP and about what trade impacted communities need most to address.

1. Perhaps most important, the CAIP, as administered through a non-federal entity, the NADBank, is able to bring a flexibility and responsiveness to a situation that is rarely possible within the federal government. The highest praise for the program has been its ability to work with local communities and help devise approaches that can be customized to local needs. The CAIP has been able to respond quickly to new developments and information as the impacts of Nafta became understood without requiring statutory or regulatory changes while still operating under the oversight of the Federal Government.
2. At its level of funding and as the program was ultimately designed, the CAIP had is program that can offer some enhancements which are best used to stimulate and support economic activity. They also help communities with their marketing through the distinction of the CAIP designation. Coordinating grants and loans at the local project level is still a desirable approach that the CAIP could undertake with sufficient and appropriate funding but is otherwise not available.
3. While the typical needs of rural communities are very different from those of urban communities, the CAIP's program benefits are largely the same for both places. However, the modest enhancements that CAIP offers tends to be of less interest or impact in urban setting where so much is happening. Conversely, in rural communities awareness of the CAIP spreads much more rapidly as economic activity is quickly seen by most of the population. This has meant that rural communities are much quicker to find and take advantage of the CAIP.
4. Most communities having a significant job loss from Nafta were not prepared or equipped to more forward with the steps for transition. What the CAIP could offer was of no immediate value, as the community typically needed to perform a self-assessment and develop a strategic plan. While some federal resources can be used for this effort their availability is limited and in particular they cannot be used at the project level where they are frequently needed. Again this problem was particularly acute for rural communities.

Over the five years of program activity some changes in some of the external components and underlying assumptions that were factored into the design of the CAIP make it timely to revisit the CAIP's design and consider some updates, for example:

1. One of the needs addressed by the design of the CAIP in 1995 was the concern that both the SBA and USDA loan guarantee programs were frequently known to run out of money. Since unfettered access to these programs was seen as valuable for CAIP communities, the CAIP provides the Agencies with supplemental funding to cover their costs, i.e., the credit subsidy rate, associated with issuing the guarantees. However, based the funding provided these Agencies the past few years and the fact that Congress has begun to allow the Agencies to "carry over" unused funding from one fiscal year to the next, the Agencies are no longer experiencing such funding shortfalls. Despite this, the way the CAIP was designed, eligible loans continue to be funded by the CAIP from its limited resources. It needs to be determined that this continues to be the best way to target limited CAIP resources.
2. The SBA 7[a] Program is largely dependent upon lenders to submit loans and to help identify potential benefits of the CAIP to borrowers. However, particularly in urban areas, the challenge has been to get lenders to undertake the necessary additional steps in processing a CAIP loan. The larger the lending institution the less prepared they are to undertake situations that require "special handling".
3. The CAIP mandate continues to be Nafta affected communities but with significant additional trade impact from other countries happening or immanent, it is a good time to consider ways to bring the potential of the CAIP into the broader discussion on trade impact.

Mace Metal Sales, Inc.

COILS • SHEET & STRIP • SLITTING, EDGING & LEVELING OF YOUR MATERIAL • SPECIAL PRODUCTS
CARBON STEEL • ALLOY STEEL • SPRING STEEL • STAINLESS STEEL • GALVANIZED STEEL

September 3, 2002

Congress of the United States
House of Representatives
107 Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0315

First, I would like to thank Congressman Donald A Manzullo, Chairman of the Committee on Small Business and Congresswoman Grace Napolitano for inviting me.

Mace Metal Sales, Inc. is a small minority woman owned business, and has been in business since 1971. Mace has always supported the domestic mills and will continue to do so in the future. However, we do not agree with the 201 decision handed down on March 5th for the following reasons:

1. Price
   Never before have the prices increased at this rate. Since March 2002, depending on the products, prices have gone up $20.00 to $40.00 per ton every 30 to 60 days. Overall, we have seen a 40% increase with more to come in the first quarter of next year; and who knows how much more after that.

   Mace Metal customers can not absorb these kinds of increases; it is too much too soon. A lot of our accounts have asked us to cut our costs by 10%. It is impossible. We work with them trying to reduce their costs in other ways. With metal stampers, raw material is 40 to 50% of their costs. How can they be competitive with these kinds of increases?

   Our customers are losing business at an alarming rate to countries such as China who are importing finished goods into this country at prices below the raw material cost. So, maybe the 201 decision should focus more on those types of issues instead of raw material. Raising material prices is not the answer for these customers.

2. Allocations, steel shortages, and lead-times
   What can be said? If you don't have steel, you can't sell it. Mace has been cut back by roughly 30 to 40%. Without imported steel, the domestic mills can not produce enough steel

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to supply this market. Therefore, we have shortages, which leads to allocation, which leads to loss of business.

If we can not get enough steel for all of our current customer's requirements, they must buy elsewhere. Thus, we lose part of that business as well.

In July, we were asked to place orders thru the end of the year. This is a six-month lead-time, which is way too long. It is only a guess at that point as to what we will need in December. So, if we receive new inquiries, we can not quote them because all our allocation has been ordered and booked.

One supplier told me that I would have to reduce my 4^{th} quarter 2002 allocation by another 400 tons. When I asked why, they explained because they were unable to produce 400 tons of my 3^{rd} quarter allocation for various reasons and it would have to move into the 4^{th} quarter, thus the reduction. Why are we forced to pay the price because of the mill's failure? They also explained they can only roll so many tons, which is another problem out here on the West Coast. There are not enough suppliers.

3. Loss of Business
   Take points #1 and #2, high prices, long lead-times along with not enough steel and it all adds up to loss of business; not only for current business but future business as well.

It is Mace Metal Sales position that the 201 decision should be reconsidered. It seems to help only a few and not the majority in the steel industry.

Everybody that has been in the carbon flat rolled business knows the benefits of using offshore material. Our customers are demanding more quality products all the time, and historically, offshore material has provided the type of consistency required to meet those demands. It is a fact that world class foreign mills supply U.S. buyers with metal products to tolerance, specifications and finishes not readily available from domestic sources.

While Mace Metal Sales, Inc. is a small minority woman owned business and may not seem significant in the context of the entire steel industry; don't forget, there are thousands of small companies out there just like us.

Thank you for your time.

John Reynolds
General Manager

Testimony of

Bart Alcamo, President, RBK Tool & Die Company

On behalf of The Society of the Plastics Industry, Inc.,

Before the U.S. House of Representatives, Small Business Committee

Congressional Field Hearing, September 3, 2002

Norwalk, California

Thank you Chairman Manzullo and Rep. Napolitano for calling this Field Hearing of the U.S. House of Representatives' Small Business Committee to address a number of important issues affecting small businesses in California.

I am Bart Alcamo, President of RBK Tool & Die in Modesto, California. RBK Took & Die, a plastics injection molder and tool maker, employs 26 persons and serves the medical, agricultural, automotive, construction and toy markets.

On behalf of The Society of the Plastics Industry, I would like to address one of the issues slated for your consideration today: the adverse impacts on companies from the recent tariffs on steel.

Founded in 1937, The Society of the Plastics Industry, Inc. is the trade association representing one of the largest manufacturing industries in the United States. SPI's 1,500 members represent the entire plastics industry supply chain, including processors, machinery and equipment manufacturers and raw material suppliers. The U.S. plastics industry employs some 1.5 million workers and provides $330 billion in annual shipments.

The plastics processing industry is the fourth-largest manufacturing industry in the United States after motor vehicles, electronics and petroleum refining. California, it must be noted, ranks No. 1 in the country in terms of plastics jobs, employing 147,000 persons. The state ranks second for shipments, shipping more than $27 billion in plastics raw material, products and equipment. In the six-county region from Los Angeles to San Diego, the plastics industry is responsible for more than 70,000 jobs and $14.3 billion in shipments, and Los Angeles County has more plastics jobs than any other county in the entire United States.

Thus, I don't think there should be any doubt about the significance of the plastics industry to the United States, California or, in particular, this region of California. Ours is an industry that has grown more rapidly than overall manufacturing for the past 25 years, as it has continued to adapt to meet the ever-growing needs of consumers and to meet ever-changing economic challenges. Today, however, the industry is certainly facing some particularly tough times, as it has been hard hit in the past two and a half years during the nation's economic slowdown.

For example, the plastics equipment sector experienced a 40.4-percent decline in shipments in 2001 compared to 2002. Shipments of injection molding machines, the largest industry equipment market, dropped nearly 50 percent from Quarter 4 2001 compared to Quarter 4 2000. The hope that 2001 was a bottoming out of the equipment market did not materialize as the first quarter of 2002 continued the downward trend, with an additional 23.3-percent slowdown compared to the previous year.

The current economic climate for the plastics equipment sector has been very hard indeed, with frequent announcements of layoffs and plant closures that hurt American workers and the industry. In one company survey of 1,000 mold makers, another plastics industry equipment segment, the average profitability for moldmakers is down to just 1.4 percent.

All this serves to explain – as you may have been wondering – why the *plastics* industry is here to testify before the Small Business Committee on the affects of the recent steel tariff decision by the Bush Administration. And that is because the equipment and mold sectors of the plastics industry are steel consumers and the President's imposition of tariffs on steel has exacerbated an already challenging situation.

As an example, Universal Dynamics, a plastics auxiliary equipment manufacturer, experienced a 20-percent increase in their steel price immediately following the tariff decision. Its steel suppliers have told them that *another* increase *may* be expected in September. Estimated annual costs to this company from steel price increases are more than $100,000 annually. While this company has grown to meet the global demands of the worldwide plastics industry, uncertainty about if and when a steel increase may happen, or how much the increase may be, adds another level of uncertainty to an overall already volatile economic environment.

Another large diversified company, ITW, which is a major plastics processor and employs some 52,000 workers in plants in 43 countries, believes that the tariff increase may cost the company nearly <u>$20 million annually</u> in additional duties. Other major plastics equipment manufacturers have experienced price increases ranging from 9 to 16 percent since March 2002, when the tariff was implemented, with increases growing to more than <u>35 percent</u> over the past year.

While there have been exclusions granted from the U.S. Trade Representative for certain steel imports, steel consumers are still feeling the pinch. One plastics company, for instance, applied for 21 exclusions from the tariff, to have only four granted. The resulting increased tariff manipulates the market and further erodes the plastics industry's ability to plan strategically for the long term.

My company, RBK Tool & Die, has not, quite frankly, experienced some of the significant consequences of the steel decision that some of my colleagues in the industry have faced. However, while we strive, as a small company, to adapt to global changes, the moldmaking side of the business has been in decline for about five years. Therefore, the tariff increase works to exacerbate market conditions that have been eroding for several years, as my customers, who are uncertain about the future, are not investing.

The tariff also has created considerable confusion regarding which products are excluded from the tariff, further hindering short-term and long-term business planning. Further possible retaliatory action taken by U.S. trade partners in response to the tariff also serves to erode confidence and place yet another layer of ambiguity into the marketplace.

I began today by talking about the importance of the plastics industry. Quite coincidentally, on August 29, *Los Angeles Times* columnist James Flanigan wrote an article titled, "Future of Plastics." He noted that "The Bush administration has been preoccupied with helping the U.S. steel industry, but its impact on the economy is minuscule compared with the manufacture of plastics."

The plastics industry is "at the crossroads of the global economy," he continued. "Small to medium-sized companies in California and elsewhere are threatened by low-wage competition from Asia and Latin America but manage to hold their own by innovating products and manufacturing processes. The plastics industry ... may not be the first industry that comes to mind when people think of business in this state. But considering that it's a manufacturing industry that relies on basic chemistry and adroit development of technologies and new products, and that it is integrally involved in the global economy, plastics are a natural for this region and this state."

Flanigan concludes by adding, "Maybe the Bush administration should pay attention to the health of the plastics industry; it's more important than most."

SPI certainly agrees and urges the administration to place a moratorium on its March 5, 2001, Section 201 steel decision and discontinue the patchwork of confusing tariff exclusions. And it certainly should allow the steel consuming industries to have a voice before it and the Congress on such matters of economic importance.

As such a consumer, I am grateful, Chairman Manuzullo and Rep. Napolitano, for this opportunity to come before this distinguished session and provide comments on the impact of recent tariff decision on the plastics industry.

Thank you for the opportunity and I respectfully request the opportunity to revise and extend our written submission to the panel.

TESTIMONY
OF
TERRY BONDS
DIRECTOR DISTRICT 12
UNITED STEELWORKERS OF AMERICA
TO
THE U.S. HOUSE COMMITTEE
ON SMALL BUSINESS
SEPTEMBER 3, 2002
NORWALK, CA

Good morning. My name is Terry Bonds. I'm the Director of District 12 of the United Steelworkers of America. I represent about 40,000 men and women who work in a wide range of industries within 9 Southwestern states, including California.

I'd like to thank the Committee on Small Business Chairman Manzullo and Ranking Member Velasquez for giving me the opportunity to address the issues of international trade and steel tariffs. I'd also like to express my appreciation to Congresswoman Napolitano for inviting me to this field hearing in her home district.

Members of the USWA work in almost every industry in America. In California, we represent workers in rubber and plastics, aerospace parts, glass, aluminum, rail car repair, the public sector, health care, steel fabrication, steel production and many others. The only members we represent who manufacture steel in California are employed by USS Posco in Pittsburg. Only a few years ago, we represented thousands of steel production workers in California such as at Kaiser Steel in Fontana.

Following the Asian economic crisis, steel imports destined for Asia and Europe were diverted to the U.S. Steel imports rose from 31 million tons or 25 percent of domestic consumption in 1997 to 41 million tons in 1998. Imports mounted to nearly 40 percent of the market. Domestic steel prices fell by 30 to 40 percent. The price of hot-rolled steel, the largest volume product, fell from an average of $340 per ton in 1997 to $260 per ton by December 1998 and to $210 per ton by December 2001. Currently, there is an annual global over-capacity of 250 million excess tons due to decades of foreign government subsidization – subsidies to foreign producers that were never available to American firms.

The impact of the steel crisis of 1997-2002 cannot be overstated. Since 1998, 35 companies have declared Chapter 11 bankruptcy and 17 of those firms have ceased production. 50,600 steelworkers lost their jobs. More than 100,000 steelworker retirees have lost their health care benefits. The health benefits of another 500,000 retirees are at risk with the possibility of more company liquidations. Dozens of hard-working steel communities have been devastated – communities that built the products for America's infrastructure and national security.

Last year, the International Trade Commission (ITC), an independent federal agency, found that imports had "seriously injured" domestic steel producers. The ITC's investigation was the most thorough in the ITC's history. ITC Commissioners recommended that tariffs and quotas be applied to 16 of 33 steel import product categories.

On March 5, 2002 President Bush ordered tariffs on 14 of 33 product categories that start as high as 30% this year, fall to 24% next year and then fall to 18% in the third year with regular tariff schedules resuming in the fourth year. Furthermore, the highest tariff in the first year on certain product categories ranges from 8% to 15%. Canada, Mexico and almost all developing countries were exempted completely from the 201 tariffs. ITC Commissioner Hilman has estimated that the Section 201 tariffs apply to only about 29%

of all steel imports. In addition, some legitimate exemptions have been issued for products where the domestic industry has no capacity or willingness to make the given product.

While some exemptions were warranted, hundreds of the 727 exemptions the President has issued are for products that the domestic industry has the capacity and willingness to produce. Too many unfounded exemptions could weaken the 201, since so many steel import products are already exempted.

The President's decision was not intended to be a permanent solution for the steel industry. In fact, this temporary "safeguard" measure provides the industry a three-year reprieve during which the following must occur for future industry viability: first, the reduction of global over-capacity; second, the reduction of retiree health care liabilities; and third the consolidation of the domestic industry.

It has come to my attention that some steel-consuming companies have expressed concern about recent price increases. Reasonable and modest price increases were to be expected. Additionally, prices have increased in the U.S., Europe, Asia, and elsewhere for reasons other than the 201. Current steel prices in the U.S. remain below the levels that existed in 1997-1998, and also below their 20-year averages, in nominal terms. If prices were so high in the steel industry, idled companies like Geneva Steel in Utah would have already restarted their production. Our 1,800 laid-off members in Utah can tell you this has not yet occurred.

No consumer wants to pay higher prices than necessary. Steel consuming companies are no different. Over the last 20 years, the steel industry has invested $60 billion to improve product quality, productivity and lower production costs and prices. But the import prices of the 1998-2001 period were not fair market prices, but rather unfair dumping prices, against which U.S. producers simply could not compete. Steel-consumers couldn't compete with imports dumped at 30 to 40 percent below domestic prices and they shouldn't expect steel producers to do so either.

With hot-rolled steel selling at $210 a ton, as it was last December, no steel producer in America or anywhere in the world could survive for long. For consuming industries to expect artificially depressed prices is not only unrealistic, it is an endorsement of dumping which is a clear violation of American and international trade law. I am not asserting that consumers are feeling no impact at all since the tariff decision. We have members employed by steel consuming firms as well as steel producing companies. We must search for a balance to allow both to survive. But, it seems to me, for the American manufacturing sector to grow, our nation must have a strong steel industry. We must be able to produce our own steel.

I hope to bring to this dialogue a voice of balance – a perception of survival for our steel and steel-consuming industries, rather than a short-sighted view. The USWA believes it is not in America's interest to allow the steel industry to vanish. Not for our infrastructure. Not for our national security. Neither our members in the steel industry nor our members in steel-consuming industries want that to occur.

America has already seen the danger of relying on foreign oil. Repeating this misfortune in steel would be a mistake and could threaten our economy. Our trade remedy laws, especially anti-dumping laws, are an extension of anti-trust laws that protect consumers and workers from monopoly and oligopoly. The day our government refuses to use our trade laws to rightfully defend American industry is the day we become solely subject to the WTO and global markets that have no regard for the American worker, firm or consumer. Steel consumers could be subject to far higher prices resulting from anti-competitive foreign trading practices if steel production ceases in the U.S.

Revoking the 201 tariffs would be a misguided policy at this time. If Congress wishes to help steel producers and consumers in the future, it should pass H.R. 4646, the Steel Industry Legacy Relief Act, which would foster consolidation and protect retiree health care benefits. This bill would also foster a more level playing field with most foreign producers whose governments provide workers and retirees with national health care. It could even help steel-consumers by reducing the cost of American steel. This bill has already gained 175 co-sponsors since its introduction in May and I hope to see its expeditious passage.

Thank you for allowing me to share my views regarding this important issue of international trade and steel tariffs. I look forward to responding to your questions.

small manufacturers
ASSOCIATION OF CALIFORNIA

02160

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HOUSE COMMITTEE ON SMALL BUSINESS

CONGRESSIONAL FIELD HEARING

NORWALK, CALIFORNIA

September 3, 2002

"How foreign imports are undermining American jobs

and

foreign countries are harassing American importers"

Testimony Prepared by

Thomas J. Martin

Legislative Chairman

Small Manufacturers Association of California (SMAC)

Founded 1991:

National Tooling and Machining Association's Chapters:
Los Angeles
San Fernando Valley
San Francisco Bay Area

Affiliates:

Small Manufacturers Institute
Industry PAC

02160

Good morning Mr. Chairman, and members of the House Committee on Small Business. I wish a special good morning to Congresswomen Grace Napolitano, whom through redistricting now represents Pomona where our Company is located.

My name is Tom Martin, and I am a member of the Board of Directors and Legislative Chairperson for the Small Manufacturers Association of California (SMAC), an organization representing about 1,000 small manufacturers in California. David Godreau, Chairman of the SMAC asked me to speak to you because our company has an intimate knowledge of this issue. I am also on the Board of Directors of the California Small Business Association, another major and active organization that represents other small businesses throughout California. Most importantly I am a full time paid employee, and manager of Insurance and Safety for Coast Foundry & Manufacturing Co., a Pomona Company, which manufacturers price competitive water control valves for the toilet industry. While Coast is an industry leader and may be the largest producer of toilet valves in the world, today we employee 210 people. Two short weeks ago we employed 240. And we will say unequivocally those 30 jobs were lost to imports. My remarks today are primarily on behalf of member companies of the SMAC including Coast Foundry.

I am sure, if we look closely, we small manufacturers can find there are many good things about exporting and even a few good things about importing. Dr. James Morrison, Ph.D., president of the Small Business Exporters Association on May 15, 2002 told the Congressional Committee on International Relations "While there is no doubt that some of America's biggest companies can continue to increase their exports, the largest untapped resource for American exports is small and medium-size companies." Some of our SMAC members are exporters, or wanna-be exporters.

They are looking for customers offshore who can afford our rising prices. California proudly announces it is the fifth largest economy in the world. Unfortunately, in the eyes of California manufacturers, service industry jobs and lawyers filing lawsuits drive our large economy. California legislation is raising our costs and quickly making many of us non-competitive in the Continental United States. Especially if your Company manufacturers price sensitive products. California has the second highest minimum wage in the nation, and will soon be first. Our legislated costs and tax payments to run a business are major. Private Companies in most inland states cannot or more importantly will not support the high wages and benefits costs that California manufacturers must charge. They go offshore in search of cheaper, but comparable products. Often they find products that are visually comparable and occasionally they are comparable in performance and quality. But the bottom line is they are cheaper. Manufacturers who want to stay in California have to look offshore for clients who want the quality we produce not just the low prices and lax quality coming from overseas.

You were kind enough to offer me the opportunity to address federal programs to support small business exporting, improve trade adjustment assistance and to minimize the adverse impacts resulting from trade agreements, imports and tariff changes. Although the SMAC fully supports trade adjustment assistance I will not be discussing that today.

We have members who export – or want to export – to virtually every country and every continent except Antarctica. When we export to those countries, we often find ourselves in a quagmire where regulations in the receiving country can change overnight. We have one member who exports to an American owned production facility in China. Our member's product is palletized on hardwood pallets because China said they would not accept standard softwood pallets. In fact China threatened to remove the product from the pallets, burn the pallets and charge the expense back to the customer, which in turn would be charged to the export seller. Now China has determined they will not accept hardwood pallets because they are not totally hardwoods. They argue that even with hardwood pallets certain portions are softwood and might harbor bugs and insects. If it is decided that wood burrowing bugs have attacked the softwood portions of the hardwood pallets the shipment will be returned at the expense of the exporter and the importer on their end will also be chastised and possibly barred from the Chinese market. The exporter, our member, is looking for realistically priced plastic pallets, while still trying to keep costs low to compete. China realizes that the expense will have to be eaten by the exporter or paid by the customer. Neither is a positive for the exporter. If their costs rise too high because of these irksome regulations the Chinese believe our exporters will bale out and/or American companies already lured to China will buy Chinese produced product. The Chinese are not the only one's looking to create markets for their plant's products at the expense of outsiders, but their low labor, subsidized material costs and large manufacturing base make them a natural.

In his remarks to Congress, Dr. Morrison noted that a positive government study on exporting stated that "The report calls for better training, better measuring of results and imparting a "big picture" national goal of promoting exports to all (government) export promotion personnel, as opposed to narrower agency goals." He also said, "National export strategy requires a collective effort at all levels of government. Exporting companies won't be interacting with agency officials in Washington; they will be dealing with lower-level officials in federal offices across the country."

This is especially true in California. We have a mind-set that says we are part of the Pacific Rim. We have two major ports within minutes of this hearing room. Californians look to the government to provide living support in California -- not Washington. But we do look to the Congress to protect us by providing a level playing field. A tariff on us should be matched by a tariff paid to us. If we are forced to pay greater tariffs going out then they are paying coming in; you are exporting our jobs. When a competitor making price sensitive products is able to put that product on our dock ready for inland shipment at a cost lower than we pay for material, we should tell our employees to go home, we cannot compete.

You ask for "recommendations for minimizing the adverse impacts on local companies (and communities) resulting from trade agreements, imports, and recent tariff changes." Many Companies, Like Coast, who is regularly victimized by cheap knockoffs, feel like the little kingdom in that long ago novel The Mouse that Roared. We keep hoping the US government will realize they have conquered us and now they will support us. But, even as the state and federal governments mandate more costs, more taxes and more regulations they continue to say we are free of constraints. We see product that is an exact copy of ours in appearance, sitting on the ocean side docks for less cost than we pay for the materials. And there is little if any tariff charged. We see these same products, untested and often inferior, packaged in plastic with statements claiming they are replacement parts for quality built American Products, and our government says nothing. The true tragedy is these inferior parts gain acceptance because they are sold through the bigger national chains of retailers -- what the unions call "Big Box Stores." And when the parts fail in an unreasonably short period of time consumers don't look at the true manufacturer, they look at the quality US Company, whose name they know, believing the US Company is responsible and blaming them.

As an attachment to these comments I have provided you some copies of full-page advertisements run, in industry magazines, this spring intended to show how unscrupulous these copycat artists are. These advertisements, which cost $10,000 to run, were run in industry dedicated Wholesaler Magazine and Contractor Magazine.

We at Coast have actually found copies made by foreign competitors that brazenly bear our patent numbers and industry certifications. Not realizing or not caring what these number signifies they simply copy them onto their products. I can assure you we have never found one of these copies that withstood the testing and quality we run. Coast has been providing American jobs and quality products for almost 60 years. It concerns us when someone makes an inferior copy of our valves. And it concerns us more when a reputable retailer buys these products for far less than they would pay for ours and then sells them at rates only pennies less than they would normally market ours.

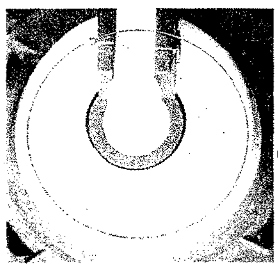
We worry about the copied repair parts causing health and safety issues for the consumer. As Bruce Antunez, Coast Vice President R&D wrote "The situation is most often caused by the back siphoning of contaminated or polluted water from a plumbing fixture (toilet) back into the home's drinking water supply..." If these cosmetically accurate but inferior replacement parts are used when the pressure in the plumbing water supply line is less than the atmospheric pressure, the back flowing of contaminated or polluted water can end up in the next glass of water you drink.

In conclusion we are only asking for the proverbial "Level Playing Field." Unlike publicly owned companies, your small manufacturer and small business owner has his/her own money -- money they could be using for personal bills-- tied up in the company. Often they have to forego their own wages to pay their workers. They do it for the independence and for the challenge of producing the best. When they find that other countries are financially subsidizing their competitors and the US Government appears, through laze faire to be colluding with these foreign competitors, they become disenchanted, and they start looking for locations offshore. When they hear their low cost competitors have Most Favored Nation privileges, they also want to hear that US companies also have Most Favored Nation status. They have earned it with the jobs they provide and the quality products they produce. Please support them for that. Thank you.

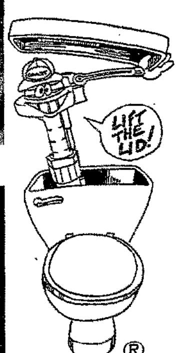
CONSUMER ALERT !

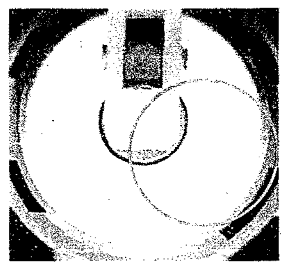
Copying the cosmetic appearance of a U.S. manufactured product is apparent as pictured below for the sole purpose of misleading the consumer into believing the product which they are purchasing is a well recognized U.S. brand name product. There is nothing innovative about these copied products from these borrowed technology people. You as the consumer do have a choice in the products you buy. The next time you visit your local home improvement center and are in the market for purchasing a new toilet simply LIFT THE LID ® and look to see if the components inside are manufactured in the U.S.A. The same applies when purchasing a replacement fill valve and or flush valve.
Only products manufactured in the U.S.A. can bare the marking MADE IN U.S.A.

It is important to remember that these counterfeit products are not substitutions for the original Coast Foundry products, and the use of these components not only voids any warranty expressed or implied by Coast Foundry and Manufacturing Company, but exposes the retailer to the possibility of legal action resulting from damages incurred by consumers.

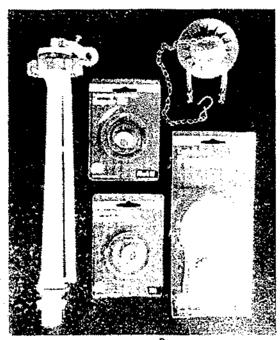


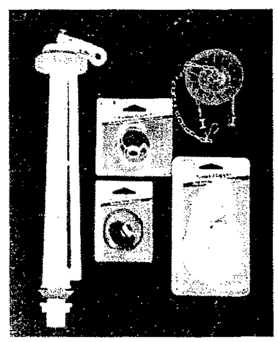
Original U.S. Products

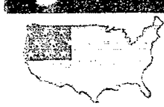




Counterfeit products/China







KEEP MANUFACTURING IN AMERICA !

IT'S MORE THAN JUST OK IF IT SAYS, " MADE IN U.S.A."

COUNTERFEIT TOILET REPAIR KITS
THREATEN CONSUMER HEALTH AND SAFETY

By Bruce Antunez
Vice President R& D
Coast Foundry & Manufacturing Co.

As a leader in the toilet tank trim industry, we at Coast Foundry & Manufacturing Co. find it alarming that a potentially serious health and safety issue is spreading across the U.S. through the use of counterfeit repair kits, with little acknowledgement from the plumbing industry or water districts.

The situation is most often caused by the back siphoning of contaminated or polluted water from a plumbing fixture (toilet) back into the home's drinking water supply system through the use of counterfeit replacement parts (piston repair kits). These parts, which are sold by many reputable retailers, and wholesale hardware stores, are often inserted into Coast Foundry or other U.S. manufactured code approved anti-siphon fill valves, without the realization that they do not work

Coast Foundry & Manufacturing Company has celebrated its 50th year as one of the largest original equipment manufacturer of tank trim, with the largest selection of fill vales and flush valves to choose from in the plumbing industry. Their slogan "Lift the Lid!"© shows that their products are found in most new toilets sold in the United States. During this span of five decades, the company has consistently made a product synonymous with quality and innovation.

These replacements piston repair kits are manufactured in Taiwan and China and are being sold; based upon low price, because they closely resemble the parts they are replacing. These same manufacturers are also producing look-alike water control valves, called "knockoffs", which may or may not be tested and certified to U.S. standards.

When these counterfeit repair kits are installed in a fill valve and tested to the performance requirements for anti-siphon Fill valves (ballcocks) for Gravity Water Closet Flush Tanks A.S.S.E. Standards #1002, Section 3.3. Evaluation of Backflow Prevention Device or Air Gap Assembly, they fail, allowing the back flow of water until the tank is empty.

This backflow can result in toilet water and toilet bowl cleaners being diverted into the building's drinking water.

We need to alert the consumers who buy these replacements and the many retailers who sell these parts to the potential health and safety threats they may cause. At minimum most consumers would not knowingly drink toilet water, and at worst they may become ill. These replacement parts and knockoff producers must be held to the same standards as U.S. manufacturers.

ED NOTE: I am submitting this article for publication in your magazine. I feel you will find it relevant, and we are truly concerned about this problem

Please feel free to call me for more information regarding this matter.

I have enclosed information on the packagers, which are purchasing and redistributing these counterfeit replacement parts.

Sincerely,

BRUCE ANTUNEZ
Vice-President
Research & Development

Hey Buddy-can you spare a toilet tank part?

We recently received a call from a good friend in our industry, Mr. Bruce Antunez of Coast Foundry of Pomona, California. If you have ever lifted the lid on a gravity-type water closet tank (and who hasn't in our business), you probably witnessed a Coast Foundry fill valve replenishing the water in the tank. Bruce, his father, Armand and other family members have been supplying closet tank fill valves for decades. Their fill valve and flush valve products have been installed in virtually every water closet manufacturer's tanks for years and have provided years of service to the consumer. The company manufacturers good product and they stand behind their quality with ongoing, tireless quality assurance testing. Frankly, we also enjoy the fact that Bruce and his colleagues have a music room adjacent to this offices where they can "jam" to relieve the stresses of the job. (With three musical offspring, I personally have come to appreciate a good "jam session".)

We have been pleased to work with Bruce for many years on product standards for fill valves and other tank trim. Most recently, Bruce and a dedicated ASME Project Team headed by Team Leader Burt Preston of Mansfield Plumbing Products has been diligently trying to develop performance standards for chemical resistance of tank trim, most notably toilet tank flappers. This Project Team has been laboring for over three years in their attempts to determine what additives to the closet tank are the most aggressive, and how the existing products can be refined to provide maximum resistance to chemical degradation. A primary benefit of this research has been the obvious benefit that the plumbing and chemical industries have begun to communicate their respective philosophies and, in doing so, are opening dialogs for improvement of the products for the consumer. The Team is looking at the composition of additives and the affects on existing products. Unfortunately, the additives are constantly changing and product which passes chemical exposure tests this week may fail when exposed to a new substance next week. The development of criteria based upon the "moving target" can be a frustrating challenge. We applaud the work of this Project Team and we hope to announce their great accomplishments in the not-too-distant future.

We suspected that Bruce's call would relate to the work of the Project Team but soon learned of another, equally troubling issue which is a result of Coast's recent research. Their research relates to the installation of repair parts in their fill valves from sources other that the original equipment manufacturer. The issue of replacement parts has been a subject of constant review by the industry for many years, from the backflow industry to the fixture industry. The replacement component issue has gained enhanced scrutiny with the advent of low consumption fixtures, for the water agencies are concerned with the consistent water use within fixtures when replacement parts are installed.

This concern extends to the "parts within the parts", such as the washers, O-rings and even lubricants within plumbing components. For example, we are aware of a problem that arose a few years ago when the wrong lubricant was used in conjunction with O-rings on a backflow preventer. The lubricant caused the elastomeric seals to expand and the device failed to function as intended. It is hard to fathom that something as innocuous as a lubricant could cause such disastrous results.

Bruce informed us that his firm has made the effort to scour the retail and hardware stores in southern California in search of so-called "replacement parts" for their tank components. After procuring numerous repair parts, Coast technicians installed and tested the performance of these elements for compliance with the national standards. Regrettably, the components not only failed to demonstrate any level of equivalency, but also failed to provide the most critical feature desirable in the fill valve–the ability to prevent backflow when exposed to a back-siphonage test. (When conducting the back-siphonage test in ASSE 1002, a vacuum from 0-25 inches of mercury is applied to the valve inlet and water within the tank must not enter the fill valve. The alleged replacement components siphoned the content of the tank.)

This discovery is most disturbing when large and small retail chains are selling repair components which fail to meet the minimum standards. The manufacturers of wholesale and retail products generally must certify that their products comply with all national standards as well as all national, state and local codes, yet the components that are sold under the pretense of maintaining these products do not perform as intended, and could even create a dangerous condition.

This information begs the question–how many other components that are sold for replacement applications are tested to affirm performance? Unfortunately, the listing agencies cannot address this concern unless the component carries a listing. And because these components are sold in an aftermarket situation, the code agencies do not get involved with items that are not part of the inspection process.

You may ask, 'What should I care about parts as a specifying engineer? I never get involved in the repair processes, for the replacement of parts is often after the job is completed and operational. It could be months before parts are replaced.' Yes, this may be true, but replacement components may be required before the first year has passed. Replacement parts are always utilized by backflow service technicians during their annual service of protective devices. The engineer may be called to address failed products or systems that are not functioning due to the installation of a faulty, untested parts. Again, we should be most concerned about the failure of components in which backflow is compromised, then secondarily, of components which do not give adequate long term performance (operational cycling).

What is the solution to this problem? Should repair components be subjected to performance tests that fixture fittings, valves and related devices currently must meet? Do we need to develop certification criteria for these components? Should these products be listed to the industry standards? Let's hear your thoughts.

I thank Bruce and Coast Foundry for bringing this important issue to our attention. I also thank him for his efforts to assure that public health, safety and investment are protected by such vigilant efforts.

coast foundry & MANUFACTURING CO.

October 24, 2001

MEMORANDUM

TO:	**Mr. Shanin Moinian** **I.A.P.M.O.**
FROM:	**Bruce Antunez**
DATE:	**October 24, 2001**
SUBJECT:	**Health and Safety Notice**

I am once again bringing to your attention a subject that was addressed approximately one year ago at an I.A.P.M.O. Plumbing and Research Committee meeting at your facility concerning the subject of counterfeit replacement parts.

I had mentioned to the committee that counterfeit parts such as 1B1P, MK-IV, and 1B1X piston repair kits were being packaged and distributed at retail and wholesale outlets across the U.S. and that if used in a Coast valve would disable the siphon breaker feature of the valve in the event a negative pressure is put on the water supply system.

I have documented the names of the packagers, as well as the distribution outlets where these components are being sold.

Not only do we need a standard of compliance for these replacement parts but also the consumer needs to be fully aware of the potential health threat if these counterfeit components are used.

If you need further information, please feel free to contact me.

Sincerely,

Bruce Antunez

P.O. Box 1788
Pomona, Ca. 91769-1788

2707 N. Garey Avenue
Pomona, Ca. 91767

(909) 596-1883 (213) 629-3432 FAX: (909) 596-2650
Calif. (800) 482-4911 USA (800) 521-4021

COUNTERFEIT COAST FOUNDRY REPAIR PARTS CAUSE HEALTH AND SAFETY ISSUE

Reported to I.A.P.M.O. all Home Improvement Centers to be notified.

- Ace Hardware Stores (most locations)
- Anderson Lumber
- Coast-To-Coast
- Do-It-Best Hardware stores (most locations)
- Eagle Hardware & Garden
- The Home Depot
- Lowe's Home Improvement Warehouse
- Menards (most locations)
- Orchard Supply Hardware
- Our Own Hardware
- Payless Cashways
- Sears Hardware
- Servistar (most locations)
- True Value
- Trustworthy (most locations)
- Villagers Hardware Stores
- West Building Centers

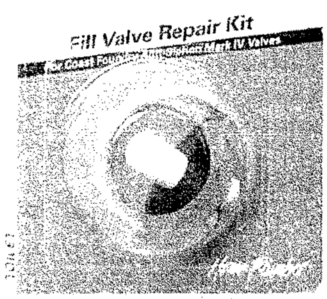
HEALTH AND SAFETY NOTICE

As you read this notice there are literally thousands of code approved Anti-siphon fill valves being turned into non-compliance products through the purchase of Knock-off replacement parts. These products, such as a simple replacement piston, are manufactured in Taiwan and China and being sold and distributed at retail and wholesale outlets throughout the U.S.

If these replacement parts are used in a Coast Foundry fill valves; when the pressure in the plumbing water supply line is less than the atmospheric pressure, the back flowing or (back siphonage) of contaminated or polluted water from a plumbing fixture (toilet) can end up in next glass of water you drink. In other words, these parts cause a serious health threat!.

These off shore unscrupulous manufacturers are betting that the American consumer will never know the difference between products. Think of the implications the next time the consumer visits his local home improvement center for a replacement part. Replacement components like these pictured below are being packaged by HOME PLUMBER and marketed as repair kits for Coast Foundry Anti-Siphon Mark IV Valves, and Master Fill Valves.

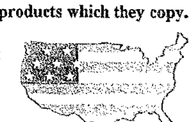
25064



25012

It's important to remember that these products are not substitutions for the original Coast Foundry products, and the use of these components not only voids any warranty expressed or implied by Coast Foundry and Manufacturing Company, but exposes the retailer to the possibility of legal action by injured consumers. Testing has shown that these products are in every way inferior to the Coast Foundry products which they copy.

We are requesting you as a valued customer both in the past at the present not to purchase these knock-off products.



IT'S MORE THAN JUST OK IF IT SAYS, MADE IN THE U.S.A.

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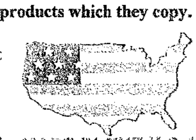
These off shore unscrupulous manufacturers are betting that the American consumer will never know the difference between products. Think of the implications the next time the consumer visits his local home improvement center for a replacement part. Replacement components like these pictured below are being packaged by DANCO Company and marketed as repair kits for Coast 1B-1X Ballcocks, and Coast 1B-1, 1B-1P Adjustable.

It's important to remember that these products are not substitutions for the original Coast Foundry products, and the use of these components not only voids any warranty expressed or implied by Coast Foundry and Manufacturing Company, but exposes the retailer to the possibility of legal action by injured consumers. Testing has shown that these products are in every way inferior to the Coast Foundry products which they copy.

We are requesting you as a valued customer both in the past at the present not to purchase these knock-off products.



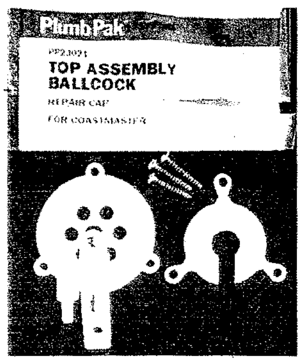
IT'S MORE THAN JUST OK IF IT SAYS, MADE IN THE U.S.A.

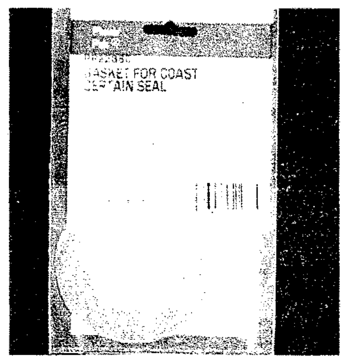
COUNTERFEIT COAST FOUNDRY PRODUCTS

Coast Foundry has recently discovered that Plump Pac®, a United Plumbing Technologies company, is marketing counterfeit Coast Foundry replacement products. These products, such as repair top assemblies and Certain Seal® gaskets are manufactured in Taiwan and China and being sold and distributed at retail and wholesale outlets through out the U.S.

<u>It is important</u> to remember that these products are not substitutions for the original Coast Foundry products, and the use of these components not only voids any warranty expressed or implied by Coast Foundry and Manufacturing Company, but exposes the retailer to the possibility of legal action resulting from damages incurred by the consumers through the use of these counterfeit products.

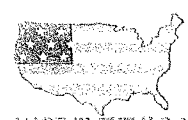
These off shore unscrupulous manufacturers are betting that the American consumer will never know the difference between products. Think of the implications the next time the consumer visits his local home improvement center for a replacement part. Replacement components like these pictured below are being packaged by Plumb Pak® and marketed as a repair cap for COASTMASTER and gasket for COAST CERTAIN SEAL.





Testing has shown that these products are in every way inferior to the Coast Foundry products which they copy.
We are requesting you as a valued customer not to purchase these counterfeit products and buy directly from Coast Foundry.

KEEP MANUFACTURING IN AMERICA !



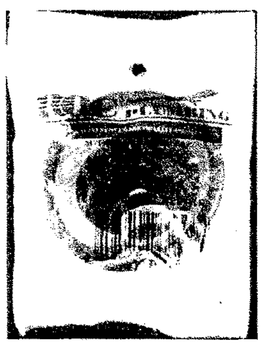
IT'S MORE THAN JUST OK IF IT SAYS, MADE IN THE U.S.A.

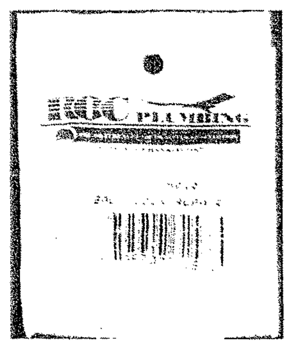
HEALTH AND SAFETY NOTICE

As you read this notice there are literally thousands of code approved Anti-siphon fill valves being turned into non-compliance products through the purchase of Knock-off replacement parts. These products, such as a simple replacement piston, are manufactured in Taiwan and China and being sold and distributed at retail and wholesale outlets throughout the U.S.

If these replacement parts are used in a Coast Foundry fill valves; when the pressure in the plumbing water supply line is less than the atmospheric pressure, the back flowing or (back siphonage) of contaminated or polluted water from a plumbing fixture (toilet) can end up in next glass of water you drink. In other words, these parts cause a serious health threat!.

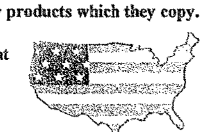
These off shore unscrupulous manufacturers are betting that the American consumer will never know the difference between products. Think of the implications the next time the consumer visits his local home improvement center for a replacement part. Replacement components like these pictured below are being packaged by ROC PLUMBING a division of HANKO CORP. and marketed as repair kits for Coast 1B-1X Ballcocks, and Coast 1B-1, 1B-1P Adjustable.



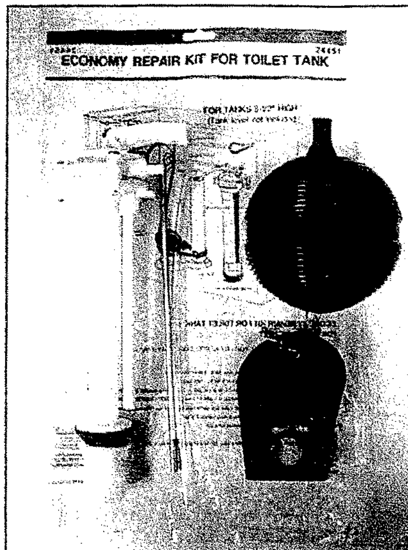


It's important to remember that these products are not substitutions for the original Coast Foundry products, and the use of these components not only voids any warranty expressed or implied by Coast Foundry and Manufacturing Company, but exposes the retailer to the possibility of legal action by injured consumers. Testing has shown that these products are in every way inferior to the Coast Foundry products which they copy.

We are requesting you as a valued customer both in the past at the present not to purchase these knock-off products.

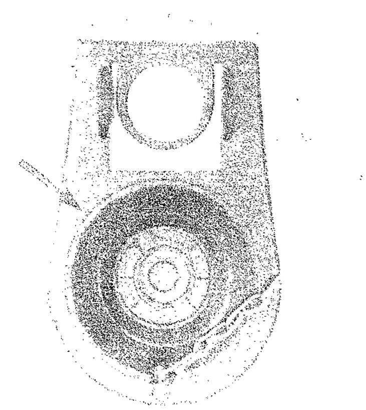


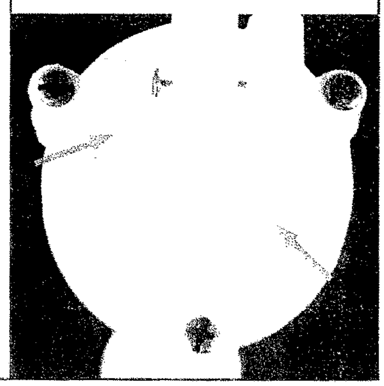
IT'S MORE THAN JUST OK IF IT SAYS, MADE IN THE U.S.A.

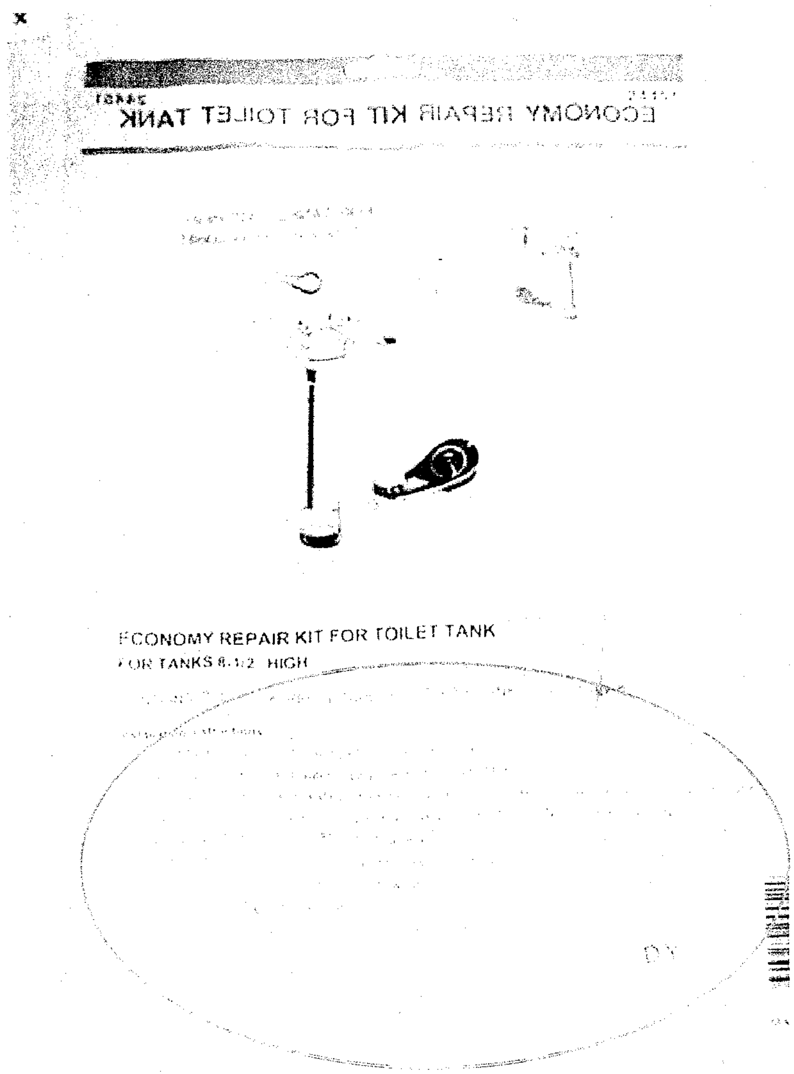


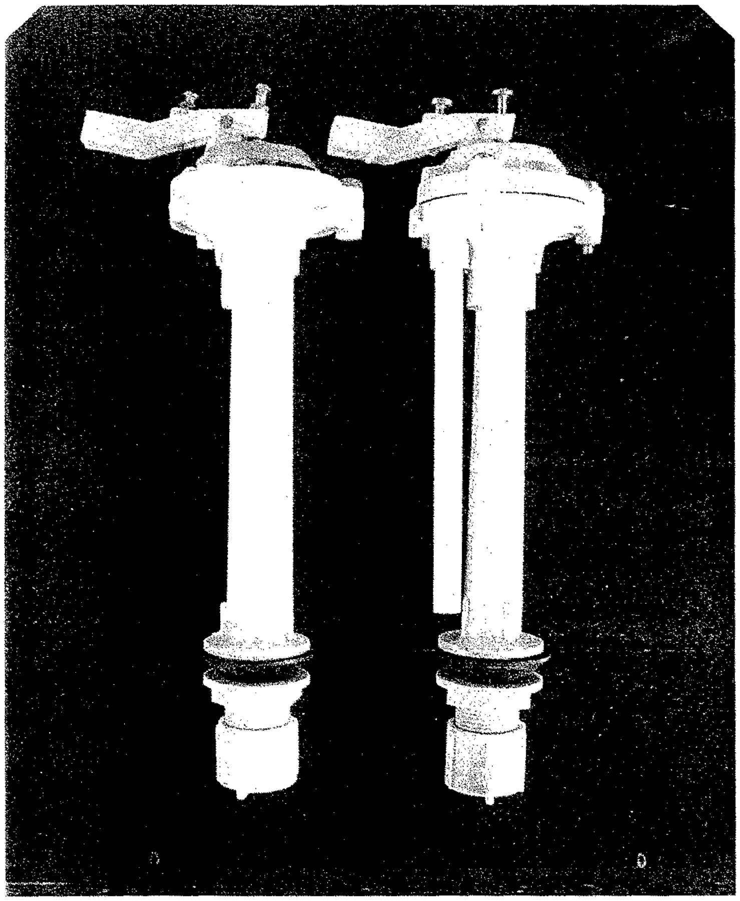
The flapper is also a non-listed product.

Economy Repair Kit For Toilet Tank, packaged by L.G. Sourcing Inc, P.O. Box 1535 North Wilkesboro NC 28659 manufactured in TAIWAN is a non-listed product.There are no seals of approval from any agency marked on the product. There is no name of the manufacturer marked on the valve, or country of origin. The installation instructions do not warn the installer about maintaining a 1" clearance from the C.L. tab on the fill valve to the top of the flush valve overflow tube. This package was purchased at Lowe's , Victorville CA.

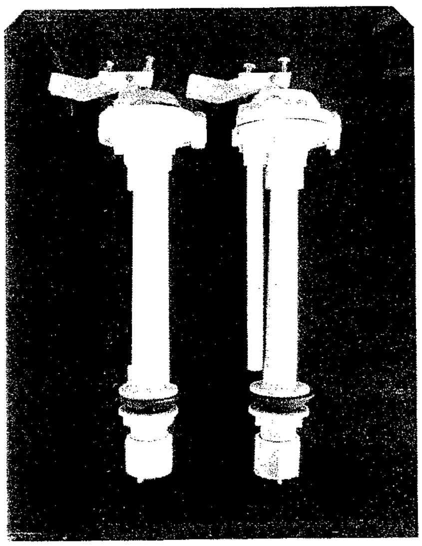




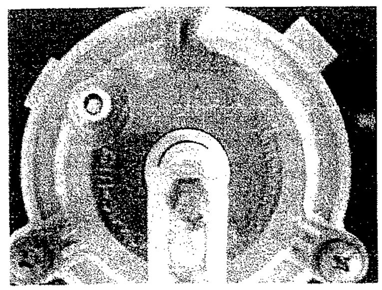

ECONOMY REPAIR KIT FOR TOILET TANK

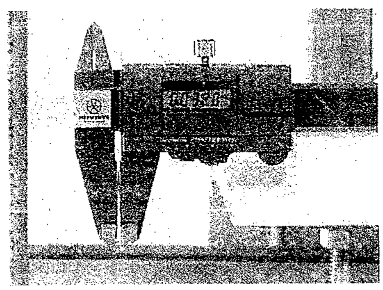


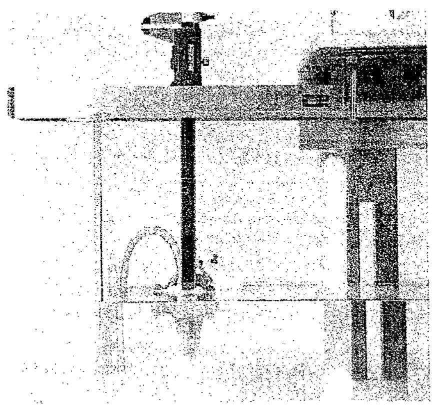
The valves directly above are both non anti-siphon fill valves. The valve with the white cover is a Coast Foundry, Coast Master regular fill valve and the copy valve next to it with the blue cover is a W.D.I. Model #B1026 which is listed as a anti-siphon fill valve. These two valves are designed to work under water. The trigger configuration is pointed upward compared to a normal anti-siphon fill valve trigger, which is angled downward to reach lower water levels always keeping it's head above water. There is no way to adjust a non anti-siphon fill valve to a lower water level at least 1" below the C.L. tab. How can the W.D.I. valve be listed as an anti-siphon fill valve?

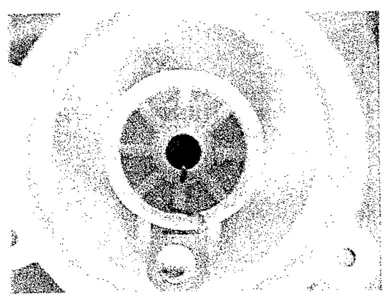


VALVE ON THE LEFT IS A NON ANTI-SIPHON









A2 FRIDAY, AUGUST 23, 2002 THE WALL STREET JOURNAL.

Tariffs Give Edge To Foreign Steel On West Coast

By ROBERT GUY MATTHEWS

Foreign steelmakers are snapping up market share on the West Coast and reaping huge profits, largely as a result of tariffs that were meant to help the U.S. steel industry better fight its foreign competitors.

Domestic steelmakers, battling for lucrative customers in the Midwest, South and East Coast, have largely ceded the West Coast to foreign steel concerns because it simply costs too much to transport steel to California and nearby states. Nearly all of the country's steel is made east of the Rocky Mountains. Putting steel on rail cars from the Midwest adds nearly \$30-\$50 per ton.

"What no one in Washington seems to understand is that we live and die at the whim of foreign-owned steel producers," said Tomas Charter, a steel purchaser for Double A Inc. in Los Angeles, which makes steel products for commercial office buildings. "These guys are making money hand over fist from a law that was meant to lessen their influence over the steel market."

A group of West Coast steel buyers, organized by Consuming Industries Trade Action Coalition will testify at a congressional hearing next week in Norwalk, Calif., to advocate the repeal of President Bush's steel tariffs. The group says the action by the Bush administration to exempt certain steel products from import tariffs doesn't go far enough.

The tariffs ranged from 8% to 30% on steel imported into the U.S., but has had little negative effect on foreign-owned steel processors such as California Steel Industries Inc., which despite its name, is owned by Brazilian mining company **CVRD** and Japanese steelmaker **Kawasaki** Inc.

California Steel buys slabs, but only in quantities that fall below the Bush administration quota and processes the steel into other products to sell exclusively in Western states.

Rather than being hurt by the Bush administration moves, it and others such as Steelscape Inc. in Kalama, Wash., which is owned by Mexico's **Grupo IMSA**, have become stronger because the tariffs have helped raise prices and given the domestic steelmakers enough business on the East Coast that they have little reason to ship steel to the West.

Earlier this month, Moody's Investors Service raised California Steel's credit rating, saying the tariffs reduced the amount of finished imported steel and pushed domestic steelmakers out of the West Coast market as they couldn't compete with their foreign competitors once shipping costs were tacked on.

"With the withdrawal of Midwestern steel producers from the West Coast market and the shutdown of several of California Steel Industries' competitors, CSI has gained market share and set volume records," said Moody's in a news release this month about the company's second-quarter financial results. "Section 201 tariffs have raised steel prices and temporarily halted imports. Further price increases are expected during the third and fourth quarters."

Even the country's largest steelmaker, **U.S. Steel Corp.**, which has a joint-venture steel-processing plant, USS-Posco, in California with a South Korean steelmaker, doesn't always supply steel to that mill from its production plants located in the East due to the high costs of shipping.

It is far cheaper to bring steel slabs, cold-rolled and hot-rolled steel, all basic-grade steel products, via ship across the Pacific Ocean from foreign sources, even with the tariffs. The steel mills on the West Coast don't make steel from scratch as do the mills in the East. Instead, West Coast mills take basic-grade steel and roll, cut or finish it into products used in construction and bridges.

The West Coast steel market is unique and less profitable for some domestic steelmakers. One reason is because steel sold in the West is more likely to go into construction, which has a far lower profit margin than automotive-grade and appliance-grade steel. Another is the steel sold tends to be in smaller quantities.

If the customers were larger, such as automotive customers, that would help mitigate the costs of transportation. Mini-mills aren't big players on the West Coast, either because their basic raw material—scrap metal—is hard to find, since there isn't as much scrap-generating heavy manufacturing as there is east of the Mississippi.

Geneva Steel in Utah was the only integrated steelmaker west of the Rocky Mountains that actually made steel from scratch, but it closed last year, taking the last influential foothold the domestic industry had in the Western market. The company is trying to line up financing to come back as a minimill and is confident it will be able to find enough scrap steel.

Oregon Steel Mills Inc., a minimill with plants in Oregon and Colorado, makes steel for railroads and doesn't concentrate solely on the West Coast markets. The company also has reported improved quarterly earnings from last year and expects steel prices to continue to climb this year.

The Nation

Steel Prices Stoke Tariff Backlash

Manufacturing: As costs climb, downstream industries such as auto makers and suppliers call for Bush to reduce or rescind import duties.

By WARREN VIETH
TIMES STAFF WRITER

WASHINGTON—Steel prices have risen sharply since President Bush imposed import tariffs three months ago, causing unexpected hardship in steel-consuming industries and fueling a political backlash that could hurt the White House.

Prices of benchmark steel products have soared 30% to 50% this year, far more than predicted when the president slapped tariffs of as much as 30% on steel imports to protect domestic producers from foreign competition.

The tariffs were widely viewed as politically motivated, a bid by Bush to win Republican votes in the Steel Belt of Pennsylvania, West Virginia and Ohio. But much of the negative effect is in the adjacent Rust Belt, where auto makers and their thousands of suppliers are huge customers of the steel industry.

"I think he's doing more harm to the country than he realizes," said Michael Aznavorian, president of Clips & Clamps Industries in Plymouth, Mich., whose firm has been hit with price increases of 17% to 42%.

Officials at the Commerce Department and U.S. trade representative's office declined to comment on the price increases. But Grant Aldonas, undersecretary of Commerce for international trade, has acknowledged that the administration had not expected the initial price spike and was concerned about its potential economic effect.

Steel industry officials insist that the effect of the price increases is being exaggerated. Much of the steel consumed in the U.S. is purchased under long-term contracts that have not been affected by price spikes, which are occurring on the spot market. Even spot prices are not that high by historical standards. The average price of hot-rolled steel from 1981 through 2000 was $338 a ton, about the same as today's spot price.

"It's some of the smaller steel consumers who are more subject to spot market pricing who are making the hue and cry," said Nancy Gravatt of the American Iron and Steel Institute, which represents steelmakers. "When steel prices were at 20-year lows last December, they should have been projecting in their business plans for 2002 that the price would increase."

Even the president's critics acknowledge that other factors are contributing to the price increases. More than 20 U.S. steel mills have shut down or gone on standby in the last 18 months, reducing steelmaking capacity by 25 million tons. For the first time in years, U.S. steel companies can't keep up with demand, which is beginning to revive as the economy emerges from recession. The supply shortfall will be alleviated somewhat when new owners of shuttered plants previously operated by steelmaker LTV Corp. bring some capacity back on line in coming months.

"The moderate upturn in the economy, combined with the supply shortage, is what is really driving up the prices," said Ben Goodrich, a steel analyst at the Institute for International Economics in Washington. "I think it has very little to do with the tariffs."

But such explanations are viewed with skepticism by the people who buy raw steel and turn it into finished products.

"I think that's baloney," said Bruce Walker, who runs a metal-forming plant in Ontario. "As soon as the tariffs were announced, the prices went up immediately. Isn't that a coincidence?"

GLENN KOENIG / Los Angeles Times

Jimmy Torres at work in Walker Corp.'s metal-forming plant in Ontario. The steel parts maker employs about 130 people.

Meanwhile, low supplies of certain types of steel are causing buyers to scramble to negotiate future purchases before prices rise further. Profit margins are being squeezed in steel-using industries, which have been absorbing higher costs rather than raise prices and risk losing business to foreign rivals. There is talk of future layoffs, business failures, factory relocations—and political retribution.

"There's definitely a panic mentality out there," said steel industry consultant Christopher Plummer of West Chester, Pa.-based Metal Strategies. "I don't think there's anyone in the market . . . who expected anywhere near this kind of magnitude."

The tariffs also have triggered threats of retaliation by Europe and other U.S. trading partners.

It could be several more months before the tariffs work their way through the steel markets and the effects become clear, experts say. But barely three months after the tariffs took effect, the dislocations are undeniable.

Hot-rolled sheet steel sells for about $340 a ton on the spot market, according to the June survey by Purchasing Magazine. The price has shot up 62% since December, when steel fell to 20-year lows, and has gained 48% in the months since Bush issued his tariff order.

For Walker, president of Walker Corp., a 48-year-old family-owned firm, the arithmetic is scary. Walker's company employs about 130 people, and rang up nearly $20 million in sales last year. It paid about $5 million for the steel it used to make brackets for air bags, cases for car stereos and other parts. If prices rise 20%, Walker's profit margin could disappear.

"I'm very concerned about the next year. If I can't pass these increases along to the customer, we will definitely have to reduce our work force," Walker said. "I'm a conservative by nature and generally support the president, but this was a huge mistake."

Steel users are lobbying the White House to rescind or reduce the tariffs before their scheduled expiration in 2005. Failing that, they want the administration to be generous in awarding tariff exemptions for steel products not produced in large quantities by U.S. mills. The administration received more than 1,200 exemption requests; it has approved 107.

Bush announced March 5 that he was placing temporary tariffs of as much as 30% on some categories of imported steel to give the domestic industry more breathing room to restructure. The action was based on a trade law that allows the president to protect U.S. industries whose survival is threatened by surging imports.

At the time tariffs were imposed, many industry executives, administration officials and independent economists predicted the effect on steel consumers would be limited. Average steel prices might rise 5% over time, they said, but not enough to cause appreciable damage. It now appears the administration may have miscalculated, in both economic and political terms.

"Whoever was advising him, I don't think they understood how fast the prices would increase and how much harm could be done," said Roy Berlin, president of Berlin Metals in Hammond, Ind. "I think the mills themselves have been caught by surprise at how tight the market's been. They are in a dream world right now of being able to sell any ton at almost any price."

Steel buyers said the higher prices, if they stick, are bound to reduce employment in industries that are major buyers of steel. For some firms, that could mean layoffs; for others, fewer new hires.

At GR Spring & Stamping in Grand Rapids, Mich., 10 jobs already have evaporated. That's how many people President Jim Zawacki was planning to hire to crank out a new line of engine compartment parts for a major automotive supplier. But when he revised his terms in April to reflect higher steel prices, the deal fell apart.

"We submitted a bid subject to what happened with the tariffs," said Zawacki, who keeps about 200 people busy making metal parts for cars, appliances and furniture. "We would have been hiring in 2002."

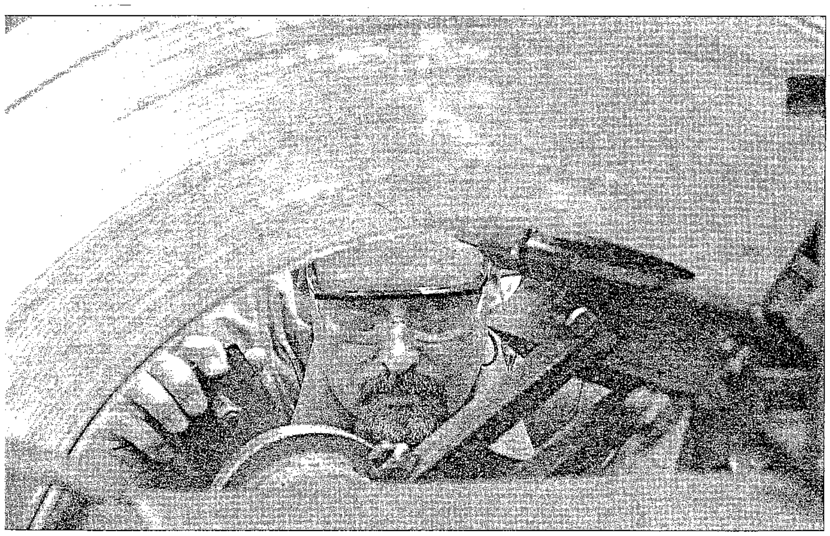
He said an additional three jobs were lost when a customer took his business to Mexico, where metal-forming firms can buy steel at tariff-free prices. Zawacki has not laid off anyone since the tariffs took effect, but he said he will have fewer employees by year's end than if Bush had not intervened.

Aznavorian, of Clips & Clamps Industries, said his suppliers no longer are willing to enter into "blanket" contracts that lock in prices for six months to a year.

"Nobody will give us a blanket," said Aznavorian, whose 60 employees generate about $10 million in annual sales. "We're basically buying everything on the open market. It's eating up my bottom line."

One of Clips & Clamps' main products is a bracket used to mount cruise control units in DaimlerChrysler trucks. Before prices began rising, Aznavorian saw a profit of about 1 cent on each 57-cent bracket that rolled off his line, with the steel used in each costing 25 cents. But the steel in each bracket now costs 37 cents, and Clips & Clamps could lose 11 cents on each bracket it ships.

Aznavorian and other steel-buying executives say they hope Bush will rescind or relax the tariffs after reviewing the effect they are having on downstream industries.



GLENN KOENIG / Los Angeles Times

Bruce Walker, president of Walker Corp., says that if he can't pass along rising steel prices to his customers, he will have to reduce jobs.

PURCHASE PLANNERS GROUP

420 BOYD ST
SUITE 302
LOS ANGELES
CA 90013
213 687 4206

June 27, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-225-3587

Dear Congressman Manzullo:

I am writing on behalf of my company, Purchase Planners Group. We are a Haworth, Inc. contract furniture dealer located in Los Angeles, California and we employ 20 workers. We need your help.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of office furniture products may be disrupted. This is at a time when the Office Furniture Industry is suffering the greatest decline in sales in its entire recorded history. Many manufacturers and dealers in the industry are in grave financial positions because of the sales decline. Adding the costs and disruptions of the steel tariffs to this mix is a catastrophic combination.

Without some form of relief, the Office Furniture Industry will be irreparably harmed and more vulnerable to off shore competition in the North American market. As an industry we have been successful in maintaining the North American market share with by aggressive advances in product, services and customer value. The dramatic increase in domestic steel pricing, the availability of low cost foreign manufactured products, and the weak financial strength of the domestic manufacturers makes our industry very vulnerable to imported products.

To maintain a strong competitive position in this difficult market, Haworth, Inc. my primary furniture supplier, has applied for four exemptions to the steel tariff. These exemptions are N358.01, N358.02, N358.03 and N358.04. I am requesting your support for these exemptions to help keep Office Furniture Manufacturing a US based industry for North America.

FAX 213 687 4154

Please support the adoption of these four exclusions.

Thank you.

Sincerely,

David C. Wheeler

VIRCO®
2027 HARPERS WAY, TORRANCE, CA 90501
HIGHWAY 65, SOUTH, CONWAY AR 72032

5th 1950-2000

July 19, 2002

VIA FACSIMILE AND FIRST CLASS MAIL

The Honorable Donald A. Manzullo
United States House of Representatives
Washington, DC 20551

Dear Representative Manzullo:

Our company manufactures and sells classroom furniture throughout the United States as well as furniture for other public facilities such as churches, convention centers, and municipalities. Our annual sales are approximately $250 million. We employ about 700 people in California, and 1500 people in Arkansas.

Cold-rolled steel is the largest dollar expenditure of the raw materials that we use. As such, it is a major determinant in the cost of the product that we make and the price that we charge our customers.

Until the last few months, we have availed ourselves of high quality steel from various sources around the world as well as domestically produced cold-rolled steel.

With the imposition of the recently enacted steel tariffs, we now find ourselves facing a double problem: higher prices and shortage of supply.

Our domestic sources are telling us that they cannot guarantee to ship our requirements for the first quarter of 2003, and they cannot assure us as to what the price would be. Conversely, we are committed to a number of annual contracts that have no flexibility for price increases. The ultimate customers served by us are basically public funded entities who rely on local tax dollars. In this scenario, everyone suffers. The manufacturer pays a higher price and the only way to recover the increased cost is to raise the price to the end user, which is ultimately the local taxpayer.

We have resisted the temptation to buy fabricated steel parts from low cost foreign suppliers. At the same time, we have an obligation to return a profit to our shareholders. Loyalty to domestic suppliers at non-competitive prices that hurt the consumer seems to disadvantage all parties.

TORRANCE - PHONE: 310-533-0474 • 800-448-4726 • FAX: 800-258-7367 • CONWAY - PHONE: 501-329-2901 • 800-448-4726 • FAX: 800-396-8232 • WEB: WWW.VIRCO.COM

Honorable Donald A. Mansullo
Page 2
July 19, 2002

I would urge you to immediately seek remedies to these tariffs to the extent that they be eliminated completely or significantly reduced so as to enable American manufacturers to compete with foreign suppliers not subject to these import tariffs.

Sincerely,

Virco Mfg Corporation

Robert A. Virtue

Robert A. Virtue
President

C: Brad Miller, Manager of Communications & Government Affairs
BIFMA International

ISO 9002/QS-9000
WALKER
CORPORATION

June 6, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Phillip D. Eskeland

Dear Congressman Manzullo:

I am writing on behalf of my company, Walker Corporation. We are located in Ontario, California and we employ 140 workers. We need your help.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not reliable. Our steel suppliers are demanding 20-40 % increase effective June 1, 2002. Some of my suppliers are indicating they cannot guarantee the amount of steel we need to make product requirements. No steel supplier will commit to pricing beyond October 2002. I am very concerned about the chaotic situation that exists today in the U.S. steel market. The President cannot have expected that prices would rise so fast or that the ability of companies like mine to obtain steel would virtually disappear. I have no assurance of steel suppliers past October this year.

My business is in danger if I cannot get steel. My customers will not pay the increased prices I am being charged for steel. Unless things change rapidly, my company will lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government.

We are a small business. We need the steel we buy to be priced by the market, not by the government. We cannot afford to come to Washington to buy steel.

Please ask the President to help us get the steel we need to stay in business in the USA.

Thank you.

Sincerely,

Bruce Walker
President/CEO

1555 VINTAGE AVENUE, ONTARIO, CA 91761 • 909.390.4300 • FAX 909.390.4301
METAL STAMPING • SLIDE FORMING • SPRING COILING • ASSEMBLY

JUN-5-2002 03:36P FROM:NORTH STAR COMPANY I 13107158090 TO:12022253587 P:1

NORTH STAR COMPANY, INC.
CUSTOM ROLL FORMED METAL PRODUCTS
14912 S. BROADWAY, GARDENA, CALIFORNIA 90248
TELEPHONE 310/515-2200 FAX 310/71

June 05, 2002

Post-it® Fax Note 7671	Date 06-05-02 # of pages ▶ 1
To Congressman Manzullo	From Bill Sornborger
Co./Dept.	Co.
Phone #	Phone # (310)515-2200
Fax (202)225-3587	Fax #

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-225-3587

Congressman Manzullo,

The steel tariffs have placed our company in a precarious position. I am writing on behalf of our company members and our customers. We are located in Gardena, California and we employ 68 workers. We and the industries we serve need your help!

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not reliable. Many of our suppliers are on allocation from the mills. HRPO steel prices raised 25%-30% so far. We understand that more increases are coming next month. The President cannot have expected that prices would rise so fast or that the ability of companies like ours to obtain steel would virtually disappear.

Our business is in danger if we cannot get steel. Our customers will not pay the increased prices we are being charged for steel. Unless things change rapidly, our company will lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government.

We are a small business. We need the steel we buy to be priced by the market, not by the government. We cannot afford to come to Washington to buy steel.

Please ask the President to help us get the steel we need to stay in business in the USA. We're counting on your help and thank you for your speaking on behalf of our customers and employees.

William E. Sornborger
Chairman

CUSTOM ROLL FORMING INSTITUTE

Sent By: PACIFIC PRECISION METALS AZUSA ; 626 334 7593; Jun-6-02 10:41AM; Page 2/2

PPM

PACIFIC PRECISION METALS, INC.

JOHN A. DRAXLER, JR.
Vice President Finance
Chief Financial Officer

June 5, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-2253587

Dear Congressman Manzullo:

I am writing on behalf of my company Pacific Precision Metals, Inc. We are located in Azusa and La Verne, CA and we employ over 400 workers.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not reliable. We have just been advised, without prior notice, that a particular steel that we use in supplying the automotive industry will not be shipped to us this month due to shortages. Furthermore, most of our steel suppliers have implemented substantial price increases. We also use a certain amount of steel of foreign origin that is not readily available to us domestically, but we do not have the financial ability to hire attorneys to lobby for individual exceptions. The President cannot have expected that prices would rise so fast or that the ability of companies like mine to obtain steel would virtually disappear. I have no assurance of steel supplies past September this year.

My business is in danger if I cannot get steel. My customers, who are continually pressing for price concessions, will not pay the increased prices I am being charged for steel. Unless things change rapidly, my company will lost business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government.

We are a small business. We need the steel we buy to be priced by the market, not by the government. We cannot afford to come to Washington to buy steel.

Please ask the President to help us get the steel we need to stay in business in the USA.

Thank you.

Sincerely
John Draxler
John Draxler
VP & CFO

601 South Vincent Avenue • Azusa, California 91702 • Telephone: (626) 334-0361 • Fax: (626) 334-7593
www.pacificprecisionmetals.com

JUN. -08' 02 (SAT) 14:49 BAZZ HOUSTON CO. TEL: 7148981389 P. 002

Bazz Houston Co.
12700 WESTERN AVE. • GARDEN GROVE, CA 92841
(714) 898-2666 • (562) 598-8666 • FAX (714) 898-1389
www.bazz-houston.com

June 5, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-225-3587

Dear Congressman Manzullo:

I am writing on behalf of the owners and employees of Bazz Houston Company. We are a small metal stamping company located in Garden Grove, California employing 80 workers. We urgently need your help for the long-term survival of this 40 year old company.

The steel tariffs imposed by the President in March had increased the price and reduced the availability of steel; to the point that our supply has become unreliable. Our steel vendors have given us notice of substantial price increases and have placed us on allocation. We have also been asked to order steel without a price commitment from the supplier. The President could not have expected that prices would rise so fast or that the ability of small companies like mine to obtain steel would virtually disappear. Regretfully, I have no assurance of steel supplies past 3rd Quarter of 2002.

My business is in danger of closing if I cannot get steel at a competitive price. My customers will not pay for the increased prices I am being charged for steel. Unless things change rapidly, my company will lose business to foreign competition that now has a built-in cost advantage, not to mention that products currently made here in the U.S.A. would have no tariff added if they were produced by a foreign market and shipped back to the States, thanks to the actions of our own government.
Understanding that the percentage of tariff added to every shipment of steel coming into this country will, over the next three years gradually decrease, it will not be enough just to be complacent with the price increases until said time.

We are a small business. We need the steel we buy to be priced by the market, not by the government. Please ask the President to help us get the steel we need to stay in business in the USA.

Sincerely,

Javier Castro
Vice President
General Manager
Bazz Houston Company

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Holga Inc.
a HON INDUSTRIES company
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(818) 374-5544 FAX, Customer Service
www.holga.com

Holga

June 7, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-225-3587

Dear Congressman Manzullo:

I am writing on behalf of my company, Holga Inc. We are located in Van Nuys, California and we employ 130 workers. We need your help.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not competitively priced or reliable. Discussions with suppliers have indicated that we can shortly expect to see premiums of up to 30% above recent price levels, as well as longer lead times and frequent instances of shortages. The President cannot have expected that prices would rise so fast or that the ability of companies like mine to obtain steel at competitive prices would virtually disappear. I have no assurance of reasonably priced or reliable steel supplies past August of this year.

My business is in danger if I cannot procure steel at competitive prices. My customers will not pay the increased prices I am being charged for steel. Unless things change rapidly, my company will lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. In turn, my company will have no choice but to significantly reduce its workforce.

We need the steel we buy to be priced by the market, not by the government. Please ask the President to help us get the steel we need to stay in business in the USA. Thank you for your time and attention.

Sincerely,

Thomas D. Head

Thomas D. Head
Vice President, General Manager

06/06/2002 12:37 FAX

Attn: Philip Eskeland

01

ALL AMERICAN
MANUFACTURING COMPANY
Since 1938

June 6, 2002

Dear Congressman Manzullo:

All American Mfg. Co. has been a supplier of stamped steel products for over 65 years. We have in recent years contended with very competitive overseas sources for our products. Our company has needed to operate on very thin margins- usually less than 3 %.

The trade sanctions imposed are a very, very bad two-edged sword. On the one edge- they have: 1) caused our availability of steel to be cut off- foregin suppliers of steel have cancelled our purchase orders with them, refusing to ship under the tariff rules now in place; 2) The replacement sources, U.S. suppliers, have raised prices two times in the past four months in response to this lack of competition. *My cost of materials has increased by over 15%, from $0.4275 lb. to $0.4925 lb. for the special finish AK, DQ, .010" thick coil steel we use most.* The other steels we purchase are also increasing in price on a steady basis.

The second sword edge refers to finished goods. The competition in our market is Asia, and our customers are able to obtain at opportunistic prices the same products we are making. Steel Tariffs have given Asia a great advantage by cutting the raw materials out from under us, while at the same time increasing their steel supply. **The same steel we tariff so heavily for domestic use now gets to my customers as finished goods- with only a minor tariff. The ones damaged, and paying the price, are the American manufacturers, with lost business, and the American workers in lost jobs.**

The Steel Tariff Rule has already cost jobs in my factory, and is on the verge of costing more jobs. We cannot pass through price increases when the customer can just as easily buy from offshore. I hope my message is clear enough. The sanctions have helped cripple domestic manufacturing while giving a great boost to foreign competition.

It seems a no-brainer, which is just what was needed to pass such poor legislation. I hope your efforts can move us back to using intelligence in governmental actions.

Sincerely,

John

John F. Norton
President
All American Mfg. Co.

2201 East 51st Street • Los Angeles, California 90058 • (800) 447-6203 • Fax (323) 581-1548 • www.aamfgco.com

Pacific Office
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tel: 805-988-6700
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www.p-o-i.com

June 26, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-225-3587

Dear Congressman Manzullo:

I am writing on behalf of my company, **Pacific Office Interiors.** We are a Haworth, Inc. contract furniture dealer located in Oxnard, CA and we employ 35 workers. We need your help.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of office furniture products may be disrupted. This is at a time when the Office Furniture Industry is suffering the greatest decline in sales in its entire recorded history. Many manufacturers and dealers in the industry are in grave financial positions because of the sales decline. Adding the costs and disruptions of the steel tariffs to this mix is a catastrophic combination.

Without some form of relief, the Office Furniture Industry will be irreparably harmed and more vulnerable to off shore competition in the North American market. As an industry we have been successful in maintaining the North American market share with by aggressive advances in product, services and customer value. The dramatic increase in domestic steel pricing, the availability of low cost foreign manufactured products, and the weak financial strength of the domestic manufacturers makes our industry very vulnerable to imported products.

To maintain a strong competitive position in this difficult market, Haworth, Inc. my primary furniture supplier, has applied for four exemptions to the steel tariff. These exemptions are N358.01, N358.02, N358.03 and N358.04. I am requesting your support for these exemptions to help keep Office Furniture Manufacturing a US based industry for North America.

Please support the adoption of these four exclusions.

Thank you.

Free Taylor

REGIONAL OFFICE
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