THIRD IN A SERIES OF THREE HEARINGS ON THE PENDING, JOB-CREATING TRADE AGREEMENTS: SOUTH KOREA TRADE AGREEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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C O N T E N T S

THIRD IN A SERIES OF THREE HEARINGS ON THE PENDING, JOB–CREATING TRADE AGREEMENTS: SOUTH KOREA TRADE AGREEMENT

THURSDAY, APRIL 7, 2011

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:02 a.m., in Room 1100, Longworth House Office Building, the Honorable Kevin Brady [chairman of the subcommittee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

Brady Announces Third in a Series of Three Hearings on the Pending, Job-Creating Trade Agreements: South Korea Trade Agreement

March 31, 2011

Congressman Kevin Brady (R–TX), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the pending trade agreement with South Korea. This hearing is the third in the series of hearings on the pending trade agreements with Colombia, Panama, and South Korea. **The hearing will take place on Thursday, April 7, 2011, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 A.M.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

BACKGROUND:

On June 30, 2007, the United States concluded a trade agreement with South Korea, which is still awaiting Congressional consideration. On December 3, 2010, the United States and South Korea agreed to the terms of a supplemental autos agreement that will foster greater market access for U.S. automakers.

On January 25, 2011, the Ways and Means Committee held its first hearing on this agreement, along with the pending trade agreements with Colombia and Panama. The South Korea trade agreement was also discussed at the Ways and Means Committee hearing with Ambassador Kirk, on February 9, 2011. On March 7th, Chairman Camp agreed to Ambassador Kirk's written request to begin technical discussions on the draft implementing bill, noting that discussions between Congressional and Administration staffs were scheduled for later that day. Technical discussions are ongoing.

The U.S.-South Korea trade agreement would open new markets to U.S. exports and, in turn, benefit American businesses, farmers, workers, and consumers. The Obama Administration estimates that implementing the agreement will support 70,000 jobs in the United States. The independent U.S. International Trade Commission (ITC) has estimated that implementing the agreement would increase U.S. exports by at least $9.7 billion. In addition, the tariff cuts alone will add at least $10.1 billion per year to U.S. GDP. The benefits of trade agreements are also long-lasting. Since 2000, U.S. exports to the 13 countries with which the United States has implemented trade agreements have grown almost twice as fast as our world-wide exports.

South Korea has concluded trade agreements with major trading partners and export competitors of the United States, so U.S. failure to implement our own trade agreement with South Korea could severely disadvantage U.S. exporters and jeopardize U.S. job creation. The EU–South Korea trade agreement is expected to enter into force on July 1, 2011, removing significant South Korean tariffs for European exporters while similar tariffs remain in place against U.S. exports. South Korea currently has trade agreements in place with Chile, India, and the ten countries of the Association of Southeast Asian Nations (ASEAN). South Korea is also negotiating trade agreements with Canada, Australia, New Zealand, and China.

In announcing this hearing, Chairman Brady said, **"South Korea is a dynamic market and key ally in the Asia-Pacific region. Opening up the South Korean market for American goods and services is a critical priority for robust U.S. long-term growth. Passing the U.S.-South Korea trade agreement, like our agreements with Colombia and Panama, will create good U.S. jobs and increase the competitiveness of U.S. exporters. In addition, it will preserve U.S. influence and leadership on the Korean peninsula and in the broader Asia-Pacific region. We cannot afford to lose these export opportunities by sitting on the sidelines as South Korea moves forward on trade agreements with our major competitors. American workers, farmers, ranchers, manufacturers, service providers, and other exporters will simply be left behind. I hope that the Administration will work with this Committee to allow Congressional consideration of all three pending trade agreements by July 1."**

FOCUS OF THE HEARING:

The focus of the hearing is on Congressional consideration of the pending trade agreement with South Korea. The hearing will address the economic benefits this agreement will bring to American businesses, farmers, workers, consumers, and the U.S. economy. In addition, the hearing will examine the national security and geopolitical implications of the agreement and will explore developments within South Korea that have occurred since the trade agreement was concluded.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov,* select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, April 7, 2011**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–6649.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at *http://www.waysandmeans.house.gov/*.

Chairman BRADY. Good morning, everyone. I would like to welcome you all, especially South Korean Ambassador Han, to today's Trade Subcommittee hearing on the U.S.-South Korea trade agreement. Today's hearing is the third in our series of hearings on each of the pending trade agreements: Colombia, Panama, and South Korea.

As I have said at each of the previous hearings, I firmly believe that we should consider all of the three agreements by July 1st. I welcome the Administration's announcement yesterday that it has reached agreement with Colombia. I look forward to quick movement on the action plan and to working with the Administration to ensure submission of all three agreements for Congressional consideration by July 1st. All three pending trade agreements are good agreements. The time to move forward with all three is now.

I know that many Democrats share our sense of urgency. With respect to the Korea-U.S. trade agreement, we all know that the European Union South Korean trade agreement is expected to enter into force by July 1st. Implementation of agreements by other countries, and continued inaction on our agreement, will result in further missed opportunities to create American jobs. In fact, it will result in a decline in existing American jobs. We either move forward or we fall backward; the choice is ours. Staying still is just not an option.

The economic benefits of the pending trade agreements are overwhelming. The ITC, International Trade Commission, estimates that the three pending trade agreements together would increase U.S. exports by at least $13 billion, and add $10 billion to our GDP. And President Obama stated that such an increase in U.S. exports could support 250,000 jobs.

These benefits are enjoyed broadly. For example, the American Farm Bureau estimates that the U.S. farm exports to South Korea could increase by more than $1.8 billion each year. Moreover, 90 percent of all American companies exporting to South Korea are small and medium-sized enterprises. Implementation of the agreement will lead to an additional $2.8 billion in exports for small and medium-sized American companies.

This agreement, like the Colombia and Panama deals, would level the playing field for U.S. exporters. The average South Korean tariff for U.S. exporters is more than four times the average tariff that South Korean products face in the U.S. market. The agreement would address this imbalance.

The state-of-the-art agreement, like Colombia and Panama, will address key non-tariff and regulatory barriers, such as sanitary and psytosanitary barriers, requiring strong protection of intellectual property rights, requiring greater regulatory transparency, and encouraging greater regulatory harmonization and the use of international standards.

We cannot also overlook the fact that South Korea is a key ally in a critical region of the world. The U.S.-South Korea trade agreement is important not only for its economic benefits, but also for our national security. Just today I received a letter signed by a number of former senior officials in trade and foreign policy, highlighting the key geostrategic role that Korea plays, and urging Congress to pass all three agreements as quickly as possible.

Without objection, I would like to enter that letter into the record.

[The information follows, The Honorable Mr. Brady:]

Speaker of the House John Boehner
House Minority Leader Nancy Pelosi
Senate Majority Leader Harry Reid
Senate Minority Leader Mitch McConnell

Dear Speaker Boehner; Minority Leader Pelosi; Majority Leader Reid; Minority Leader McConnell:

The United States-South Korea Free Trade Agreement (KORUS) is a critical step forward for American job creation and ensuring U.S. economic competiveness in Asia. This trade agreement is also an important investment in the overall U.S.-South Korea alliance at a time when heightened tension on the Korean peninsula requires our solidarity with our allies in the South. We urge Congress to work toward passage of KORUS—and the Colombia and Panama agreements—as soon as possible.

Sixty years ago, the United States stood with the Republic of Korea in countering aggression from the communist North. That bloody conflict, which cost the lives of more than 35,000 Americans, has yet to result in a permanent peace. North Korea continues to challenge the world through its nuclear weapons programs and its recent attacks on the South have raised deep concerns in Northeast Asia. There has been a spectacular success story amidst ongoing tensions on the Korean peninsula, however. South Korea has risen to become the world's 14th largest economy, a vibrant democracy, and a valued ally for the United States in a critical region. It is currently America's 7th largest trading partner and 7th largest export market.

KORUS—the most economically significant trade agreement (FTA) negotiated by the United States in over 15 years—would boost U.S. goods exports by up to $11 billion dollars and U.S. GDP by nearly $12 billion, according to the independent, nonpartisan U.S. International Trade Commission. The agreement would create as many as 70,000 new jobs for Americans at a time when we most need them.

Moving ahead with KORUS will be a concrete demonstration that the United States is prepared to lead on trade in Asia, a signal that all of our partners in the region want to see. We cannot afford to wait on the sidelines while the region pursues agreements that leave us out. The economies of Asia are in the process of integration and are now trading more with each other than they are with the United States. Less than a decade ago, the United States was by far South Korea's leading trading partner. Now, we are competing with the European Union for third place, after China and Japan. With South Korea set to implement an FTA with the European Union in July, we can expect to fall to fourth place, and American farmers, manufacturers, and service providers will be the losers.

While creating new American jobs, KORUS will reinforce the full partnership we have with South Korea, a key Asian ally that shares our belief in democracy and has provided significant military and economic support in the Middle East and Afghanistan. Furthermore, KORUS will have positive strategic effects that will resonate beyond the Korean peninsula. The agreement with South Korea will prompt further trade liberalization and stand as a new anchor for our longstanding leadership position in a rapidly changing Asia.

For all of the foregoing reasons, we urge you to act on KORUS—and the Colombia and Panama agreements—as soon as possible. Congressional approval and implementation of all of these agreements will bring real benefits for U.S. workers, farmers, and businesses and will help maintain America's leadership position in an increasingly competitive global environment.

We urge Congress to act swiftly.

Respectfully yours,

Signatories:

Former U.S. Secretary of State:

The Honorable George Shultz 1982-1989 (also former Secretary of the Treasury, OMB Director and Secretary of Labor)

The Honorable Madeleine Albright 1997-2001 (also former U.S. Ambassador to the United Nations)

The Honorable Colin Powell 2001-2005 (also former Chairman of the Joint Chief of Staff and National Security Advisor)

The Honorable Condoleezza Rice 2005-2009 (also former National Security Advisor)

Former U.S. Secretary of Defense:

The Honorable William Perry 1994-1997

The Honorable William Cohen 1997-2001 (also former Senator and Congressman)

Former White House Chief of Staff:

The Honorable Howard Baker 1987-1988 (also former Senator, Senate Majority Leader)

The Honorable Kenneth Duberstein 1988-1989

The Honorable Thomas McLarty 1996-1998

The Honorable Andrew Card 2001-2006 (also former Secretary of Transportation)

Former National Security Advisor:

The Honorable Samuel Berger 1997-2001

The Honorable Stephen Hadley 2005-2009

The Honorable James Jones 2009-2010

Former Commander-in-Chief of the UN Command, Republic of Korea /United States Combined Forces Command /United States Forces Korea:

General Robert RisCassi 1992-1993

General John Tilelli, Jr. 1996-1999

General Leon LaPorte 2003-2006

Former United States Trade Representative:

The Honorable William Brock 1981-1985 (also former Senator, Congressman, Secretary of Labor)

The Honorable Clayton Yeutter 1985-1989 (also former Secretary of Agriculture)

The Honorable Carla Hills 1989-1993 (also former Secretary of HUD)

The Honorable Mickey Kantor 1993-1996 (also former Secretary of Commerce)

The Honorable Charlene Barshefsky 1996-2001

The Honorable Susan Schwab 2006-2009

Former Ambassadors:

The Honorable Donald Gregg (Ambassador to the Republic of Korea, 1989-1993)

The Honorable James Laney (Ambassador to the Republic of Korea, 1993-1997)

The Honorable Wendy Sherman (Counselor & Policy Coordinator for North Korea, 1997-2001)

The Honorable Thomas Hubbard (Ambassador to the Republic of Korea, 2001-2004)

The Honorable Christopher Hill (Ambassador to the Republic of Korea, 2004-2005)

Chairman BRADY. Now that I have highlighted some of the benefits to the U.S.-Korea agreement, I would like to set the record straight on a few points.

First, Republicans are very excited about moving forward on the Korean agreement, just as we are excited to move forward with the Panama and Colombia agreements. Our goal is simply to speed up the Latin American agreements to catch up with the Korean agreement! There is a sense of urgency for all them, as these trading partners are moving ahead without us, to conclude agreements with our competitors that do not include us.

Second, our view is that all three agreements must be considered. It is simply not a Republican view. Key Democrats, such as the chairman of the Senate Finance Committee, explicitly agree with this view. Strong bipartisan support for all three was also very clear from the strong statements of support that were issued yesterday in response to the Administration's welcome announcement about Colombia.

Third, despite what some are saying, we have already started the bipartisan technical drafting work on the Korea agreement with this Administration. On March 7th, Chairman Dave Camp agreed to Ambassador Kirk's written request to begin technical discussions on the draft implementing bill, noting that discussions between

Congressional and Administration staffs were scheduled for later that day. Those technical discussions are ongoing, and we are awaiting responses to questions that staff on both sides of the aisle have raised with USTR. We are working constructively together to move forward in a timely manner to ensure that the draft implementing bill is complete and thorough.

At the same time, I would urge the Administration to work with us on this technical work for the Colombia and Panama agreements, too. Both Ambassador Kirk and Ambassador Shapiro have made clear that the resolution of any outstanding issues will not require changes to the text of the agreement. I believe we should start this technical work immediately to ensure that the drafting is complete and thorough, and the draft implementing bills are ready to go. We cannot waste any more time.

I would like to welcome all of our witnesses today, and thank them for being with us. I look forward to hearing the testimony of both panels.

At this time I would yield to Ranking Member McDermott for the purposes of an opening statement.

Mr. MCDERMOTT. Thank you very much, Chairman Brady, for scheduling this hearing. Finally we are discussing a free trade agreement that is ready for congressional consideration right now, an FTA that will generate more than $10 billion in increasing U.S. exports, $11 billion in increased GDP, and as many as 277,000 new American jobs.

The Korean FTA brings economic benefits to each and every state in this union. In Texas, where Chairman Brady and Mr. Doggett live, estimates indicate that the FTA will increase 27,000 new jobs in a range of sectors from agriculture to transportation.

In Washington, where Mr. Reichert and I reside, we catch a lot of fish and produce a lot of agriculture and timber. The Korean FTA is expected to create 1,500 new jobs in those sectors alone.

In California, where Mr. Davis and Mr. Herger live, and where unemployment is 12.3 percent, it is estimated that the FTA will create 26,000 new jobs.

In Florida, Mr. Buchanan's state, the state's citrus growers and processors support the FTA, which would phase out steep tariffs on U.S. orange juice. And those additional exports would go through the port in Manatee he talks about in this committee.

In Illinois, where Mr. Schock lives, is the second-largest soybean producer in the country. And under the FTA, soybean production will increase by $565 million to $850 million.

And we know that Congresswoman Jenkins is very concerned about beef. Nebraska, where Mr. Smith's district is located, is another major producer. Well, under the Korean FTA, beef exports are expected to increase by $633 million.

It is clear that the FTA with Korea would produce a real economic boost, spurring economic growth all over the country. The Administration has been ready to move on the FTA for more than a month, and yet the Republican majority refuses to move, putting all of the FTA potential economic gains in California, Illinois, Florida, Texas, Kansas, Nebraska, and all over the United States, on hold.

The EU–South Korea FTA goes into effect on July 1. Each day that the congress delays passage of the U.S.-Korea FTA puts U.S. businesses and workers at a greater disadvantage, compared to their European counterparts. And the Republicans know this. Back in 2009, they argued that we should pass the flawed version of the FTA, even though the auto provisions weren't fixed, to make sure that we did not fall behind the EU. The Republicans' own estimates suggest that U.S. workers and businesses would lose $1.1 billion in exports to Korea, once the EU–Korea trade agreement is fully implemented. Well, it is around the corner, my friends.

So, what is the hold up? Well, it cannot be Colombia any more. The President announced yesterday exactly what the Republicans have been demanding. If, despite the announcement, the Republicans continue to dither on Korea, then their motivation is just plain ugly politics. It is time to end that. There is too much on the line.

So, here is what I suggest. USTR Ambassador Ron Kirk should send the draft of implementing legislation to Congress immediately, and request the Ways and Means Committee to do a swift review and a mock mark-up. After a reasonable period of consultation—let us say three weeks—the Administration should then formally submit the FTA, implementing legislation so that it could be introduced, and fast-track procedures, including the specific time lines for consideration, initiated.

There is no reason that both the House and Senate cannot pass this meaningful agreement by Memorial Day, before it is too late for American families in business. It is time to get moving. I yield back.

Chairman BRADY. Thank you, Ranking Member McDermott. Today we have two panels of witnesses. On our first panel is a witness from the Administration, Ambassador Demetrios Marantis, deputy U.S. trade representative from the Office of the U.S. Trade Representative. Ambassador, welcome. We look forward to your testimony. I would ask that you keep your testimony to five minutes, and your written statement will be made part of the record.

I do want to take a moment to applaud the President, Ambassador Kirk, and the USTR negotiating team for improving what was a very solid agreement with Korea. But working with then-Chairman Levin, Chairman Camp, and others in Congress in close consultation improved the Korean agreement. That was a significant achievement, and I very much appreciate your work on that.

At this point I would recognize you for five minutes.

STATEMENT OF DEMETRIOS MARANTIS, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Mr. MARANTIS. Thank you. Good morning, Chairman Brady, Ranking Member McDermott, and Members of the Committee. It is a really exciting time to be involved in international trade right now, and it is a real honor for me to be here to testify before you on the U.S.-Korea trade agreement.

Let me also welcome Ambassador Han, who is here. He has been my partner in crime for the past couple of years, as we have been trying to navigate the difficulties that we, together, faced.

Congress has the singular opportunity to pass the most economically significant trade agreement in nearly two decades. The U.S.-Korea trade agreement will strengthen our trade and investment ties to Korea's $1 trillion economy. It will bind a key ally closer to us, anchor our economy to the dynamic Asia-Pacific region, and help us keep our edge over international competition. Most importantly, this agreement will create substantial export opportunities, establish strong enforcement provisions, and support tens of thousands of new export-oriented jobs.

The Korea agreement is just the first example of how this Administration has worked to make our trade agreements better. The President has underscored his intention to present pending trade agreements to Congress once we have adequately addressed key outstanding concerns. In December we did so with Korea. This week, Panama has taken steps to complete work on outstanding tax and labor issues. And later today, the President will announce an agreement with Colombia on an action plan to address outstanding labor issues.

Congress must now work on passing a comprehensive trade policy, one that includes the pending trade agreements, trade adjustment assistance, our preference programs, and permanent normal trade relations with Russia.

The U.S.-Korea trade agreement is ready to move today. The President and many of you had serious concerns about the deal signed in 2007. We heard you, and we took action. After extensive consultations with members of this committee and a wide range of stakeholders, the U.S. and Korea agreed last December to make Korea's auto market more fair, open, and transparent. We leveled the playing field by addressing key non-tariff barriers in Korea's auto safety and environmental regulations. We encouraged green technologies by immediately cutting in half Korea's tariffs on electric cars, and eliminating these tariffs within five years. We negotiated a tariff structure that will give American auto companies and their workers a chance to build more business in Korea before U.S. tariffs come down. And we negotiated a new special motor vehicle safeguard.

These commitments allow us to unlock the economic potential of the 2007 agreement. Immediately upon entry into force, this agreement eliminates tariffs on two-thirds of U.S. agricultural exports to Korea. Within five years of entry into force, it removes tariffs on over 95 percent of consumer goods exports. And it provides significant market access to Korea's $580 billion services market.

Underpinning these new export opportunities are the Korea agreement's state-of-the-art provisions to protect and enforce intellectual property rights, reduce red tape, and eliminate regulatory barriers to U.S. exports. This agreement contains the highest standards for protecting labor rights, promoting the environment, and ensuring that key domestic labor and environmental laws are enforced.

Taken together, these additional export opportunities mean more jobs for Americans. The tariff reductions on goods alone will lead to significant increases in U.S. exports to Korea that will support over 70,000 U.S. jobs. More services exports to Korea will support tens of thousands of additional jobs. And fewer non-tariff barriers and stronger rules will support even more.

We remain committed to further opening beef markets across Asia, including Korea, consistent with international science. In the meantime, the U.S.-Korea agreement, when implemented, will progressively reduce Korea's 40 percent beef tariff, and enable U.S. beef producers to build upon the exponential growth of exports to Korea.

Working with you, this Administration addressed outstanding concerns with this agreement. Working with you, we made significant improvements that will have real benefits to our auto industry, its workers, and our economy. And working with you, we can now move forward. Now is the time to act on this agreement so American families can realize the many benefits of the U.S. trade agreement. Working together, let us move this agreement without further delay.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Marantis follows:]

Statement by Ambassador Demetrios Marantis
Deputy United States Trade Representative

House Committee on Ways and Means
Subcommittee on Trade

Washington, D.C.
April 7, 2011

Good morning Chairman Brady, Ranking Member McDermott, Members of the Committee, it is an honor and a pleasure to testify today about the U.S.-Korea trade agreement (KORUS).

We are here at a unique moment in our nation's history, presented with a unique opportunity. Our economy is recovering, and for six straight quarters American exports have been driving our economic growth. GDP is up nearly three percent, and exports of goods and services are up 17 percent. This export growth already has supported hundreds of thousands of additional American jobs.

At this moment, Congress has the singular opportunity to pass and implement the most economically significant trade agreement the United States has negotiated in nearly two decades. The U.S.-Korea trade agreement will strengthen our trade and investment ties to Korea's $1 trillion economy. It will bind a key strategic ally closer to us, anchor our economy to the dynamic Asia-Pacific, and help us keep our edge over international competition. It is a key element in our economic strategy in the region. Most importantly, the U.S.-Korea trade agreement will create substantial export opportunities, establish strong enforcement provisions, and support new export-related jobs.

Many of you – as well as the Administration – had serious concerns about the trade agreement signed in 2007. We heard you, and we took action. After extensive consultation with members of this Committee and others, as well as a wide range of labor, business, and other stakeholders, the United States and Korea agreed, last December, to a new set of commitments that will generate additional tangible benefits for the American economy.

We agreed to five central elements that taken together will help make Korea's auto market more open, fair, and transparent.

First, we tackled Korea's unique auto safety and environmental standards that pose a costly and unfair non-tariff barrier to U.S. auto exporters. Korea's safety standards are no more stringent than the U.S. standards, and Korea's standards offer no more vehicle safety than U.S. standards. However, because several of Korea's safety standards are unique, they have served as a significant non-tariff barrier to U.S. auto exports. No car that rolls off a U.S. assembly line can be certified for sale in Korea as is. Instead, in order to export that car to Korea, the automaker must modify the vehicle and run additional tests to show it meets Korea's unique standards.

These modifications and additional testing – which do nothing to increase the safety level of the vehicle – add significant costs for U.S. automakers. This is especially true when automakers are selling just a few vehicles. Per unit modification and testing costs can be so high that our automakers question whether exporting to Korea is worth the investment.

In response to these challenges, in December, the United States and Korea agreed that vehicles produced by automakers which sell fewer than 25,000 U.S.-made cars per year in Korea will be deemed to comply with Korean auto safety regulations if the automaker certifies that they meet U.S. federal safety standards, which are among the most stringent in the world. This number is neither a quota nor a ceiling on sales. Automakers will be free to sell additional vehicles into the Korea market beyond this 25,000 threshold.

The non-tariff barriers posed by unique Korean automotive environmental standards have been similarly challenging, and the 2007 agreement addressed an important concern in this area. Since then, however, both the United States and Korea have promulgated standards to strengthen vehicle emissions standards to combat climate change. Nothing in this agreement changes these policies or their effect. We acted to make sure the new Korean standards do not stand as unnecessary non-tariff barriers to U.S. automakers. As part of the outcome of the negotiations, Korea agreed to include a small-volume manufacturer provision as its new fuel economy regulations phase in, a typical provision in regulations of this type to take into account the special circumstances faced by small volume manufacturers. As the new Korean fuel economy regulations come into effect, automakers that sold fewer than 4,500 autos in Korea in 2009 (which includes all U.S. automakers) will comply if the fleet they sell in Korea comes within 19 percent of the Korean target. This provision helps American automakers sell their cars affordably in Korea without undermining Korea's environmental objectives. In addition, both countries agreed to take into account improvements in manufacturers' fuel economy and greenhouse gas emissions performance and international standards when developing future regulations in this area.

Second, in December we also negotiated a tariff structure that will give American auto companies and their workers a chance to build up more business in Korea before U.S. tariffs come down. Specifically, our agreement keeps the U.S. 2.5 percent auto tariff in place until the fifth year of the U.S.-Korea trade agreement. At the same time, Korea will immediately cut its 8 percent tariff on U.S. auto imports in half (from 8 percent to 4 percent), and fully eliminate that tariff in the fifth year. The United States may also maintain its 25 percent truck tariff until the eighth year and then phase it out by the tenth year. Korea agreed to eliminate its 10 percent tariff on U.S. trucks immediately. We also agreed to encourage green technologies by immediately cutting in half Korea's tariffs on electric car exports and eliminating both of our tariffs on these cars within five years – five years earlier than under the 2007 agreement.

Third, in addition to market-opening tariff and non-tariff barrier provisions, in December, we also agreed to protect U.S. auto companies and their workers from potential harmful surges in Korean auto imports by establishing a new special motor vehicle safeguard. While the 2007 agreement contained a general safeguard for all products, it did not include a safeguard specific to the U.S. auto industry. We knew we could do better, and in December, we agreed to add a special safeguard for motor vehicles to ensure that the American auto industry does not suffer from any harmful surges in Korean auto imports. This special safeguard incorporates additional procedural improvements to make the motor vehicle safeguard easier to use and longer lasting than our general U.S.-Korea trade agreement safeguard.

Fourth, we pushed for more transparency in the Korean market. The 2007 agreement prohibits Korea from adopting new automotive regulations that create unnecessary barriers to trade and establishes an early warning system for regulations that may serve as potential trade barriers. Through our domestic consultations, we heard that enhanced transparency would be helpful, and in December, negotiated two important additions. First, we agreed on a 12-month period between the time a final significant motor vehicle-related regulation is issued and the time auto companies must comply with it, giving companies sufficient time to adjust. Second, Korea agreed to begin a review process within 24 months of entry into force of the U.S.-Korea trade agreement to ensure that existing significant motor vehicle-related regulations accomplish their objectives in the least burdensome manner possible.

Fifth, in the 2007 agreement, Korea committed to reduce tax rates for American cars and to streamline current taxes based on engine size, which have tended to raise the cost of the typically larger-sized American vehicles sold in Korea. In December, we went further by getting agreement from Korea that any future automotive taxes based on fuel economy or greenhouse gas emissions will be adopted in a manner consistent with certain general transparency obligations.

These commitments build on the extensive set of provisions in the 2007 agreement. Taken together, they offer significant economic benefits to the United States. We all know the significant tariff cutting benefits in this agreement. Immediately upon entry into force, the U.S.-Korea trade agreement eliminates tariffs on two-thirds of "Grown in America" agricultural exports to Korea, including the fruits, nuts, vegetables, and soybeans your constituents produce. Korea is already our fifth-largest agricultural export market, and the Department of Agriculture projects that Korea will purchase an estimated $6.21 billion of U.S. agricultural products during fiscal year 2011. This agreement builds on this export success to the benefit of our farmers and ranchers.

Within five years of entry into force, the U.S.-Korea trade agreement removes tariffs on over 95 percent of "Made in America" industrial and consumer good exports to the benefit of your districts' aerospace, automotive, electrical equipment, and environmental goods companies and workers. Manufactured goods account for 80 percent of exports to Korea – reaching a record $32 billion in 2010. The tariff reductions and other provisions in this agreement put our manufacturing sector on course to set and break new export records.

The U.S.-Korea trade agreement also provides significant new access for our services industries – information and communications technology, wholesale and retail distribution, and express delivery services –to Korea's $580 billion services sector. Korea is a major market in this area – the world's 8th largest importer of services – and Korean imports of services have grown 40 percent faster than the rest of the world over the past decade. In fact, total U.S. sales of private commercial services to Korea through cross-border and affiliate channels is estimated to have exceeded $24 billion in 2009. New opportunities in Korea's expanding market have great potential to translate into additional export-supported jobs here at home.

Underpinning these new export opportunities are the U.S.-Korea trade agreement's state of the art provisions to help protect and enforce intellectual property rights, reduce red tape, and eliminate unwarranted regulatory barriers to U.S. exports. This agreement contains the highest standards for protecting labor rights, promoting the environment, and ensuring that key domestic labor and environmental laws are enforced, combined with strong remedies for non-compliance.

We also know that taken together, these additional export opportunities and stronger and better rules mean one thing – more jobs for Americans. The tariff reductions on goods exports alone will lead to significant increases in U.S. exports to Korea that will directly support over 70,000 additional American jobs. And that is a conservative number, since it does not include services liberalization and removal of non-tariff barriers. More services exports to Korea will support tens of thousands of additional jobs. And fewer non-tariff barriers and stronger rules will support even more.

We remain committed to further opening beef markets across Asia, including Korea, consistent with international science. In the meantime, when implemented, the U.S.-Korea trade agreement will progressively reduce Korea's 40 percent beef tariff and enable America's beef producers to build on the strong growth in exports to Korea they are now experiencing.

Finally, we are here today not just because of what is in the U.S.-Korea trade agreement, but also because of who is behind it. A broad, bipartisan coalition of unions, businesses, farmers, ranchers, auto workers, and many of you support the U.S.-Korea trade agreement.

Working with you, this Administration addressed outstanding concerns with the U.S.-Korea trade agreement. Working with you, we made significant improvements that build on an historic agreement that will have real benefits to our auto industry, its workers, and our economy. And working with you, with these improvements we can now move forward. Now is the time to pass this agreement so American families can realize the many benefits of the U.S.-Korea trade agreement. Working together, let's get the U.S.-Korea trade agreement done now.

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Chairman BRADY. Ambassador, thank you very much. You have set out your testimony, a very strong case for this agreement for a number of reasons. There are—I would like to talk about two concerns that I have heard raised by critics I would like your help in addressing.

First, some folks are concerned about how the agreement might affect the textile industry. I know this agreement includes state-of-the-art provisions to address major concerns such as trans-shipment, a surge in imports, and enforcement. It also includes a strict rule of origin.

So, the first question is, does this agreement benefit textile and apparel manufacturers in the U.S.? And how would the provisions I mentioned address concerns raised by them?

And when you finish that, I would like to ask about the Kaesong industrial area, and some of the provisions in the bill, as well.

Mr. MARANTIS. Thanks, Mr. Chairman. Seventy-five percent of U.S. textile and apparel exports to Korea would receive duty-free treatment immediately upon implementation of the agreement. That is really important, because Korea is becoming a larger destination for U.S. textile and apparel exports.

Right now, Korea is our tenth largest market. Last year alone, our textile and apparel exports to Korea increased by 45 percent. So, getting this agreement in force now is very important, particularly when you think about the EU and its textile exports, and the competition that we face in that market.

But as you mentioned, Chairman Brady, textiles is a sensitive sectors in the U.S., and there are very important provisions in this agreement that address that.

First, we have delayed staging of certain sensitive products, in terms of when the U.S. will reduce its tariffs. In some cases, that staging extends as long as 10 years.

Second, as you mentioned, we have a very important rule of origin that the industry supports strongly, which is the yarn forward rule, which basically says products cannot receive preferential treatment unless the yarn and the fabric is produced in either South Korea or the United States.

Third, we have a special textile safeguard in the agreement that allows us to address instances when increased imports may cause serious damage to the industry producing like or directly competitive products.

And, finally, as you mentioned, the agreement contains very strong provisions on trans-shipment. It allows for increased information sharing between U.S. and Korea customs authorities. It allows U.S. customs authorities to conduct verification activities in Korea. And if there is ever a problem, CBP, our customs authority, has the authority to take penalty actions, including denial of entry of goods. And that just builds upon the provisions that CBP already does, in terms of post-import verifications and other mechanisms it uses to prevent trans-shipment.

Chairman BRADY. Thank you. Very helpful. Second, some have expressed concerns that products produced in the Kaesong industrial complex, which is located in North Korea but operated jointly by North and South Korean workers, they are concerned they would be treated as products originating from South Korea under the agreement. I understand that the agreement specifically requires legislative action—in other words, an Act of Congress—before products from Kaesong are permitted to enter the United States.

Please describe what the effect of this requirement is, and please describe whether products from Kaesong could receive benefits under the agreement.

Mr. MARANTIS. Thank you, Mr. Chairman. There has been a lot of confusion on this issue. And let me be very clear. Goods produced in Kaesong do not receive any benefits under the U.S.-Korea trade agreement. Any change to how Kaesong is treated under the agreement would require Congress to pass, and the President to sign, legislation.

So there is nothing in this agreement that provides any benefits to Kaesong. In fact, the word "Kaesong" does not even appear in the agreement.

Chairman BRADY. And if there were to be any change that—literally, Act of Congress, signed by a President, before——

Mr. MARANTIS. Yes. Any recommendations that—there is a committee that is established under the agreement for outward processing zones that can make recommendations. Any—if we choose to act on those recommendations, the only way to do so is to come here and seek legislative authority from Congress. So Congress has the final word. It would have to pass a law, and the President would have to sign that law into force.

Chairman BRADY. Thank you for putting that confusion to rest. Appreciate it.

Ranking Member McDermott.

Mr. MCDERMOTT. Thank you. I want to begin by apology. I moved Mr. Davis from Kentucky to California. That is a severe insult to him, and I apologize publicly.

[Laughter.]

Mr. DAVIS. Well, I thank the gentleman for pointing that out. I reminded folks that I live in the United States, not in California. So I appreciate and thank him.

[Laughter.]

Mr. MCDERMOTT. I would like to ask you a question, because I think there is a whole lot of misunderstanding about Kaesong. And I have been there on one of my trips to Korea.

And I would like you to explain to the committee what Kaesong is really all about and why the South Koreans have created this. There is a lot of mythology floating around. It would be nice to have somebody give some facts about why they created it, what they are doing with it, what the intention is, and so forth.

Mr. MARANTIS. Sure, I would be happy to. As you mentioned, Mr. McDermott, there is a special industrial zone over the border in North Korea called Kaesong, which South Korea launched in 2003, as an effort to encourage reforms in North Korea. And it is an industrial complex that produces, you know, a wide variety of goods.

You know, ties between North and South Korea have deteriorated, as we all know. And, as a result of that, South Korea has banned new investment in Kaesong since May 2010.

Mr. MCDERMOTT. And the industries were from South Korea and the workers were?

Mr. MARANTIS. North Korean workers.

Mr. MCDERMOTT. Who then went back into the community with knowledge about how the free enterprise system might work.

Mr. MARANTIS. Correct. I mean the idea behind Kaesong, you know, when it was originally launched, was to help to provide, you know, new exposure for North Korean workers as to, you know, business practices in South Korea and, you know, as part of an effort to encourage reforms in North Korea.

Mr. MCDERMOTT. It was also in anticipation that at some point there may be a reunification between North and South Korea, and in having workers understand the situation they are coming into. It is not like Germany, where there were three West Germans for every East German. In this case, it is a huge number of people coming into the economy, and they want to try to transition, or at least begin the process of transitioning. Is that correct?

Mr. MARANTIS. Yes, sir.

Mr. MCDERMOTT. I yield back the balance of my time.

Chairman BRADY. Thank you, sir. The gentleman from Kentucky is recognized.

Mr. DAVIS. I thank you, Mr. Chairman. Ambassador, South Korea is more than a key trading partner. It is also a key geo-strategic ally in Asia. Currently, there are more than 28,000 American troops stationed in the country, and our militaries regularly conduct joint exercises. Our geo-strategic relationship is important, not only to counteract the threat from North Korea, but also dealing with China's military ambitions and security, in general, in the Pacific Rim.

Could you discuss the broader geo-strategic significance of this agreement?

Mr. MARANTIS. Thank you, Mr. Davis. And Korea, as you mentioned, is a critical strategic ally of the United States. And what we are doing, as part of the free trade agreement, is helping to bolster the economic pillar of the U.S. strategic relationship.

A strong, prosperous South Korea is very much in the strategic interest of the United States, which is why negotiation, conclusion, and ratification, and entry into force of this agreement is a win-win for both of us. It is good for both the South Korean economy and the U.S. economy. And, as a result, it is a good tool to help bolster a very important ally.

Mr. DAVIS. Thank you. Just as a follow-up, given what you have just said, I was wondering if you could also address how this is any different from the geo-strategic considerations and importance of our partnership with Colombia, particularly given the fighting, its narcotrafficking, the influence of Hugo Chavez in the region.

Mr. MARANTIS. Sure. I personally do not work on Latin America and Colombia issues, so I do not have a lot to say. But you know, in a very similar way, Mr. Davis, Colombia is a very—an important strategic ally in the region. And, you know, working on the free trade agreement is a way to help, again, strengthen Colombia's economy in a volatile region.

Mr. DAVIS. Okay. Thank you very much. I yield back the balance of my time.

Chairman BRADY. Thank you. The chair recognizes Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman. I, first of all, want to thank you, Ambassador, and Ambassador Kirk and the entire USTR team. And also special recognition to Ambassador Han, who we have been working closely with, too. And excited about the upcoming vote to come soon.

I want to mention how much of an honor and a pleasure it has been to work with the export initiative group, and their commitment to doubling exports, and I think finally recognizing the importance of passing trade agreements to accomplish that goal. As I have said many times in our trade hearings, from 1995 through 2007, I think, is the last time we doubled our exports, and we passed 9 trade agreements. So, I think everyone is recognizing the value there, the possible loss of jobs if we do not pass these agreements.

So, I really want to focus on the jobs issue, because sometimes there is some misinformation that gets out there, and some opponents, I think, may skew the numbers just a little bit.

But just with the Korean Agreement, the first estimate was 70,000 jobs that could be created, as you mentioned in your testimony. Senator Wyden has completed a study that estimates the job gain would be almost 280,000, which includes our services industry, which, as you know, is about 80 percent of our economy now.

So, what is your view on some of the organizations that say we are going to lose 160,000 jobs versus the 70,000, the 280,000, the loss of market share as the EU and Canada and China and others come? We want to sell American. I mean that is the goal, right? Sell American across the world. So what do you say to those people who are saying that we are going to lose jobs with these agreements?

Mr. MARANTIS. Thank you, Mr. Reichert. I mean, to start off, the study that suggests that there is going to be 160,000 jobs lost is just plain wrong. That study does not even use the Korea agreement as a model as it is examining the Korean agreement. It extrapolates from other sources to draw conclusions which we believe are not accurate. That study also relies on, you know, what we think is not, you know, appropriate methodology, in terms of linking an increase in trade deficits to job losses.

First of all, the ITC has been very clear that the trade deficit—it predicts that our trade deficit, our $4 billion trade deficit that we currently have with Korea will be reduced by the agreement by anywhere between $3.3 billion and $4 billion. And you know, assuming a link between trade deficits and job losses is not really supported by historical evidence. During the Great Depression, a time where we had very high employment, we ran trade surpluses. In the 1990s, when we were operating at very close to full employment, you know, we ran large trade deficits.

But to your point, sir, is this agreement is all about jobs. And the export opportunities, the $10 billion to $12 billion in annual exports that this agreement is going to create in goods trade alone, will produce—a conservative estimate on our part—70,000 jobs. And that is just goods trade. That is not when you look at services trade and other areas.

Mr. REICHERT. Well, I appreciate your recognition of that falsehood on the loss of jobs. And one of the things I think that the USTR and the export council is looking at is educating people across the country as to the benefits of trade. Because even, believe it or not, the longshoreman, whose paycheck is 100 percent dependent upon trade, is—or some are against trade.

So, the last question I want to ask real quick, you know the environment is very important to all of us, and especially for those of us in Washington State it is very important to us. The language in the Colombian agreement, Panama agreement, and the Korean agreement, aren't they exactly the same, as it relates to the environment?

Mr. MARANTIS. Yes, sir. We have the most high standard environmental provisions in Korea, Colombia, Panama, as well as in the Peru agreement. And I am happy to go into as much agonizing detail as you want. But we are very proud of the text of the environmental——

Mr. REICHERT. And Korea has made great progress there, am I correct?

Mr. MARANTIS. Yes, sir.

Mr. REICHERT. Yes. Thank you, Mr. Chairman. I yield back.

Chairman BRADY. Thank you. Mr. Neal is recognized.

Mr. NEAL. Thank you, Mr. Chairman. Mr. Ambassador, it is always easy to talk about the benefits or the shortcomings of trade in the generic. It is more difficult, as you know, in the specific.

But I do think one of the compelling parts of the argument, obviously, is what our competitors are doing to establish free trade agreements across the globe.

And would you comment, perhaps, on what would happen if this were to fall by the wayside, given what European Union is now doing, in seeking greater opportunities for growth through these FTAs?

Mr. MARANTIS. Thank you, Mr. Neal. Yes, it is a—it would be a big problem. I mean the EU trade agreement enters into force on July 1st. The longer that agreement is in force with the Korea agreement not being in force, the longer EU exporters have a competitive edge over our exporters in that market. And the EU is very competitive with us in all sectors: manufacturing, agriculture, and services. And it is very hard to regain market share once you lose it, or once another competitor actually gets a leg up.

What is very disturbing, as well, are statistics. Our market share in Korea has eroded over the past 10 years. In 2003 we were the largest—had the largest import share in Korea at 21 percent. Now we are at nine percent. We are behind Japan and China, and the EU is very quickly catching up. And if their agreement goes into effect and ours does not, we will likely be eclipsed by the EU.

So, now it is very important that we get this passed, entered into force, so that our exporters can take advantage of the huge competitive opportunities that the agreement provides.

Mr. NEAL. How does this help gain a stronger foothold for the United States in Asian markets?

Mr. MARANTIS. Again, it is a question of, I think, reversing a trend of erosion that we have seen, not just in Korea but throughout the Asia-Pacific region. This agreement is critical to that. The negotiations we are doing in the trans-Pacific partnership, the nine-country regional trade agreement that we are doing in the Asia-Pacific is critical to that goal. We need to be in the game very seriously in Asia, in the Asia-Pacific region. It is the most dynamic part of the world, and it is the part of the world where we stand to gain competitive export opportunities and the jobs that are supported by those export opportunities.

Mr. NEAL. And lastly, I know that your portfolio does not include South America. But might you speak to the issue of what China is attempting to do in much of South America now, particularly in Brazil and other countries?

Mr. MARANTIS. Sure. Again, we face, you know, in Latin America, as we do in other parts of the world, the risk that China and other economies are going to take advantage of opportunities that should be ours. You know, we have seen an erosion in market share in the Asia-Pacific, as an example, and the potential for that is very real in Latin America, as well.

So, we need to seize, you know, the opportunities that are in front of us, get our manufacturers, our service providers, and our farmers and ranchers into those markets, so they can sell their made-in-America and grown-in-America products.

Mr. NEAL. I thank you. Thank you, Mr. Chairman.

Chairman BRADY. Thank you. Mr. Herger is recognized.

Mr. HERGER. Thank you, Mr. Chairman. And again, I want to thank you for representing a state and an area that is very dependent—California—heavy agriculture. In an area that I represent we are very grateful for the work that you are doing.

And I would like to follow up with my friend from Massachusetts's question, if I could. Since our three pending trade agreements were signed almost four years ago, our trading partners have rushed ahead of us to negotiate bilateral and regional agreements that benefit their exporters and workers to the detriment of ours. The most obvious effect relates to tariff advantages that our competitors enjoy over us, which we have seen play out in Colombia, causing significant harm to our agricultural exports.

But there are other effects, as well. For example, the European Union has trade agreements that generally require its trading partners to adopt protections for geographic indications of origin, such as various cheese from the EU and member states. This could prevent U.S. companies from producing competing goods outside such EU regions from using those same geographical terms when marketing or selling their products in EU trading partner countries. This is a particular problem in the South Korean market.

Mr. Ambassador, could you please discuss what the Administration is going to address this geographic indication market access barrier that will be imposed on us by the EU–South Korea trade agreement, and more broadly, the effect on our efforts to export certain products to these markets?

Mr. MARANTIS. Thanks, Mr. Herger. I had the pleasure of visiting Sacramento a couple of months ago, and did a great roundtable that your staff put together with agriculture producers in your district on Korea and on the TPP agreement. So thank you again for that.

Mr. HERGER. Thank you for coming.

Mr. MARANTIS. No, it was great. The dairy industry is a great example of why this agreement is terrific. You know, the dairy exporters will benefit from reduced tariffs and expanded TRQs. They are concerned, as are we, about the geographic indication issue that you raised.

You know, as you mentioned, in the Korea-EU agreement, Korea has agreed to protect certain terms as geographic indication, terms that, you know, are used in common parlance, and terms that our dairy exporters either use now in Korea or are planning to use in Korea. It is an issue. When the EU–Korea agreement concluded—we have raised, you know, serious concerns with Korea on that issue, and we continue to do so.

Mr. HERGER. Thank you. The American Farm Bureau estimates that agricultural exports to South Korea could increase by $1.8 billion per year if the agreement were implemented. South Korea is already the fifth largest export market of U.S. agricultural products. Immediately upon implementation, almost two-thirds of the U.S. farm products exports would become duty-free. The agreement would also address non-tariff regulatory barriers to agricultural trade by creating a specific committee to address sanitary and psytosanitary matters, which would encourage greater regulatory harmonization and the use of international standards and guidelines.

Mr. Ambassador, could you please discuss how this agreement, like the Colombia and Panama agreements, address specific barriers to U.S. agricultural exports, and which sectors might stand to benefit the most?

Mr. MARANTIS. Yes, sir, with pleasure. You know, as with many provisions in this agreement, what is so important in the agriculture sector is that the agreement levels the playing field.

Right now we face average tariffs in Korea in the agriculture sector of nearly 54 percent, whereas our average tariff in the ag sector is 9 percent. So this agreement going into force levels the playing field for our farmers and ranchers, and does so in a way that provides incredible export opportunities, you know, throughout the sector: beef, you know, almonds, pistachios, cherries, asparagus, pork. You name it, it is great for our ag sector.

But it is not just about tariff barriers. As you mentioned, it is also about non-tariff measures. As you mentioned, there is a committee to address sanitary and psytosanitary measures. But another key non-tariff measure that this agreement will work on is in the area of transparency. And it is often times very difficult for small businesses, for small farmers and small ranchers to really have a good sense of what the regulatory environment is in a country, in a trading partner. And that is often a deterrent to actually export there.

This agreement has unprecedented provisions on transparency that will help us really get at non-tariff measures that have, in the past, impeded our exports.

Mr. HERGER. Again, thank you.

Chairman BRADY. Thank you. Mr. Buchanan is recognized.

Mr. BUCHANAN. Yes. Thank you, Mr. Chairman, for holding this important hearing. And thank you, Ambassador, for being here today.

Let me just—I was looking at a letter that—I guess from former Secretaries of States, Defense, Commerce, as well as USTA, that was placed in the file earlier by Mr. Brady, our chairman. They were pointing out a couple of things.

One, they said the movement ahead would help us to have a leadership position in trade in Asia, but also be a positive effect that would go beyond the Korean Peninsula. And what they were referring to, they said passage of this could also relieve some of the growing concerns that we have about China's growing influence in the region. And I think they are absolutely right. Could you give us your thoughts and ideas from that standpoint?

Mr. MARANTIS. Yes. What a great letter, by the way, you know, supported by a whole array of various former officials in different communities.

The issue that you raise with respect to China really deals with the importance of our being in the game in the Asia-Pacific region, and assuring that we maintain a competitive edge over our competitors. And that is exactly what this agreement does. By leveling the playing field in the manufacturing, agriculture, and services sector, it allows us to participate more in the Korean market, and to reverse the erosion of market share that we have seen in Korea, where China has eclipsed us and Japan has eclipsed us as, you know, top importers.

So, this is part and parcel of an overall strategy to increase U.S. engagement in the Asia-Pacific region to the benefit of all of us.

Mr. BUCHANAN. My second point is I was looking at the U.S. Chamber. They said that the United States, if we did not—not just this, but the others we could lose up to 380,000 jobs and 40 billion export sales. And I think they were looking at all three of the trade agreements. But what is—a state like—that I represent, Florida, one of the positive things in Florida—we have 14 ports—is exports. And I think we are up 15 or 20 percent and that continues to grow, and people are very concerned about these agreements not getting done quickly, because it is going on.

But what is the net effect, in terms of jobs, or from the Administration's standpoint, with this new agreement being put in place, the Korean Agreement?

Mr. MARANTIS. This agreement, as you mentioned, it is all about jobs, it is all about creating new export opportunities and those jobs that are supported by those export opportunities. In Florida we are going to see, you know, tremendous benefits in the agriculture sector, fruits, vegetables, we are going to see key benefits in the logistics sector, in the transportation sector. We are going to see key benefits in the area of machinery, electrical equipment, chemicals, all exports that are important to Florida's economy.

So, for Florida, as for other states in the United States, this agreement is going to be a huge export boon. And, as a result, it is going to be a huge job boon.

Mr. BUCHANAN. But do you have any numbers that you have put together, in terms of the country, the impact it will have, overall, on new jobs or new job opportunities, as a result of getting this agreement done?

Mr. MARANTIS. Yes, sir. We have specific numbers for Florida. I do not have them in my head, but we will get them to you right after the hearing.

Mr. BUCHANAN. I am looking for the U.S. Do you have a number——

Mr. MARANTIS. Yes.
Mr. BUCHANAN [continuing]. Off the top for the U.S.?
Mr. MARANTIS. For the U.S., for goods alone, a conservative estimate is it will create 70,000 new jobs. It is harder to have a specific number on services, just because the economic data is more difficult to analyze. But we estimate that the—that access to Korea's $580 billion services market, and the new export opportunities that this agreement will create, will produce an additional tens of thousands of jobs in the services sector.
And then there are other job gains to be had by reduction of regulatory barriers and other non-tariff barriers. So there is a significant job——
Mr. BUCHANAN. So, Korea alone, we are looking at 100,000-plus jobs that this agreement will mean to America.
Mr. MARANTIS. Yes, sir. And again, we are being conservative. Senator Wyden worked with the ITC on a study. The ITC did technical assistance for Senator Wyden. And that study estimates a 230,000-job benefit from the agreement.
You know, we are being a little bit more conservative, but our number is a minimum.
Mr. BUCHANAN. Thank you. And I yield back.
Chairman BRADY. Thank you. Mr. Doggett?
Mr. DOGGETT. Well, thank you very much. Just on the ITC issue that you were just mentioning, so has the ITC done a new estimate in contrast with its 2007 estimate concerning the job growth that can be expected under this agreement?
Mr. MARANTIS. No, sir. The ITC——
Mr. DOGGETT. Are you requesting them to do so?
Mr. MARANTIS. We are not, largely because many of the trade statistics are basically the same that they were in 2007.
Mr. DOGGETT. But you do not accept their conclusion that it would have a negligible effect on jobs.
Mr. MARANTIS. Oh, no. We have taken their conclusion that it will grow our exports by $10 billion to $12 billion to have the figure that the agreement will produce, at a minimum, 70,000 jobs.
Mr. DOGGETT. Well, I understand, having written this, you believe it will create many jobs. I am just a little confused about what part of the ITC you are accepting and what you are not.
They concluded, before you made these changes in the agreement, that it would have negligible effect on jobs, and it would actually cause a U.S. goods trade deficit. You do not agree with either of those conclusions, do you?
Mr. MARANTIS. Sir, I believe that the ITC report said that on the—our bilateral trade deficit, which is a $4.4 billion trade deficit now, would be reduced by $3.3 billion to $4 billion, which is consistent with our analysis.
Mr. DOGGETT. You do not expect to ask the ITC for any re-evaluation or updating of their data?
Mr. MARANTIS. We do not.
Mr. DOGGETT. Okay. When do you think we will get the Korea trade agreement?
Mr. MARANTIS. We are ready, as Ambassador Kirk has mentioned. I actually have a draft copy of the implementing bill with me. We are ready to engage. We have started engaging in technical

discussions. We are ready to engage in technical discussions on the actual text.

Mr. DOGGETT. Is it your testimony that without the changes that were secured that you have testified about with some pride today, that it would have been a mistake for Congress to ratify the Korean trade agreement as originally authored?

Mr. MARANTIS. I think the changes that we made have enabled us to be able to present this to you and unlock the potential of the 2007 agreement.

Mr. DOGGETT. So you think that without them it would have been a mistake to ratify it?

Mr. MARANTIS. I think we have made a very good agreement better.

Mr. DOGGETT. So you were for it before you made the changes.

Mr. MARANTIS. The—I mean there were key outstanding concerns that many members of this committee had. And in order for us to be able to go forward, you know, we worked very closely with members of this committee and stakeholders throughout the country to address those concerns that——

Mr. DOGGETT. And any time during those negotiations of the agreement did USTR seek any changes in the investor provisions?

Mr. MARANTIS. No, we did not.

Mr. DOGGETT. And the investor provisions are, therefore, exactly as they were negotiated by the Bush administration?

Mr. MARANTIS. They are very strong and solid investor provisions.

Mr. DOGGETT. I understand you think they are good, and that is why you did not change them. But they are exactly, verbatim, what the Bush administration negotiated?

Mr. MARANTIS. Yes.

Mr. DOGGETT. And with reference to the comments that President Obama made back during the campaign about seeking to ensure that those provisions were not used to undermine public safety or public interest in forums outside U.S. courts, there are no changes that have been made as a result of those policy statements. It is still possible for U.S. health and safety and environmental laws to be challenged in arbitration panels, is it not?

Mr. MARANTIS. Sir, when this Administration came into office, we did an exhaustive review of this agreement, including the investment provisions.

Mr. DOGGETT. And——

Mr. MARANTIS. And based on that review, we are confident that we can——

Mr. DOGGETT. I understand you have testified you are satisfied with it. You have made no changes in it from the Bush era. But it is possible to challenge U.S. health and safety laws by a foreign investor who thinks that it constitutes a taking—not in our courts, but in an arbitration panel. Isn't that correct? It may not prevail, but it is possible for them to do that.

Mr. MARANTIS. It is possible. We have been subject to very few challenges in the past, and we have never lost.

Mr. DOGGETT. Thank you very much.

Mr. MARANTIS. Thank you, sir.

Chairman BRADY. Thank you. The chair recognizes Ms. Jenkins.

Ms. JENKINS. Thank you, Mr. Chair. Thank you for holding this hearing.

Thank you for being here. I so appreciate your energy and enthusiasm this morning. Mr. Ambassador, it is clear that the U.S. agriculture producers and exporters will lose valuable markets if these trade agreements are not passed, certainly hurting farmers, ranchers, and other workers in the agriculture sector.

But I think it is also important to focus on all of the businesses that support our agriculture sector, ranging from the companies that provide machinery, fertilizer, seed, and other supplies to farmers and ranchers, as well as small, local companies that build the farmer's silo and cut his or her hair.

How do you see these agreements affecting all of these businesses, and really, the entire community in rural America?

Mr. MARANTIS. That is a great question. I mean this is—this issue—we are—by creating the export opportunities that we do in this agreement, whether it is in the ag sector or the manufacturing sector, we are creating demand for the finished product. And by creating demand for the finished product, we are creating demand for the downstream product, the small and medium-sized enterprises that supply, you know, large airplanes that we sell to Korea, or the suppliers, like you were saying, the feed suppliers that will supply our farmers and ranchers.

So, by creating new export opportunities for the finished product, we are creating new opportunities for suppliers and the jobs that those suppliers create.

Ms. JENKINS. Great, thank you. Along that same line, it is abundantly clear that the three pending agreements will increase exports of U.S. ag products, greatly helping our farmers and ranchers. However, I understand that these agreements will also open up markets for processed food products and other goods that incorporate the bounty of America's farmers and ranchers, and reflect the real value added in the United States.

Could you just please comment on how passing these agreements will help these important businesses and their workers, and how passing the three pending agreements would help meet the goal of the President's national export initiative to double U.S. exports?

Mr. MARANTIS. That is a very important point, as well. This is—this agreement benefits our raw agricultural exporters, as well as exporters of processed products, as well. And the key thing it does is that it levels the playing field, so that we have more opportunities to sell to Korea's $1 trillion market across the board.

You know, in your state, wheat, soybeans, beef, feed corn, those are all products that are going to benefit tremendously from this agreement, and will allow us to really boost our relationship and our exports to Korea's gigantic market.

We are really excited about the opportunities that this presents in all of your states and in all of your districts. And to the extent to which anyone wants any really specific information on how this will benefit your district, your state, you know, sort of down to, you know, the most specific level, we are very happy to provide that.

Ms. JENKINS. Excellent. Thank you. Mr. Chairman, I yield back.

Chairman BRADY. Thank you. Mr. Crowley is recognized.

Mr. CROWLEY. Ambassador, welcome. Thank you, Mr. Chairman, and thank you, Mr. McDermott, as well. Let me also thank Chairman Camp and Ranking Member Levin for their work on the Korean free trade agreement and bringing us to where we are today.

Ambassador, you say you have the draft with you, or a draft with you. Has that been issued to the subcommittee?

Mr. MARANTIS. Not yet. We have been dotting our I's and crossing our T's. And we have done that, and we have got a——

Mr. CROWLEY. It has not been given to the full committee either, then, if the subcommittee has not got it.

Mr. MARANTIS. Correct.

Mr. CROWLEY. What is the intention, in terms of—you brought it with you today. Is it going to be shared with the committee today?

Mr. MARANTIS. We are ready to do so whenever the committee——

Mr. CROWLEY. Has the committee asked for it? Has the chairman asked for it, or has the chairman of the committee asked for it yet, or the leadership of the House asked for it yet?

Mr. MARANTIS. There have been a number of questions that we have been going back and forth on, in terms of how certain provisions will work with both staffs. And I think we have answered those questions in the text, and we are ready to share it, you know.

Mr. CROWLEY. Has anyone asked for it yet?

Mr. MARANTIS. Not yet.

Mr. CROWLEY. No one from the House of Representatives has asked for the draft?

Mr. MARANTIS. Not yet. We have been continuing our work on it, and we are proud to have it here with us today.

Mr. CROWLEY. I appreciate that. I just would note that no one has asked for it at this point, and it is still out there. So thank you for that.

In terms of—I come from New York City. So, if you could, just give me a sense of the financial services end. You talked broadly about services. But if you could, specifically talk about the opportunities that this agreement will present for that specific sector, financial services, in Korea. Can you comment on that?

Mr. MARANTIS. Sure. I mean this agreement provides new market access opportunities in the financial service sector in eliminating many restrictions to supplying those services in Korea that existed, whether those restrictions were in the form of capital requirements or a certain percentage that you needed to hold.

But also in your district, you know, this is a great win for the chemical sector, the machinery sector, and the electric equipment sector as well, where current tariffs in those areas—I think 80 percent of them—will be eliminated immediately upon entry into force. And for your chemicals exporters, they are facing tariffs as high as 50 percent.

So, in terms of, you know, on the manufacturing side, there is a huge benefit for your district, as well as in the financial services sector.

Mr. CROWLEY. I appreciate it. I wish there was more manufacturing going on in my district than services at this point. But clearly, the services end is very, very important to the city of New York, and obviously to the state of New York, as well.

There has been a great deal of discussion about the lack of movement on trade by the Administration. But we really are in the midst of a major trade agenda right now. Would you agree with that?

Mr. MARANTIS. This is an unbelievably exciting time to be involved in international trade. We have got so much going on, whether it is in the context of these trade agreements, whether it is the trans-Pacific partnership, whether it is the work we are doing on enforcement, whether it is the work we are doing to address a lot of the problems we have in our relationship with China. You know, there is so much going on that I think everybody at USTR's head is spinning.

Mr. CROWLEY. So maybe you can dispel some of the rumors that there is kind of a quagmire here, we are not moving out, and we are stuck in the mud, we are not moving out of this. That is kind of not really true. Is that correct?

Mr. MARANTIS. No, that is incorrect. We have got a lot going on in all regions of the world, on all issues from, you know, trade expansion to enforcement.

Mr. CROWLEY. One aspect of trade that I would like to know if you have a comment on is the issue of trade adjust—assistance, and the lack of movement here. Can you make any comment on that?

Mr. MARANTIS. Yes. We need to engage in a conversation with Congress about how we are going to move a comprehensive trade agenda forward. You know, that includes the FTAs, but that also includes, as you said, trade adjustment assistance, it includes renewal of our preference programs, and it includes securing PNTR for Russia.

Mr. CROWLEY. Do you have any observation about why you think TAA has stalled here?

Mr. MARANTIS. I mean TAA has been a critical component of our trade policy for years, and we——

Mr. CROWLEY. I know that. But you won't make any comment as to why you think it may have stalled here?

Mr. MARANTIS. Well, we are looking forward to getting it renewed as quickly as possible.

Mr. CROWLEY. I thank you, and I yield back the balance of my time.

Mr. MARANTIS. Thank you, Ambassador. Let me understand the process. With a trade agreement like this, before the text is sent to Capitol Hill, you engage in technical discussions with the key committees, where members of both the majority and minority party go through, word for word, the agreement, ask questions.

And, as I understand it—for example, the discussions today from both the majority and minority—ask questions, inquire as to how the supplemental agreement, you know, coincides with the original text. That is the normal process, isn't it, before the actual text is sent to the Hill?

Mr. MARANTIS. Yes. I mean the great thing about this is this is a congressional-executive partnership. And so we will sit down together have drafting sessions on what the implementing bill will look like. I mean, again, we have a draft of that here that we are looking forward to going through with you, you know, which will then lead towards the mock mark-up that this—that the committee will have.

But there are a lot of questions. You know, we, I think, have answers to all of them, and are eager to get rolling.

Chairman BRADY. Great——

Mr. CROWLEY. Will the chairman yield for a moment, Mr. Chairman?

Chairman BRADY. Absolutely.

Mr. CROWLEY. Just—I brought that subject up because the notion that the Administration is dragging its heels, I wanted to clarify that the Administration is not holding back this agreement, and that the House has not yet asked for it. That was the point I was trying to make, that the House—that the President and the Administration are not dragging their heels on this.

Chairman BRADY. Great, and I agree and appreciate that. We simply want thorough, complete technical discussions, and follow—again, the consultation is very important. Thank you.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman, and thank you, Ambassador, for sharing your expertise and insight with us today. And I guess I would—reflecting on the prior statement, it is quite obvious that the Administration is advocating for this trade agreement, so much so that it leaves a lot of us to wonder exactly what the status is, perhaps, of the other two, although there is progress with the Colombia trade agreement and I am grateful for that.

But let me also say that I appreciate USTR. That operation is very impressive, in terms of engaging on the issues, and responsive. And I am grateful.

But if we could look at this issue, I think we have to, in terms of looking at all three trade agreements and the synergy that can be created, as we speak. As you said, this is an exciting time for trade. Let us take advantage of that.

And it is not just—although I appreciate your speaking to the advantages for American agriculture, and the opportunities associated with this particular trade agreement, as well as the others—but, you know, there are other sectors that can benefit, as well.

Can you speak to the synergy at all, though, about all three trade agreements that we are looking at right now? It is not always that we have an opportunity like this to send, I think, a terrific message, geopolitically or geostrategically, around the world of how we can engage, and we appreciate our friends in, often times, hostile regions of the world. Can you speak to that synergy that can exist?

Mr. MARANTIS. Yes. I mean all of these trade agreements are about, you know, two primary things: economic growth and job creation. And, you know, I think people think it is trite to say, but it is very true: 95 percent of the world's consumers live outside of the United States. And in order for our economy to grow, we have got to export to them. And in order for us to be able to create jobs, we need to take advantage of those export opportunities.

And that is what our trade policy is about, it is about fostering economic growth. It is about creating opportunities, and it is about creating jobs.

Mr. SMITH. Thank you. Also, you know, it is interesting—and, as I am sure you are aware—and we have heard a little bit earlier this morning that often times there is kind of a twisting of information out there of what can be accomplished with various trade agreements.

And we know that we have a global economy, for obvious reasons. And we see U.S. companies perhaps expanding to countries overseas, closer to some of those markets that you just highlighted. Do you see any of those changes?

Now, companies are often times criticized for doing so, which is unfortunate, because that makes U.S. companies stronger, when they can expand closer to various markets worldwide. Can you speak to whether or not that would be changed, or viewed any different, with respect to expansion?

Mr. MARANTIS. No. Thanks for raising that point. I mean I think it is important to remember that our investment, U.S. investment in foreign markets is job-creating. Forty-five percent of U.S. exports are associated with our firms who are investing overseas. Twenty-two million American jobs depend on U.S. firms who have investments overseas. That is why the investment provisions of our agreements are important, because they level the playing field for our investors, who often times face very difficult challenges in the legal regimes of foreign markets.

So, through our investment provisions in these agreements, it actually brings our trading partners up to the very high level of investment protection that we provide domestically for ourselves and for foreign investors.

Mr. SMITH. Okay. Also we have heard a lot about agriculture already. Could you perhaps highlight some of the opportunities in the manufacturing sector, if you could?

Mr. MARANTIS. Absolutely. As—generally, speaking broadly, you know, the agreement levels the playing field in the manufacturing sector, as it does in the ag sector. Korea's average tariff in the manufacturing sector is around 6.8 percent. You know, ours is about two percent—ours is about three percent. So, once the agreement goes into force, you know, 95 percent of Korea's tariffs will be eliminated in the first 5 years of this agreement. And that is going to be a huge boon for our manufacturing sector, including in the area—you know, our chemicals exporters, our machinery exporters.

And now that we have been able to do what we did in December, this agreement is now better for our auto exporters, who are going to have new opportunities to sell, you know, our high-quality U.S. cars in Korea's market.

Mr. SMITH. Okay. Thank you. And I appreciate those numbers that you mentioned, because I think it also points to the fact that when tariffs that our companies face there are higher than what their companies face here, actually we gain more. So thank you, Mr. Chairman.

Chairman BRADY. Thank you. Mr. Rangel is recognized.

Mr. RANGEL. Thank you so much, Mr. Chairman, and thank you, Mr. Ambassador. I am so pleased to see that the strong objections that some of us had under previous agreements have been adjusted.

And I think you are saying in your testimony that there is no outstanding issue now that you know of that could cause a large number of Members to be critical of it?

Mr. MARANTIS. Yes, sir. We worked very hard with you, with Mr. Levin, Mr. Camp, Mr. Brady, your staffs, to address, you know, the key outstanding—one of the key outstanding concerns that was out there in the auto sector. And we are so grateful for the work that we were able to do together to make this better, and to allow for us to be sitting here today, you know, together, urging for passage of this agreement.

Mr. RANGEL. One of the feelings that a lot Americans have—and it is reflected by their representative—is that when you say "trade" you mean loss of jobs. And I do not think we have done a pretty good job, in terms of showing that jobs can and are being created.

You made a very generous offer to the gentlelady from the majority that you would share with her the impact in her district. And, as Mr. Crowley said, even though we are from New York City, we are concerned with the whole state.

For the life of me, I do not know why, especially with the Colombian agreement, where there is just so many arguments for the jobs that would be created, why none of that is shared with us. Are you familiar at all with the Colombian agreement, and where the manufactured goods that are needed would be coming from? We know the companies names, and of course I do not know where they are located. But I have been impressed by the names of the manufacturing companies. Wish they were in New York, but nevertheless, if it is the United States, that helps me.

Do you go through anything like that in your office?

Mr. MARANTIS. Yes, sir. We are developing—we have, complete for Korea, an analysis on a state-by-state, on a sector-by-sector basis, that really goes into great detail. We are in the process of developing those for Colombia and Panama as well, but they are extremely helpful documents. I actually think, for Korea purposes today, USTR's website now has a special page on it, on the Korea agreement, that has all of these specific facts on—again, on a sector-by-sector and a state-by-state basis.

Mr. RANGEL. And the environmental concerns that the Government of Korea—we are satisfied that our automobiles are just as safe and environmentally approved as anything that the Koreans are producing. Is that right?

Mr. MARANTIS. Yes, sir. We have very strong—our federal motor vehicle safety standards have the highest safety standards, you know, in the world. Our environmental regulations are the highest standards in the world. And what we have done, in terms of safety and environment, is we have ensured that Korea's regulations do not place a disproportionate burden on our exporters, while at the same time ensuring the highest level of safety and environmental protection.

Mr. RANGEL. Did you answer the question whether or not we can expect the Korean free trade agreement to come by itself, or whether it is going to be included with a whole group of agreements?

Mr. MARANTIS. That is a conversation we need to have with Congress, in terms of how we move forward on the President's comprehensive trade agenda, which includes the pending FTAs, which includes trade adjustment assistance, renewal of our preference programs, as well as securing PNTR for Russia.

Mr. RANGEL. Are beef exporters satisfied with the changes in the provision, as it relates to exporting of beef?

Mr. MARANTIS. The Korea agreement addresses the key barrier that our beef exporters have faced, which is the 40 percent tariff on U.S. beef. You know, implementation of the agreement will allow our exporters to build on the phenomenal growth in their sales that they have seen over the past few years. Last year I think exports increased by 140 percent.

We still have concerns with respect to beef that Korea has not fully opened its market to beef from cattle over 30 months. It is something that we are going to continue our work with the Koreans on.

Mr. RANGEL. Take my word for it. All the work that you could possibly do in identifying potential jobs in our communities, in our state, and more specifically, in our congressional district, it works, and it is needed.

Thank you so much, Mr. Chairman.

Chairman BRADY. Thank you, Chairman. Mr. Larson.

Mr. LARSON. Thank you, Chairman Brady. Ambassador, in your testimony you state that the U.S.-Korea trade agreement will result in the removal of tariffs on over 95 percent of made-in-America industrial and consumer good exports. Specifically, you cite the benefits to the U.S. aerospace industry and its workers. This is especially important to my district, in East Hartford, Connecticut, which is the home of a number of aerospace-related companies, including Pratt & Whitney, Hamilton Sundstrand, Command, Aero Gear, to name just a few.

Can you please provide a bit more clarity on how this deal would benefit American aerospace industry, and the skilled workers employed in these companies? And further, can you discuss how a delay in enacting the deal would impact these aerospace companies? I ask, because the EU's agreement with Korea will be going into place shortly, and many of the world's top aerospace companies are headquartered in Europe.

Mr. MARANTIS. Thank you, Mr. Larson. I had the pleasure of visiting Pratt & Whitney with your staff about six months ago, and so thank you for that opportunity.

Aerospace is a great example; 92 percent of our aerospace exports will go duty free, upon implementation of the agreement. The remaining eight percent will phase out in three years. This is very important, as you mentioned, for EU purposes, as well. The EU has a very competitive aerospace industry with ours. If their agreement goes into effect in July, as it does, as it is, and ours does not go into effect for, you know, a long time thereafter, we are going to lose a competitive advantage. And EU exporters of aerospace and other products will have a competitive advantage over ours, and will get a foothold in Korea's market.

That is why it is critically important that we move this agreement to conclusion as quickly as possible to make sure that exporters of aerospace and, you know, all other products are able to really get that competitive leg up in Korea's market before too much time passes.

Mr. LARSON. Thank you, sir.

Chairman BRADY. The gentleman yields back? Mr. Kind.

Mr. LARSON. I yield back.

Mr. KIND. Thank you, Mr. Chairman. Thank you for having this hearing. Mr. Ambassador, thank you. And I would like to just commend you and Ambassador Kirk, the entire U.S. TR team, as well as the Obama Administration, for slowing the process down a little bit with these important trade agreements, and seeing if we can get a better deal. And, from my perspective, the additional work that went in to some of the, shall we say, loose ends in regards to Korea, there was significant progress to where it was and where we are today. The same thing is occurring with Colombia and Panama as well, and I think that was exactly what was necessary, in order to make, as you describe, good agreements even better. And that is how I view this.

But we also need to be clear that, you know, trade right now in a time of tough economic times, in an economy that is under-performing here in the United States, it is a tough sell. I just met with numerous labor leaders back in Wisconsin last week who are adamantly opposed to the Korean trade agreement, under the impression that it does not go far enough when it comes to labor standards, environmental standards, those type of things, and they are afraid this might result in a race to the bottom.

If you had an opportunity to address them, what can you point to specifically in regards to the Korea trade agreement, as it relates to labor and environment, to try to dispel them of this notion that it is not as tight or not as good as we could hope to see?

Mr. MARANTIS. Thank you. This agreement provides the highest level of labor and environmental protection that we have had in the history of trade agreements, as does Colombia and Panama, as well.

This agreement requires both parties to adopt and maintain laws that are consistent with the five core ILO labor standards. It requires the parties to effectively enforce those laws, as well as laws that relate to acceptable conditions of work, like minimum wage. It requires parties not to waive or derogate from the provisions to achieve a trade or investment advantage. And the standards on the environmental side are equally as high.

We are very proud on what we have done on labor and environment in these provisions. And, you know, working specifically with a partner like Korea, who, you know, with an advanced economy and advanced labor relations regime, a GDP per capita of $20,000, we have got a good partner on this. And, you know, we are looking forward to putting these provisions into place, because they provide us—when in place, they will provide us with a further mechanism to address any labor or environmental-related concerns that should arise.

Mr. KIND. And I know your office has been responsive to our request, too, as far as more detailed information in this regard. And we are trying to do our own economic analysis, as far as the impact in Wisconsin. Still a large manufacturing state. We have got many large manufacturers in my congressional district, from 3M to train company, to Hutchinson Cummins, who all view this as a real net positive for them, and the products that are being right in—also agriculture production is key to our state.

But there is one sector that has really been struggling the last couple of years, and that is dairy production, our dairy farmers. Is there something here in Korea that we can offer the dairy industry of America, too, as——

Mr. MARANTIS. Yes. It is a great agreement for dairy, in that it reduces tariffs and expands tariff rate quotas. For instance, upon implementation, our dairy exporters will see duty-free tariff rate quotas for a number of products: cheese, butter, certain milk powders. This is a great agreement for dairy.

And again, like, you know, for other sectors, the sooner we get it into force, the sooner they will be able to benefit.

Mr. KIND. And you said there is—still, hopefully, some progress is going to be made on beef. Is there something more tangible you can——

Mr. MARANTIS. Yes. I mean, on beef, the key thing is when—as soon as the agreement goes into force, we begin to eliminate the 40 percent tariff on beef. And that has really been—that is really important, particularly as Australia is in the process of negotiating an FTA with Korea. We do not want to have our beef exporters put at a competitive disadvantage to Australia. Korea's tariff is high, 40 percent. And as it lowers for us before Australia, we are going to get a competitive leg up in the market.

We do continue to have concerns, though, with lingering restrictions on beef and cattle over 30 months. It is something we are working on, you know, with Korea, as well as with our other Asian trading partners, Japan and China, as well. And we expect to make progress.

Mr. KIND. Let me ask you one final question. We are running out of time, but I think in order to have an honest conversation with the American people, trade is a two-way street. There are going to be benefits flowing the other way.

Let me ask you a question that you do not hear from many Members of Congress in that, when we are looking at these trade agreements. But what is in it for Korea? Why is Korea interested in entering into this trade agreement when we already have pretty low tariffs and pretty easy market access to what they are producing?

Mr. MARANTIS. We are a very important market for, you know, for countries around the world. We are the biggest consumer market.

What this agreement does for Korea, it really locks in a preferential regime for Korea, for Korean exporters to be able to benefit from, you know, the wide consumer market that we have here. So we like to call it—again, it is a trite expression to say it is a win-win, but it really is.

You know, we get significant benefits in Korea, and Korea gets significant benefits, being able to access our huge market more competitively than some of its competitors.

Mr. KIND. Thank you. Thank you, Mr. Chairman.

Chairman BRADY. Thank you. Mr. Paulsen is recognized.

Mr. PAULSEN. Well, thank you, Mr. Chairman. And, Mr. Ambassador, let me just start by thanking you and Ambassador Kirk and Ambassador Han for all of the success in moving this outstanding opportunity for job growth, which is really what it is about, is about jobs and economic growth, but also new sales, new customers. And that is the message we all need to communicate bipartisanly, to really see this successfully move forward. And I know the votes are there. It is going to happen, as well as the opportunity for all three trade agreements.

Let me just ask you a question really quick, because we focused a lot about manufacturing and the services industry, as well. I know that U.S. industries that depend on intellectual property rights employ millions of American workers and they support very high-paying jobs. And it is absolutely estimated now that there is a broad range of U.S. industries that depend on intellectual property rights. They count for about 60 percent of U.S. exports and drive nearly 40 percent of U.S. economic growth.

And our trade agreements, including the pending ones now before us, set very high standards for protecting United States intellectual property rights abroad that help support U.S. innovations, U.S. entrepreneurship, U.S. competitiveness and jobs. Do you agree with this assessment, and could you please give a couple of examples maybe of how these pending trade agreements with South Korea and the other agreements protect our intellectual property rights to the benefit of U.S. workers and the U.S. economy?

Mr. MARANTIS. Thanks for raising that. I mean IP is a critical chapter of this agreement, as it is with Panama and Colombia, and we have some pretty incredible IP protections in this, across industry, you know, in the area of copyrights, trademark patents, as well.

It is—you know, the agreement strengthened deterrents against criminal acts of commercial scale piracy. It really beefs up our ability to enforce provisions against piracy, against counterfeiting. It goes much farther in the area of combating Internet piracy, as well. In the area of trademarks these agreements have state-of-the-art provisions that, you know, recognize sound marks and scent marks, and also have, again, very strong deterrent and enforcement provisions. It extends the term of protection for certain copyrighted works, consistent with U.S. law and emerging international standards.

I mean I can go on and on. It streamlines and strengthens customs procedures to increase the efficiency of border enforcement, to deter, you know, counterfeit products, you know, at our border.

So these—the intellectual property provisions in the Korea agreement in particular, which I know best, but also in Colombia and Panama, are really state of the art.

Mr. PAULSEN. Well, thank you. And I just raise that because that is an issue I often hear from my small manufacturing and medium manufacturing companies back home, not to mention others, that really are concerned about protecting our innovative ideas here in the United States. And so this is something that sort of gets glossed over. And it is an opportunity to really enhance and protect that. So I just want to thank you for that.

And we heard a lot of examples here from the Members on the Committee of how our own individual districts or states will benefit under this agreement. And I just know that is going to be the continued case, Mr. Chairman, as you work with the Administration on bringing the other agreements forward, as well. Thank you. I yield back.

Chairman BRADY. Thank you. Mr. McDermott is recognized.

Mr. MCDERMOTT. Thank you, Mr. Chairman. I would like to reclaim just a moment of my time to clarify something.

If I understand correctly, we have the Korean FTA draft implementing legislation here. I just want to make it clear the Democrats want you to send it up here today. It is time to move the ball and get the FTA moving with this. Let us not play this game about who asked who play back and forth. If you have got it, send it. Let us move it.

Chairman BRADY. The excitement is mounting, Ambassador.

[Laughter.]

Chairman BRADY. Thank you for being here. I want to thank you for your testimony. And thank the Members for their thoughtful questions on both sides of the aisle. And let me note, as well—Ambassador knows this—the Members may submit questions for the record. And if they do, I hope you will respond promptly. And again, thank you for the insight today, and your time.

I would like to welcome our second panel to step forward today. We are joined by four witnesses.

Our first witness will be Mr. Bill Rhodes, Chairman of the U.S.-Korea Business Council. He is also Chairman and CEO of William R. Rhodes Global Advisors, and Senior Advisor to Citigroup. He is testifying on behalf of the U.S.-Korea Business Council and the U.S.-Korea FTA Business Coalition.

After him we will hear from Dr. John Schoch, President and CEO of Profile Products, LLP, who is also testifying on behalf of the U.S. Chamber of Commerce.

Our third witness will be Mr. Robert Holleyman, president and CEO of the Business Software Alliance.

And last we will hear from Ambassador Thomas Hubbard, who served as the U.S. Ambassador to South Korea from 2001 through 2004, and now is Senior Director for Asia at McLarty Associates.

We welcome all of you, and we look forward to your testimony. I would also ask that our witnesses keep their testimony to five minutes.

Mr. Rhodes, your written statement, like those and all the witnesses, will be made part of the record, and you are recognized for five minutes. Welcome.

STATEMENT OF WILLIAM RHODES, CHAIRMAN, U.S.-KOREA BUSINESS COUNCIL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WILLIAM R. RHODES GLOBAL ADVISORS, LLC, SENIOR ADVISOR TO CITIGROUP, ON BEHALF OF THE U.S.-KOREA BUSINESS COUNCIL AND THE U.S.-KOREA FTA BUSINESS COALITION

Mr. RHODES. Thank you, Chairman Brady, Ranking Member McDermott, and Members of the Subcommittee, for giving me this opportunity to talk to you and testify on the KORUS FTA, which I will refer to as KORUS, going forward.

I serve as the chairman of the U.S.-Korea Business Council, which is an affiliate of the U.S. Chamber of Commerce, and is a leading business organization promoting the bilateral U.S.-Korea commercial relationship. The Council is secretariat for the U.S.-Korea FTA business coalition, which represents nearly 1,000 companies, businesses, and agricultural organizations and chambers of commerce that support the approval of the pending trade agreement with Korea.

I am also senior advisor to Citigroup and president and CEO of William R. Rhodes Global Advisors. I am chairman emeritus of the Council of the Americas, the Americas Society, and a professor at large at Brown University. In wearing all these hats, I am a vigorous proponent of trade liberalization and, in fact, was one of those early on who urged the U.S. and Korean governments to launch the negotiation of a free trade agreement.

The approval and implementation of the U.S. economy agreement with South Korea, along with agreements with Colombia and Panama are among the most important actions that the U.S. Congress can take to achieve President Obama's goal of doubling U.S. exports in five years, and creating new jobs and economic opportunities in communities across the country, and in building an infrastructure that promotes regional prosperity and stability.

On that note, I want to applaud the action of the Obama and Santos administrations for having reached agreement on the labor action plan which will also allow the Colombia FTA to move forward and be considered by Congress. We have also seen important progress which has been made on Panama so that agreement can also be moved forward in the future. All of these agreements are important for American growth and job creation.

But given the specific hearing today, I want to talk about the U.S. business community, and how it sees the Korean agreement, specifically, and especially the benefits to U.S. economic and geostrategic goals.

This groundbreaking agreement will bring significant benefits to American workers, business, farmers, consumers, and U.S. economy. The scale and breadth of U.S. trade with South Korea, 1 trillion economy with 49 million consumers, that is already the seventh largest U.S. export market and trading partner—this makes KORUS the most commercially significant bilateral U.S. trade agreement in nearly 2 decades.

I believe we are close to the finish line on KORUS, but I think we can all agree it has been a long and winding course. We recognize that concerns raised by U.S. stakeholders, with respect to certain measures, and KORUS needed to be addressed in order for the agreement to move forward.

We applaud the tireless efforts of the White House and Blue House, the office of, U.S. Trade Representative, and I must say Ambassadors Kirk, Marantis, and Wendy Cutler have done a first rate job here, and Members of Congress and the Korean trade negotiator counterparts, for identifying the solutions that we have finally come to.

The new provisions reached in December added powerful new momentum for moving the KORUS agreement forward. KORUS is the centerpiece of America's international economic engagement. The United States International Trade Commission, USITC, estimated in September 2007 that the agreement could increase U.S. exports to $10 billion to $11 billion annually. President Obama has said on many occasions that it would add 70,000 U.S. jobs if this—when this agreement is approved.

An updated statement of potential economic effects of the agreement prepared in January of this year, January 2011, by the USITC economic staff, at the request of the Senate Finance Committee Trade Subcommittee estimated that the agreement could generate as many as 280,000 jobs. Moreover, Korean companies are expanding their investment in the United States, and have created thousands of American jobs in manufacturing, as well as distribution and supplier networks across our country.

By reaffirming the openness of the U.S. market and the attractiveness of the United States as a destination for investment, and by lowering barriers to U.S. exports in the Korean market, Korea has the potential to accelerate all these job-creating opportunities that I have mentioned.

But the agreement cannot solely be quantified in terms of bilateral economic impact. KORUS also has significant implications for the U.S. national economic security and geostrategic priorities, both in Asia-Pacific and globally.

[The prepared statement of Mr. Rhodes follows:]

Hearing of the

U.S. House of Representatives
Committee on Ways and Means Trade Subcommittee

on the

U.S.-South Korea Trade Agreement

Thursday, April 7, 2011
10:00 a.m.
1100 Longworth House Office Building

Statement by

William Rhodes
Chairman, U.S.-Korea Business Council
President and CEO, William R. Rhodes Global Advisors, LLC
Senior Advisor to Citigroup

on behalf of the

U.S.-Korea Business Council
U.S.-Korea FTA Business Coalition

Thank you for this opportunity to share the views of the members of the U.S.-Korea Business Council, and the U.S.-Korea FTA Business Coalition, on the economic benefits and geopolitical implications of the U.S.-South Korea Trade Agreement.

The U.S.-Korea Business Council is the leading business organization promoting the bilateral U.S.-Korea economic and commercial relationship and is composed of U.S. companies that are significant investors in and exporters to the Republic of Korea (South Korea). The Council is secretariat for the U.S.-Korea FTA Business Coalition, which represents nearly 1,000 American companies, business and agricultural organizations, and chambers of commerce that support approval of the pending trade agreement with South Korea.

The members of the Council and of the Coalition vigorously support the U.S.-South Korea trade agreement ("KORUS"). This groundbreaking market opening agreement will bring significant benefits to American workers, businesses, farmers, consumers, and the U.S. economy. The scale and breadth of U.S. trade with South Korea—a $1 trillion economy with 49 million consumers that is already the seventh-largest U.S. export market and trading partner—make KORUS the most commercially significant bilateral U.S. trade agreement in nearly two decades. The comprehensive scope of this agreement, and its strong protections and provisions eliminating non-tariff barriers to trade, set important new benchmarks for future U.S. and global trade agreements. Moreover, the agreement cannot solely be quantified in terms of its bilateral economic impact, but also has significant implications for U.S. national economic security and geostrategic priorities, including promoting trade liberalization in Asia and globally.

Approval and implementation of the agreement with South Korea, along with the agreements with Panama and Colombia, are among the most important actions that the U.S. Congress can take to achieve President Obama's goal of doubling U.S. exports in five years—creating new jobs and economic opportunities in communities across the country—and to building an infrastructure that promotes regional prosperity and stability. I would like to describe why the U.S. business community sees the South Korea agreement, specifically, as beneficial to U.S. economic and geostrategic goals.

Economic Benefits

Trade and investment with South Korea already contributes significantly to the U.S. economy and supports tens of thousands of U.S. jobs. Two-way trade in manufactured and agricultural goods reached nearly $88 billion in 2010. Demand in South Korea for "made in U.S.A." products is growing: U.S. goods exports to South Korea rose to $38 billion in 2010, and South Korea was the fastest growing export market for U.S. manufactured goods that year, increasing 39.6%. South Korea was the seventh-largest export market for U.S. goods and fifth-largest market for U.S. agriculture exports last year.

Two-way trade in cross-border services amounted to $19 billion in 2009, with U.S. exporters running a $6.2 billion trade surplus in services exports that year. South Korea is also an important export destination for U.S. small and medium-sized enterprises, which accounted for more than

89% of all U.S. companies exporting to Korea in 2008 and $14.2 billion of U.S. exports to Korea that year.

U.S. producers face significantly higher tariffs in South Korea than Korean producers face in the already open U.S. market. Currently, non-agricultural U.S. goods face an average applied tariff in Korea of 6.2%, and U.S. agricultural products face an average applied tariff of 54%. Under KORUS, nearly 95% of bilateral trade in consumer and industrial products will become duty free within five years and tariffs on almost all goods will be eliminated within ten years. Additionally, nearly two-thirds of U.S. agricultural exports to South Korea will become duty-free immediately, and the agreement will phase out over 90 percent of all South Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, and oranges, over 15 years.

The Council and the Coalition expect the elimination of these tariffs to boost significantly U.S. exports to South Korea. The United States International Trade Commission (USITC) estimated in September 2007 that the agreement could increase U.S. exports by $10 billion to $11 billion annually.

KORUS will also remove significant non-tariff market access barriers in South Korea to U.S. goods, services, and investment. It guarantees transparent and predictable regulatory and rule making procedures in South Korea, and includes commitments to apply a negative list approach, under which all sectors are liberalized except where South Korea has taken a specific reservation, and will automatically include future liberalization actions taken by Korea under the agreement. It includes possibly the strongest ever protections for intellectual property within a bilateral U.S. trade deal, which is of great importance given the significant impact that counterfeiting and piracy in South Korea have had on U.S. companies in the entertainment, software, ICT, and other sectors.

KORUS includes strong provisions and protections on investment and competition policy, and will help ensure the fair and transparent application of competition policy for all U.S. companies doing business in South Korea. Under the agreement, the Korean government has committed to provide national treatment to U.S. stakeholders so that they will have equal footing in regulatory proceedings and in standards-setting processes. South Korea has also agreed to allow 100 percent foreign ownership of telecommunications providers and certain broadcasting channel operators, areas in which foreign investment has been restricted until now, and committed to opening previously closed sectors, such as legal and health care services, to U.S. companies. In addition, the agreement includes important new commitments on customs administration and rules of origin, and streamlined procedures that will facilitate more trade by ensuring timely and efficient clearance of customs.

KORUS includes the strongest financial services chapter in a U.S. bilateral trade agreement. It will create a more level playing field for U.S financial services companies in South Korea and establish a more competitive market environment, which we expect will generate significant new business and benefits for U.S. firms in this sector. Even though U.S. financial services companies have in recent years made major investments in South Korea, it remains a challenging market because of complex regulatory procedures and other non-tariff barriers. KORUS will address these through commitments that are the most progressive made with any U.S. trading partner to date and that will increase transparency, predictability, and accountability in its financial services sector. These commitments will promote greater sectoral stability and international regulatory cooperation, and will increase—not decrease—sound regulatory oversight of the financial system. KORUS also includes provisions that will allow for cross-border data flow, which will enable U.S. based back office support to U.S. firms' operations in South Korea and bring U.S. best practices there.

We expect these and many other provisions in KORUS to level the playing field for U.S. workers and businesses in South Korea, and to stimulate new demand there for U.S. goods and services—which will generate new American jobs and growth.

Job Creation Benefits

KORUS holds great potential to grow new U.S. American jobs. Increased demand in South Korea for U.S. manufactured and agricultural products—and increased imports to the United States from South Korea resulting from the FTA—will create new American jobs at ports, in transportation and logistics, warehousing, marketing, advertising, retail sectors, and other sectors. U.S. exporters would not only need production workers but also engineers, designers, and marketing specialists. All of these new employees will help drive retail and other services-sector growth in their communities.

South Korean companies are expanding their investment in the United States, and have created tens of thousands of American jobs in manufacturing as well as in distribution and supplier networks across the country. These jobs contribute to economic growth in local communities, generating jobs in services and other sectors. By reaffirming the openness of the U.S. market and attractiveness of the United States as a destination for investment, KORUS has the potential to accelerate this trend.

President Obama has said that at least 70,000 U.S. jobs would be supported by KORUS. This figure is a conservative estimate and does not capture the potential for growth of U.S. services exports to South Korea. An updated assessment of the potential economic effects of the agreement prepared in January 2011 by USITC economic staff at the request of the Senate Finance Committee Trade Subcommittee estimated that the agreement could generate as many as 280,000 U.S. jobs.

KORUS includes all of the labor protections and environmental provisions specified in the May 10, 2007, Congressional-Executive Agreement on Trade Policy, which ensure that U.S. trading partners promote and protect global labor and environmental rights and standards.

Geostrategic Benefits

KORUS is also important for U.S. security and geostrategic goals, both in the Asia-Pacific region and globally. Implementation of KORUS will strengthen the United States' relationship with South Korea, one of our country's strongest partners in advancing regional and global security. U.S.-South Korea ties have long focused on defense and security and, by expanding trade and investment, KORUS will broaden this relationship by deepening economic links. North Korea's continuing provocations, including the sinking of the *Cheonan* navy ship and the attack on Yeonpyeong Island last year, firmly reinforce the importance of the U.S.-Korea security alliance for protecting regional stability.

KORUS is a core component of U.S. strategies to secure a competitive edge in Asia, as the region becomes increasingly interwoven by trade agreements that leave out the United States. It provides a model for ways that major developed economies can successfully tackle challenging regulatory and other market access barriers to create a fair and competitive business environment. KORUS' strong rules and protections are seen as the baseline for the ongoing Trans-Pacific Partnership negotiations which, if successful, could lay the foundation for a possible future free trade area of the Asia-Pacific region.

The South Korean government has been steadfast in reiterating its commitment to open markets and in cautioning against protectionism during the recent global economic downturn. South Korea has increased its international leadership role as well through the G-20, partnering closely with the United States to address shared global challenges. In fact, South Korea was the chair of the ambitious and successful G-20 summit last November. Approval and implementation of the FTA will send a powerful signal to other major economies that the United States is committed to advancing global economic recovery and prosperity through open markets and the removal of barriers to opportunity and fairness.

South Korea is also an important provider of international development assistance, and plays an increasingly active role in peacekeeping and disaster relief efforts. U.S. and South Korean leaders say bilateral relations today are at their strongest level ever—and it is in America's interests to take every action that will reinforce this. By further integrating the two countries' economies, the FTA will deepen and add to the resiliency of this partnership.

The Cost of Inaction

The window of opportunity for the United States to take full advantage of the potential to create new jobs and growth through KORUS is, however, shrinking rapidly. On February 17, the European Parliament approved a free trade agreement with South Korea that will eliminate nearly 99% of all duties on trade in manufactured and agricultural goods between the European Union (EU) and South Korea within five years. That agreement will also offer EU manufacturers, farmers, and services providers many of the same protections and market opening provisions that their American counterparts will enjoy under KORUS. The EU agreement is slated to enter into effect on July 1. Without KORUS, American workers and producers risk losing out on the chance to increase their business and market share in South Korea while European exporters enjoy vast new market access there. We have already seen these kinds of market share losses in Colombia and Panama with the delay to act on passing these two important agreements as well. A study by the U.S. Chamber found that as many as 345,000 U.S. jobs and $35 billion in U.S. exports will be lost if the EU-Korea FTA and the pending Canada-Korea FTA enter into effect and KORUS does not.

Since the U.S. and South Korean governments first announced the launch of trade agreement negotiations more than five years ago, the Council and the Coalition have worked to inform the wider U.S. public about the important potential benefits of KORUS to the U.S. economy and geostrategic goals. During the nearly four years since the agreement was signed on June 30, 2007, U.S. exports to and trade and investment with South Korea have increased, but at nowhere near the level that could have been possible had the agreement been implemented then—costing American workers and exporters valuable opportunities to grow their business in Korea.

U.S.-Korea Business Council/U.S.-Korea FTA Business Coalition
Hearing of the House Ways and Means Trade Subcommittee
on the U.S.-South Korea Trade Agreement
April 7, 2011

We recognize that concerns raised by U.S. stakeholders with respect to certain measures in KORUS needed to be addressed in order for the agreement to move forward. We applaud the tireless efforts of the White House and Blue House, the Office of the U.S. Trade Representative, in consultation with members of Congress and their Korean trade negotiator counterparts, to identify solutions. The provisions agreed to in December have created important new access in South Korea for U.S. automakers, brought together business and labor in support of the FTA, and added powerful new momentum to moving the agreement forward.

Now it is time for Congress to swiftly approve the agreement with South Korea – as well as the other two pending agreements with Colombia and Panama - in order to open significant new access in South Korea's $1 trillion economy to U.S. workers, manufacturers, farmers, and services providers. This is the strongest action that Congress can take to support new American job growth through export creation, and to ensure that American workers and producers can compete in rapidly integrating markets across the Asia-Pacific.

Chairman BRADY. Mr. Rhodes, if I may, we are going to adhere to the five-minute limit on initial statements. I do have questions I would like to ask you when we conclude.

And, just for the panel's information, we have been called to vote. I would like to work through Mr. Schoch's testimony, break for the three votes, and then we will reconvene immediately after the last vote is taken.

So, Mr. Rhodes, thank you very much for your testimony. Mr. Schoch, you are recognized.

STATEMENT OF JOHN A. SCHOCH, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, PROFILE PRODUCTS, LLC, ON BEHALF OF THE U.S. CHAMBER OF COMMERCE

Mr. SCHOCH. Thank you, Chairman Brady, Ranking Member McDermott, and distinguished members of the Ways and Means Committee on Trade. My name is John Schoch, and I am president and CEO of Profile Products LLC, headquartered in Buffalo Grove, Illinois. I am testifying today on behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than three million businesses of all size, sectors, regions, as well as state and local chambers and industry associations.

I am pleased to have this opportunity to talk about the important benefits of passing the pending free trade agreements for American jobs and U.S. economic growth and, specifically, how the U.S.-Korea free trade agreement, known as KORUS, will boost Profile's exports and generate greater employment opportunities for our company's manufacturing facilities around the country.

For over 50 years, Profile Products has been a leading producer of the market's broadest line of erosion and sediment control products, turf establishment products, and complementary accessories to control erosion and accelerate seed germination. We also manufacture the industry's best-selling inorganic soil amendments for sports field, golf course, and landscape applications. With approximately 200 employees and 4 manufacturing facilities, 2 sales offices, and personnel domiciled around the country, Profile is able to manufacture and market its entire line of products from the United States.

Profile manufacturer its products in four rural towns throughout the country: Blue Mountain, Mississippi; Conover, North Carolina; Limestone, Tennessee; and Sanger, California. These communities understand that the number of people that we employ is directly related to the volume of orders our company receives. So, as our exports grow, so will the hours of production, and the number of employee shifts we need to operate in order to complete those orders. Today I am proud to say that our products are represented in more than 50 countries around the world.

While many Americans believe that trade only benefits large, multi-national corporations, the reality is that more than 97 percent of U.S. exporters are small and medium-sized enterprises, or SMEs. In 2008, almost 21,000 U.S. companies exported $34.8 billion worth of merchandise to Korea alone. Of the total exporters, 18,500, or over 89 percent, were SMEs.

Profile is one of the many U.S. SMEs that benefitted from exporting to Korea's dynamic market. In fact, Korea is our single largest export market, making up 12 percent of our total international sales revenue. Since 2009, Profile has sold more than

2,000 tons of our products into Korea. Several golf courses in Korea, including the prestigious Jack Nicklaus Signature Golf Club, feature Profile's products.

As global demand for Profile's innovative solutions has increased, so too has the effect of global sales on our company's workforce. In 2010, 13 to 14 percent of our sales came from overseas orders. We anticipate that number to grow to 15 to 17 percent of our total sales in 2011. If you do the calculation, that means approximately 28 of our 200 employees are employed as a direct result of the company's exports.

While our company has achieved considerable success in Korea and other markets, one of the greatest challenges we face is the complex array of foreign barriers to American exports. These include both tariff and non-tariff barriers. Free trade agreements like the pending trade deal with Korea will remove these barriers and create new opportunities and economic benefits for U.S. businesses through tariff elimination, greater market access, more efficient customs regimes, stronger intellectual property protections, and other market-opening provisions. For Profile, this would mean being able to sell our products to Korea at a significantly lower-landed price. Tariffs on our products currently range from three to eight percent. With passage of KORUS, those tariffs would be eliminated immediately.

In addition, Korea has been a particularly challenging market for Profile, in terms of trademark and patent infringement. KORUS will provide protections for intellectual property, similar to those in the U.S.

So, in conclusion, in support of the job-creating market-opening deal with Korea and our other trading partners, I respectfully urge Congress to boost exports and generate jobs through swift approval of the U.S.-Korea free trade agreement, and the pending trade deals with Colombia and Panama. The time for action is now.

Thank you very much for the opportunity to speak today.

[The prepared statement of Mr. Schoch follows:]

Statement
of the
U.S. Chamber
of Commerce

ON: Third in a Series of Three Hearings on the Pending, Job-Creating Trade Agreements (specifically on the U.S.-Korea Free Trade Agreement)

TO: U.S. House of Representatives Committee on Ways and Means Subcommittee on Trade

BY: John Schoch, President and CEO, Profile Products LLC, Buffalo Grove, IL

DATE: April 7, 2011

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Brady, Ranking Member McDermott, and distinguished members of the House Ways and Means Subcommittee on Trade. My name is John Schoch, and I am President and CEO of Profile Products LLC, headquartered in Buffalo Grove, Illinois. I am testifying today on behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

Today, I would like to speak about the important benefits of passing the pending free trade agreements for American jobs and U.S. economic growth, and specifically how the U.S.-Korea Free Trade Agreement (FTA) — known as KORUS — will boost Profile's exports and generate greater employment opportunities for our company's manufacturing facilities around the country.

Profile Products (www.profileproducts.com) has been a leading producer of erosion control, vegetation establishment, soil modification, and sports field renovation and maintenance products for over 50 years. We manufacture and distribute the market's broadest line of erosion and sediment control products, turf establishment products and complementary accessories to control erosion and accelerate seed germination. We also manufacture the industry's best-selling inorganic soil amendments for sports fields, golf courses and landscaping.

With approximately 200 employees in four manufacturing facilities, two sales offices, and sales personnel domiciled around the country, Profile is able to manufacture and market its entire line of products from the United States. Our commitment to world-class service, state of the art technology, and results-based performance providing measurable value to our customers has allowed our company to stand out in its industry and receive orders from clients around the world. Today, I am proud to say that our products are represented in more than 50 countries in Central America, the Caribbean, South America, Europe, Africa, the Middle East and the Asia Pacific.

With the U.S. unemployment rate hovering around 10 percent, the number one priority for the nation is putting Americans back to work through sustained economic growth. A robust U.S. trade policy will help America reach this job-creation goal. With 73 percent of the world's purchasing power, 87 percent of its economic growth, and 95 percent of the its consumers represented outside the United States, we can no longer rely on domestic consumption to generate enough demand for the goods and services America produces. We must look beyond our borders for new customers and tap into the growing global demand for the high-quality, innovative products that U.S. manufacturers produce every day.

I am honored to be before you today to discuss how the passage of the pending trade agreements, including KORUS, will give small and medium-sized businesses like mine the upper hand in foreign markets, and help America reach its goal of doubling exports in the next several years.

Trade Brings Growth, Prosperity, and Jobs for Small Businesses

While many Americans believe that trade only benefits large, multinational corporations, the reality is that more than 97 percent of the quarter million U.S. exporters are small and medium-sized enterprises (SMEs). Together, SMEs account for nearly a third of U.S. merchandise exports, according to the U.S. Department of Commerce. In 2008, 20,788 U.S. companies exported \$34.8 billion worth of merchandise to Korea alone. Of this total, 18,545—or over 89 percent—were SMEs. Profile was one of the many U.S. SMEs that benefitted from exporting to Korea's dynamic market.

Of the more than 50 countries we export to around the world, Korea is our single largest export market, making up 12 percent of our total international sales revenue. Since 2008, Profile has sold to Korea more than 1200 tons of our Flexterra FGM, our highest technology hydraulically applied mulch product used to prevent soil erosion and develop healthy plant establishment, and 600 tons of our Porous Ceramic, an inorganic soil amendment used to manage the moisture and nutrient holding ability of sand-based root zones, specifically in golf course and sports field construction. Several golf courses in Korea, including the prestigious Jack Nicklaus Signature Golf Club, Hyundai Sungwoo Ostar Country Club, Alpensia Troon Estate Golf Club, and Nine Bridge Country Club, feature Profile's products. We hope to continue expanding our reach as Korea's demand for sustainable golf courses soars in the coming years.

As global demand for Profile's innovative solutions has increased, so too has the effect of global sales on our company's work force. In 2010, 13 percent to 14 percent of our sales came from overseas orders. If you do the calculations, approximately 28 of our 200 employees are employed as a direct result of the company's exports. We anticipate that number to grow to 15 percent to 17 percent of our total sales in 2011.

As the president of the firm, I have seen first-hand the impact that international trade can have on a small business like ours. Since I started with the company eight years ago, our international output has risen exponentially. As our exports grow, so does the employment in our manufacturing facilities. Since employment is a direct function of the volume of our orders, additional volume means additional shifts, which then translates into hiring additional workers.

Trade already sustains millions of American jobs. More than 50 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury. With the passage of KORUS and the pending trade deals with Colombia and Panama, I have no doubt that thousands of SMEs like Profile will be able to hire and retain a larger, more productive workforce.

FTAs will Level the Playing Field for Profile Products and Other SMEs

While our company has achieved considerable success in Korea and other markets, one of the greatest challenges we face is the complex array of foreign barriers to American exports. These include both tariffs and non-tariff barriers which pose a major competitive challenge to

U.S. manufacturers, service providers, farmers, and the millions of U.S. workers whose jobs depend on exports.

Free trade agreements like the pending trade deal with Korea will remove these barriers and create new opportunities and economic benefits for U.S. businesses through tariff elimination, greater market access, more efficient customs regimes, stronger intellectual property protections, and other market-opening provisions.

At its core, these agreements are about making trade fair. Most Americans do not realize that while the U.S. market is largely open to imports from around the world, other countries continue to impose steep tariffs on U.S. products. For example, Korean average applied tariffs on U.S. industrial and consumer goods are 6.2 percent, as compared to the average U.S. applied tariff of 2.8 percent. For agricultural goods, Korea applies an average tariff of 54 percent, as compared to the 9 percent average tariff that the United States applies to agricultural imports.

The pending trade agreements will level the playing field for U.S. companies to compete fairly with their foreign competitors. Under KORUS, nearly 95 percent of bilateral consumer and industrial goods trade will become duty-free within three years, with almost all remaining tariffs eliminated within 10 years.

For Profile, this would mean being able to sell our hydraulically applied mulch products such as Flexterra, our Porous Ceramics for golf course construction, as well as numerous other products to Korea at a significantly lower landed price. For example, Profile's Porous Ceramics currently faces a tariff of three percent that will be eliminated immediately with the passage of the KORUS FTA. FlocLoc, a soil and fiber mulch stabilizer that we also export to Korea, currently faces a tariff of eight percent that will be eliminated immediately when the KORUS FTA is implemented. When you are exporting products by the truckloads, eight percent makes a huge difference.

Approval of the pending trade agreements with Korea, Colombia, and Panama will not only eliminate tariffs in these countries. These agreements will open the door to new opportunities for Profile Products and other SMEs in ways that go far beyond just cutting tariffs:

- **Intellectual Property Protections:** Korea has been a particularly challenging market for Profile in terms of trademark and patent infringement. KORUS will give protections for intellectual property similar to those in the U.S. law and will criminalize trademark and copyright infringement by destroying both the counterfeited goods and the equipment used to produced them. As a result, Profile would not have to invest its time, money, and other resources into protecting patents. Our bottom line profit would be higher and we could invest our resources into other areas to grow our business and thereby create the need to hire more employees, build infrastructure, and purchase additional equipment.

- **Reduced Red Tape and Expedited Customs Procedures:** Although Korea's customs process is relatively easy to navigate, KORUS would help streamline the delivery process so that the time to market is reduced. This would facilitate increased trade and sales for

U.S. SMEs and allow companies like Profile to deliver our products to the final destination at a lower cost, making us more price-competitive.

- **Increased Transparency:** KORUS includes provisions that will ensure clear, consistent and predictable regulatory procedures across all sectors of its economy. These guarantees of open and fair regulatory processes address one of the most costly challenges for U.S. companies doing business with Korea.

For years, Profile Products has been able to stand out from its competitors because of our ability to provide customized, holistic soil solutions that combine environmentally friendly components and designs with top-notch agronomic and erosion control expertise. We have full confidence in our products and services, and have no qualms about competing in foreign markets—as long as it's fair. Passage of KORUS and other pending trade agreements would ensure that U.S. businesses are competing on a level playing field with companies from other countries.

Rural Development through Exports

One area that is often overlooked is the positive impact that international trade has on rural development and growth. Profile manufactures its line of products in four rural towns throughout the country: Blue Mountain, Mississippi; Conover, North Carolina; Limestone, Tennessee; and Sanger, California. Although the plant in Sanger, California is not owned directly by Profile Products, we purchase all of the products that this firm manufactures, so the livelihood of the plant's workers is directly affected by our sales volume.

Profile has a longstanding presence in each of these towns and is considered one of the largest employers in all of these communities. Over the 50 years we have been in Mississippi and the 25 years we have been in North Carolina and Tennessee, our company has worked hard to cultivate relationships with our employees' families and has reinvested its resources in the local community's infrastructure and economic development. For example, in Blue Mountain, Mississippi, we are currently in the process of donating over 30 acres of land to Blue Mountain College for the construction of a new sports complex to benefit both the college and the surrounding communities.

Our manufacturing facilities employ a fairly senior workforce that is closely tied with their communities. Our workforce is not transient and their families typically stay close to home. Because Profile is so active in the local community, the local community has been the recipient of the opportunities and benefits the company provides through both its domestic and international output.

These communities understand that their jobs depend on the volume of orders our company receives, so as exports grow, so will the hours of production and the number of employee shifts we need fulfilled to complete those orders. With the passage of the pending trade agreements, the lowered costs of exporting to foreign markets will undoubtedly increase our sales abroad and will ultimately lead to hiring more employees in our manufacturing facilities.

The Cost of Inaction: The Risk of Losing 380,000 Jobs

Timing will play a major role in affording America's small and medium sized enterprises a fighting chance in the Korean market. On July 1, 2011, American companies exporting to Korea will face a severe and immediate threat to their livelihood as Korea's free trade agreement with the European Union goes into effect. If this agreement is implemented before KORUS, it will generate a clear competitive disadvantage for U.S. exports as Korean consumers turn towards more price-competitive EU member country goods.

According to a study by the U.S. Chamber of Commerce entitled ***Trade Action — Or Inaction: The Cost for American Workers and Companies***, the United States risks losing more than 380,000 jobs and $40 billion in export sales if we fail to implement our pending trade agreements with Korea and Colombia while the European Union-Korea Free Trade Agreement and the Canada-Colombia Free Trade Agreement enter into force. I don't want any of those lost jobs to be any of my employees.

Furthermore, a comparison of leading U.S. and EU exports to Korea reveals the significant degree of overlap between them — a fact that highlights our vulnerability to market destabilization by one of our biggest competitors. However, this is just one example of the many agreements the Korean government is pursuing while the U.S. delays action on the Korea trade agreement.

Korea has ongoing negotiations with Canada, Australia, Peru, New Zealand, the Gulf Cooperation Council, and Japan. For these reasons, the American business community considers ratification and implementation of KORUS indispensable in maintaining and increasing our market share, revenue streams, and highly skilled workforce.

The Time is Now to Pass the Pending FTAs

When examining President Obama's goal of doubling U.S. exports in the next several years, it's plain that approval of the negotiated agreements with Korea, Colombia, and Panama is critical to success.

Over the past 25 years, the United States has negotiated free trade agreements (FTAs) with 17 countries around the globe. While those 17 countries represent just 7.5 percent of global GDP, in 2010 they purchased more than 40 percent of U.S. exports. Some of these countries are small, but FTAs make big markets even out of small economies. Moreover, the United States has a trade surplus with its 17 FTA partners in manufactured goods on top of global surpluses in international trade in services and agricultural products. For those worried about the U.S. trade deficit, trade agreements are clearly the solution — not the problem. Profile is helping to create the trade surplus by exporting hydraulic mulch, soil, and vegetation solutions to countries all over the world. We need more of these agreements and we need more U.S. factories exporting.

Korea, with a $1 trillion economy, is the United States' seventh-largest trading partner in terms of two-way trade, which reached nearly $88 billion in 2010. Korea is a major market for U.S. producers across numerous sectors. Over 80 percent of U.S. merchandise exports to Korea are manufactured goods. Korea is the fifth-largest market worldwide for U.S. agricultural goods, with U.S. agricultural exports totaling nearly $5 billion in 2010. In addition, Korea is one of the largest markets for U.S. services in Asia, and U.S. cross-border exports of services to Korea totaled $12.6 billion in 2009, netting a U.S. services trade surplus of $6.2 billion.

With passage of KORUS, American businesses stand to gain unparalleled access to a thriving market. Conversely, these companies stand to lose precious market share if Congress delays action on the agreement.

Conclusion

The U.S.-Korea Free Trade Agreement further strengthens one of our most important bilateral partnerships by deepening the economic ties between our two countries. The most significant step the U.S. government can take to enhance the bilateral trade and investment relationship is to approve and implement the FTA at the earliest possible time.

The United States is at a crossroads on global trade. American companies have the ability to flourish in foreign markets if we are given the chance. Thousands of small and medium-sized businesses like Profile Products stand to gain immensely through the passage of the pending trade agreements, or lose significant market share as a result of inaction. In support of the job-creating, market-opening deal with Korea and our other partners, I respectfully urge you to increase boost exports and generate jobs through swift approval of the U.S.-Korea Free Trade Agreement and the pending trade deals with Colombia and Panama.

Thank you for the opportunity to testify.

Chairman BRADY. Thank you, Mr. Schoch. Mr. Holleyman, Ambassador, if you will hang tight with these votes, I apologize, we will be back just as soon as it is over. And the committee is recessed until then. Thanks.

[Recess.]

Chairman BRADY. The Subcommittee on Trade will reconvene. Thank you again for your patience, all of you.

Mr. Holleyman, you are recognized for five minutes.

STATEMENT OF ROBERT HOLLEYMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUSINESS SOFTWARE ALLIANCE

Mr. HOLLEYMAN. Mr. Chairman, Ranking Member McDermott, thank you for holding this hearing today and inviting the Business Software Alliance to testify. I am pleased to have this opportunity to express BSA's strong support for speedy approval of the U.S.-Korea free trade agreement.

Reducing software theft and ensuring fair and open access to overseas markets are essential to the software industry. We support the KORUS FTA because it advances both of these goals.

Korea has already demonstrated the capacity and the will to reduce software piracy through sustained high levels of enforcement. We expect that once KORUS is implemented fully, these efforts will continue and improve, as long as Korea's implementation of one element of KORUS, which I will discuss in a moment, does not disrupt our current effective anti-piracy efforts.

Mr. Chairman and members of this subcommittee, the U.S. is just emerging from a deep economic crisis. Our country's ability to export and create jobs is going to be a key factor in our growth. The software industry in the U.S. already enjoys a $39 billion trade surplus with the rest of the world. And that is not surprising, when you consider that $.60 of every dollar spent on software around the world comes back to U.S.-based software companies. Our industry is well-positioned to contribute even more to the positive side of our trade balance for this country.

The biggest barrier we face today in markets is end user piracy, when otherwise legal businesses use software as a tool of production, but do not pay for it. It is vitally important to have strong copyright and enforcement provisions in all FTAs. And a number of provisions in KORUS help protect the intellectual property of U.S. businesses operating in Korea. They include: requiring that government agencies use only legal software; protection for temporary reproductions; protection against circumvention of technological measures; and the exclusive right to make works available online.

The KORUS FTA also includes numerous obligations that provide for strong enforcement of intellectual property rights, including statutory damages and service provider liability. Each of these elements is also included in the pending agreements with Panama and Colombia, which is why we support those agreements as well.

Korea is a story of progress. Let me take a moment to share a little of that story. The BSA and I have been fighting software theft in Korea for 20 years. About 10 years ago Korea made an explicit commitment to the U.S. that it would conduct a high volume of actions against businesses who use illegal software on a sustained basis. Korea's efforts, as a result of that commitment to the U.S., have driven the piracy rate down by nearly 10 points over the past decade, while software sales have increased by more than 40 percent.

A key factor of this progress has been the element of Korean law that permits rights holders to bring criminal complaints against end user piracy, and withdraw those complaints when there is an agreement reached with the offending party. And that element may be repealed as part of FTA implementation in Korea.

Software piracy remains a substantial problem in Korea, with rates double those here in the U.S. The KORUS FTA must build on the successful efforts taking place today under existing law, and expand upon those in ways that will continue to bring software theft down. Most importantly, Korea must continue to commit to maintain vigorous and undiminished criminal enforcement efforts against business end user piracy. We urge this committee to help ensure that happens.

In conclusion, the KORUS FTA is an important agreement with a major trading partner. It includes world class IPR protections and ensures open markets for IT services and Commerce. We urge the Congress to approve the KORUS FTA, and also to play a role in its successful implementation. Thank you.

[The prepared statement of Mr. Holleyman follows:]

BSA. BUSINESS SOFTWARE ALLIANCE

Testimony of Robert W. Holleyman, II

President and CEO
Business Software Alliance

Before the United States House of Representatives
Committee on Ways and Means
Subcommittee on Trade

Hearing on
South Korea Trade Agreement
April 7, 2011

Mr. Chairman, Ranking Member McDermott, thank you for holding this hearing today and inviting the Business Software Alliance[1] to testify. BSA is an association of the world's leading software and hardware companies. BSA members create the majority of the workplace productivity software in use in the US and around the world.

A core part of BSA's mission is to reduce software theft around the world. Our number one consideration in evaluating the KORUS FTA is how well it enhances our ability to carry out that mission. Over the past decade the Korean government has made great strides in combating software piracy through sustained law enforcement efforts. It is critical that these high levels of enforcement continue. Since the inception of negotiations our key goal for KORUS has been to preserve and supplement the strong IPR enforcement system Korea already has in place. We believe that, properly implemented, the KORUS FTA will do just that.

Let me provide a little background about the industry: America's copyright industries lead the world, and the US software industry is by far the largest of these copyright industries. The software and related services sector employs almost 2 million people in the US in jobs that pay nearly twice the national average.

The US has come through a harrowing economic crisis and is still struggling to return to pre-recession levels of employment. We believe our country's ability to

[1] *The Business Software Alliance (www.bsa.org) is the world's foremost advocate for the software industry, working in 80 countries to expand software markets and create conditions for innovation and growth. Governments and industry partners look to BSA for thoughtful approaches to key policy and legal issues, recognizing that software plays a critical role in driving economic and social progress in all nations. BSA's member companies invest billions of dollars a year in local economies, good jobs, and next-generation solutions that will help people around the world be more productive, connected, and secure. BSA members include Adobe, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, Cadence, CNC/Mastercam, Corel, Dassault Systèmes SolidWorks Corporation, Dell, Intel, Intuit, Kaspersky Lab, McAfee, Microsoft, Minitab, PTC, Progress Software, Quark, Quest Software, Rosetta Stone, Siemens, Sybase, Symantec, and The MathWorks.*

create jobs depends in large part on our ability to export. We support the President's ambitious goal of doubling US exports of goods and services over five years. Computer software is a critical sector in expanding exports. US software exports contribute a $39 billion surplus to our nation's balance of trade. As much as 60 percent of revenues for the leading US software companies are generated from sales outside US borders.

The benefits of trade reach well beyond the large established players in the software industry that have a presence in foreign markets. There are at least three reasons why this is so:

- First, software is a key factor of production in many industries. Domestic software producers benefit when overseas markets are open to the goods and services that are produced using their software.
- Second, opening overseas markets for platforms that companies like Apple, Microsoft and others provide has direct benefits to the many small and medium-sized companies that develop software for those platforms.
- Third, by breaking down geographic boundaries the Internet puts foreign markets with reach of many smaller US companies – as long as potential trade barriers don't get in the way.

The software industry has thus been a long-time champion of efforts to expand export opportunities through free trade agreements. BSA supported successive Administrations in their quest to conclude the best possible agreement with the Republic of Korea, which is a major US trading partner and a major market for many of our member companies. Today, I am here to testify that BSA supports Congressional approval of the KORUS FTA at the earliest opportunity.

The KORUS FTA achieves high levels of commitments in several areas of importance to the software industry: Cross-border trade in services; electronic commerce; and protection of intellectual property rights (IPRs). Focusing on these areas, it is our assessment that the KORUS FTA represents significant progress toward achieving the applicable purposes, policies, priorities and objectives of the Bipartisan Trade Promotion Authority Act of 2002 (the TPA Act) as set out in section 2102 (19 USC §3802).

Cross-Border Trade in Services

As has been done in its other bilateral Free Trade Agreements negotiated by the US over the past decade, the KORUS FTA takes a "top-down" approach to scheduling services commitments – that is, general commitments subject to scheduled exceptions, as opposed to specifically scheduled commitments. Such an approach ensures far superior coverage than the WTO GATS architecture.

Significantly, Korea's schedule of exceptions does not contain any exception in the computer and related services sector. This means that Korea is committed to full market access and national treatment for all information technology services. This structure and scope will help ensure protection for evolving IT services, including those that are delivered electronically, and will help prevent new trade barriers from being created in the future.

Electronic Commerce

The KORUS FTA continues the practice in other recent bilateral FTAs of including a robust chapter on electronic commerce. Key elements of this chapter include:

- Confirmation that the supply of a service by electronic means falls within the scope of obligations on services.
- A permanent prohibition on duties on the importation or exportation of digital products, including both the transmission and its content.
- A requirement that national treatment rules apply to digital products.
- A requirement that MFN rules apply to digital products.
- A recognition that parties should refrain from imposing unnecessary barriers to electronic information flows across borders.

Protection and Enforcement of IPRs

Piracy in the Software Sector and its Economic Impact

The biggest trade barrier that software companies face throughout the world is rampant theft of their products. BSA companies, and the software industry as a whole, lose billions of dollars to software piracy each year. In 2009 43% of PC software placed in service was illegally copied. In many countries the piracy rate exceeded 75%, reaching highs of 90% or more in some markets. The commercial value of this piracy totals more than $51 billion worldwide. This has an impact on local economies around the world that goes well beyond the direct impact to software producers. A recent IDC study estimates that reducing software piracy by 10 points over four years could stimulate the entire IT sector and produce over 500,000 new jobs, $32 billion in increased tax revenues and $142 billion in new economic growth.

Software Industry Efforts to Reduce Piracy

BSA and its individual members devote significant financial and human resources to preventing piracy worldwide. Our efforts are multi-faceted.

First, we are engaged in extensive educational efforts, designed to increase public understanding of the value of intellectual property and to improve overall awareness of copyright laws, on a global basis.

Second, we work closely with national and international bodies to encourage adoption of laws that strengthen copyright protection and promote an environment in which the software industry can continue to innovate.

Finally, where appropriate, BSA undertakes enforcement actions against those involved in the unlawful use, distribution or sale of its members' software. On the Internet, for example, BSA conducts a far-reaching "notice and takedown" program. BSA also engages in civil litigation against corporate end-users who are using our members' products without authorization. We work closely with local, national and international law enforcement bodies to protect the intellectual property rights of our members.

Substantive Copyright Provisions in the KORUS FTA

The copyright provisions of Chapter 18 of the KORUS FTA require the parties to implement levels of protection above those found in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the WIPO Copyright Treaty. The provisions build on these earlier agreements, filling in gaps and adding greater specificity and certainty. Many of the details in these provisions track existing US law fairly closely, particularly with respect to protections that US law (in the Digital Millennium Copyright Act) provides for works in digital form.

The following are some specific examples of FTA provisions that are particularly important to the business software industry:

- **Requirement that central government agencies do not use infringing software** (art. 18.4.9). Governments are among the world's biggest consumers of business software, and are not immune to unauthorized installation and use. The US government has issued an executive order that requires federal agencies to put the necessary controls in place to ensure that all software use is authorized, and other countries have issued similar decrees. The KORUS FTA, like its predecessors, requires the parties to have such orders or decrees in place to ensure that the government sets a positive example for the private sector. This obligation has no counterpart in the TRIPS agreement.
- **Express protection for temporary reproductions** (art. 18.4.1). Computer programs can be exploited without making a permanent copy. Unauthorized reproductions that endure in a computer's random access memory (RAM) for very short periods of time can cause economic harm to copyright owners. Protection for temporary reproductions is implicit in the Berne Convention (and, a fortiori, the TRIPS Agreement and the WIPO

Copyright Treaty), but the FTA provision affords added certainty by making this protection explicit.

- **Protection against circumvention of effective technological measures** (art. 18.4.7). One of the important methods that copyright owners use to protect against piracy of their works in digital form is the use of technological measures, such as product activation and digital rights management systems. These measures, however, can be vulnerable to hacking, and the international community agreed that legal prohibitions against circumvention were needed. The WIPO Copyright Treaty has a fairly general requirement, but the FTA provision adds much greater specificity concerning both the scope of the protections, the scope of limitations, and the available remedies.
- **Protection of rights management information** (art. 18.4.8). One means by which copyright owners can facilitate electronic commerce in works is by attaching information to the digital copies of their works that identifies the right holder and terms and conditions of use. Like technological measures, this rights management information is subject to hacking. The WIPO Copyright Treaty contains a fairly general requirement to protect rights management information, and the FTA provision adds greater specificity, particularly with regard to the available remedies.
- **Making available right** (art. 18.5). One of the main paradigms for dissemination of works on the Internet is posting works, or making them available for others to access or download at a time and place of their choosing. This activity is not expressly covered by any of the copyright owner's exclusive rights as spelled out in the Berne Convention and incorporated by reference into the TRIPS agreement. The KORUS FTA incorporates the so-called "making available" right from the WIPO Copyright Treaty.

Provisions on Enforcement of Copyright in the KORUS FTA

Article 18.10 of the KORUS FTA contains numerous obligations that provide for strong enforcement of IPRs. Many of these obligations build upon, clarify and extend obligations found in the TRIPS agreement. Others are entirely new and address enforcement issues that arise in the digital environment. All of them are consistent with US law.

Several of the provisions of Article 18.10 are of particular significance to BSA's efforts to combat corporate end-user piracy (the unauthorized use of software by business entities):

- **Pre-established (Statutory) Damages** (Art. 18.10.6). Statutory damages are an essential tool in civil litigation against end-user piracy, where poor or nonexistent recordkeeping by the infringer often makes it difficult to assess the full extent of actual damages. Statutory damages also serve as a deterrent, since they make it much more certain that infringers will face significant economic consequences as a result of their actions. Although US law has long provided for statutory damages, this provision is lacking in Korea's copyright law. For the business software industry, persuading Korea to adopt a statutory damages regime was one of the major negotiating successes achieved by the US in this agreement.
- **Service Provider Liability** (Art. 18.10.30). The cooperation of Internet Service Providers is essential for fighting online piracy. The FTA contains provisions, closely modeled on section 512 of the US Copyright Act, that provide incentives to ISPs to cooperate with US right holders by removing infringing materials from their systems. These provisions are a TRIPS-plus element of the FTA that address a key issue of copyright enforcement in the digital environment.

A Note on Ex-Officio Authority in Criminal Cases

Article 18.10.27(f) of the KORUS FTA requires each party to provide "that its authorities may initiate legal action ex officio" with respect to cases of criminal copyright infringement. In recent years, the business software industry has seen high levels of criminal enforcement against corporate end-user piracy in Korea under the existing, complaint-based system. This has led to a decline in Korea's software piracy rate and an increase in legitimate software purchases. BSA urges the US government to obtain assurances from the Korean government that its implementation of this provision will preserve the same high levels of enforcement without interruption after the FTA enters into force. It would be ironic indeed if Korean actions ostensibly to implement the KORUS FTA were to result in making it harder for software companies to protect their intellectual property rights.

* * *

BSA appreciates this opportunity to provide its views on the KORUS FTA. We also note that many of the elements that we have identified in the KORUS FTA as being beneficial to the software industry are also present in the pending agreements with Panama and Colombia. For that reason, BSA supports congressional approval of those agreements as well.

Thank you for inviting me to testify. I'd be happy to answer your questions.

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Chairman BRADY. Thank you, Mr. Holleyman.
Ambassador Hubbard.

STATEMENT OF THOMAS HUBBARD, SENIOR DIRECTOR FOR ASIA, MCLARTY ASSOCIATES, FORMER AMBASSADOR TO SOUTH KOREA

Mr. HUBBARD. Thank you, Mr. Chairman. It is indeed an honor for me to be here today, and I appreciate your inviting me here.

As a career foreign service officer for nearly 40 years, I spent a lot of time in the various foreign affairs and armed services committees. This is the first time I have testified to the Ways and Means Committee, and I am honored to be in the big time.

Chairman BRADY. Well, we are honored to have you here.

Mr. HUBBARD. My colleagues here today have made very clear that the Korea-U.S. free trade agreement is a critical step forward for American job creation and ensuring U.S. economic competitiveness in Asia. I would like to stress that this trade agreement is also an important investment in the overall U.S.-South Korea alliance at a time when heightened tensions on the Korean Peninsula require our solidarity with our allies in the south, and it will also be a strong manifestation of the U.S. commitment to remain a major presence in Asia.

Sixty years ago the U.S. stood with the Republic of Korea in countering aggression from the Communist north. That bloody conflict, which cost the lives of more than 35,000 Americans, has yet to result in a permanent peace. North Korea continues to challenge the world through its nuclear weapons programs, and its recent attacks on the south have reminded us of the military threat and raised deep concerns throughout northeast Asia.

The Korean Peninsula remains a very dangerous place. However, there has been a successful spectacular success story amidst ongoing tensions. South Korea has risen to be the world's 14th largest economy, a vibrant democracy, and a valued ally for the United States in a critical region.

Moving ahead with KORUS will also be a concrete demonstration that the United States is prepared more broadly to lead on trade in Asia. This is a signal that all of our partners in the region want to see. The economies of Asia are in the process of integration and are now trading more with each other than they are with the United States. Bilateral and regional free trade agreements are proliferating, and the ROK is in the vanguard. We cannot afford to wait on the sidelines while the region pursues agreements that leave us out.

KORUS will give us special access to the Korean market, enhancing our ability to compete with China, Japan, and India, and Europe, even as it strengthens Korea's ties to the United States. And I think KORUS may also provoke wider liberalization. Approval of KORUS will lend impetus, among other things, to the effort to develop the trans-Pacific partnership and move beyond that to an Asia—a free trade zone of the Asia-Pacific.

But the economic benefits are just part of the equation. Strategic interests are also overwhelming at a time when the U.S. is dealing with a host of new security threats, including North Korea's nuclear weapons program.

This free trade agreement will strengthen our strategic partnership with an important Asian ally that shares our belief in democracy, and has stepped up to the plate with military contributions in various places in the world. One of South Korea's primary goals in seeking the free trade agreement with the United States is to broaden and strengthen its relationship with its ally at a time when rapid changes in East Asia, including China's rapid rise, have provoked significant changes in power relationships in Asia.

We strongly share the Republic of Korea's interest in solidifying and broadening this critical alliance. And a failure to approve KORUS would be exactly the wrong signal to North Korea and to our allies and friends in Asia, who want us to remain strongly engaged.

As Chairman Rangel knows as well as any of us, Americans and South Koreans shared blood together to prevent a Communist takeover of the entire peninsula 60 years ago. We still stand together in facing the many challenges from the north. The FTA with Korea will strengthen America's relationship with our long-time ally, and enhance our presence and influence in a very critical region. Thank you.

[The prepared statement of Mr. Hubbard follows:]

April 7, 2011 – Ways and Means Trade Subcommittee Hearing on the Pending Free Trade Agreement with South Korea – Testimony of Thomas C. Hubbard, former Ambassador to the Republic of Korea (2001-2004)

Thomas C. Hubbard
U.S. Ambassador to the Republic of Korea (2001-2004)
Chairman, Korea Society
Senior Director for Asia, McLarty Associates

The United States-South Korea Free Trade Agreement (KORUS) is a critical step forward for American job creation and ensuring U.S. economic competitiveness in Asia. This trade agreement is also an important investment in the overall U.S.-South Korea alliance at a time when heightened tension on the Korean peninsula requires our solidarity with our allies in the south and it will be a strong manifestation of the U.S. commitment to remain a major presence in Asia. I urge Congress to work toward passage of KORUS as soon as possible.

Sixty years ago, the United States stood with the Republic of Korea in countering aggression from the communist North. That bloody conflict, which cost the lives of more than 35,000 Americans, has yet to result in a permanent peace. North Korea continues to challenge the world through its nuclear weapons programs and its recent attacks on the South have reminded us of the military threat and raised deep concerns in Northeast Asia. The Korean Peninsula remains a dangerous place. However, there has been a spectacular success story amidst ongoing tensions. South Korea has risen to become the world's 14th largest economy, a vibrant democracy, and a valued ally for the United States in a critical region. It is currently America's 7th largest trading partner and 7th largest export market.

The economic arguments for KORUS are compelling. The most economically significant trade agreement (FTA) negotiated by the United States in over 15 years, KORUS would boost U.S. goods exports by up to $11 billion dollars and U.S. GDP by nearly $12 billion, according to the independent, nonpartisan U.S. International Trade Commission. The agreement would create as many as 70,000 new jobs for Americans at a time when we most need them.

It is important to bear in mind that KORUS offers an opportunity to level the playing field with a trading partner whose market has historically been less open than ours. Currently, Korea's average duty on industrial and consumer goods is more than double that of the U.S., and its average duty on agriculture is more than four times that of the U.S. Looking at these differences, it is clear that the U.S. will be in a better position across the board to benefit from the market opening that will flow from KORUS. Ninety-five percent of bilateral trade in industrial and consumer products will become duty free in three years and nearly two-thirds of U.S. agricultural exports—everything from feed corn, to frozen French fries, to fine wines—will enter Korea duty-free as soon as KORUS comes into effect. In addition, KORUS will establish a fair and transparent legal framework for U.S. investors in Korea, and benefit U.S. exporters in telecommunications, financial, pharmaceutical, and other sectors where U.S. companies are on the cutting edge. Koreans see KORUS as a means to make its economy more open, and that is very much in the U.S. interest.

More broadly, moving ahead with KORUS will be a concrete demonstration that the United States is prepared to lead on trade in Asia, a signal that all of our partners in the region want to see. We cannot afford to wait on the sidelines while the region pursues agreements that leave us out. The economies of Asia are in the process of integration and are now trading more with each other than they are with the United States. Bilateral and regional free trade agreements are proliferating, and the ROK is in the vanguard. Less than a decade ago, the United States was by far South Korea's leading trading partner. Now, we are competing with the European Union for third place, after China and Japan. With South Korea set to implement an FTA with the European Union in July, we can expect to fall to fourth place, and American farmers, manufacturers, and service providers will be the losers.

KORUS will give us special access to the Korean market, enhancing our ability to compete with China, Japan and India, and Europe, even as it strengthens Korea's ties to the U.S. KORUS may also provoke wider liberalization. Approval of KORUS will lend impetus to the effort to develop the Trans-Pacific Partnership. And Asia's third largest economy, Japan, may feel compelled to seek a similar agreement. This, too, would be great for America, provided Japan agrees to open its markets to the same degree Korea will under KORUS.

But the economic benefits of KORUS are just part of the equation. Strategic interests are also overwhelming at a time when the U.S. is dealing with a host of new security threats, including North Korea's nuclear weapons program, this free trade agreement will strengthen our strategic partnership with an important Asian ally that shares our belief in democracy and has stepped up to the plate with significant military and economic support in the Middle East and Afghanistan. While creating new American jobs, KORUS will reinforce the full partnership we have with South Korea at a time when that country is playing a growing international role. Furthermore, KORUS will have positive strategic effects that will resonate beyond the Korean peninsula. One of South Korea's primary goals in seeking the Free Trade Agreement with the U.S. is to broaden and strengthen its relationship with its ally at a time when China's rapid rise has provoked significant changes in power relationships in Asia. We strongly share the Republic of Korea's interest in solidifying and broadening this critical alliance. A failure to approve KORUS would be exactly the wrong signal to North Korea and to our allies and friends in Asia who want us to remain strongly engaged. The agreement with South Korea will stand as a new anchor for our longstanding leadership position in a rapidly changing Asia.

For more than fifty years, the United States' political and economic commitment to Asia has contributed to the region's stability and prosperity. Nowhere has our engagement been more positive than with the Republic of Korea, which, with our help, rose from the ruins of the Korean War to become a vibrant democracy and one of the largest economies in the world. Americans and South Koreans shared blood together to prevent a communist takeover of the entire

Peninsula 60 years ago. We still stand together in facing the many challenges from the North. Republic of Korea Forces stood with us when we needed them in Vietnam and continue to support our common interests in today's military conflicts. The FTA with Korea will strengthen America's relationship with a long-time ally and enhance our presence and influence in the region.

I am convinced that America, for its own sake, must remain a leader in Asia. Ratification of this agreement is one way of ensuring that our engagement with the world's fastest growing region will support our fundamental security and economic interests into the future.

Chairman BRADY. Ambassador Hubbard, thank you so much. Appreciate the testimony.

Mr. Schoch, you are a real-life example of how small business can compete and win in these growing markets, and how removing those barriers can help make those sales——

Mr. SCHOCH. Yes, sir.

Chairman BRADY.—at a time when every sale counts.

Mr. SCHOCH. Yes, sir.

Chairman BRADY. Mr. Holleyman, you laid out both the progress that has been made, but also how that has expanded in this agreement with intellectual property protections, key to millions of jobs in one of our most dynamic industries growing in America. Thank you for that testimony.

I wanted to ask Mr. Rhodes and Ambassador Hubbard to—both of those testimonies build up to the bigger picture on this trade agreement. I would like Mr. Rhodes and Mr. Hubbard to sort of expand on the geostrategic benefits of this. Clearly, South Korea is a critical ally. This strengthens the agreement—strengthens that relationship. But it also strengthens America as a counterweight to China in that region, both in trade and other areas.

Clearly, Asia-Pacific region is blowing and going. They are moving ahead, whether we are engaged or not. They would like us there as a counterweight to China in many areas. But, frankly, they are not waiting for us to engage. They are moving ahead without us.

So, I would like, Mr. Rhodes, Ambassador Hubbard, expand upon those—well, how critical it is that this not fail, as an agreement. More critically, what the benefits are for us as we move ahead.

Mr. RHODES. Thank you, Chairman Brady. I think it is critical. I think that, given the situation in North Korea, as we have seen by the Cheonan and the shelling of the island over the last months and the problem of the nuclear situation there, it is critical for that.

Also, I think you pointed out very correctly, China is watching this agreement very, very carefully. And so, I think, as a demonstration in that area, I think our allies all over Asia are watching this. And, as you know, there was a thought at one time of putting a northeast Asian economic group together—Japan, China, and Korea—which would have left the U.S. out. And so I think it is very important, along with this EU Agreement that is coming on board, that we stand up with Korea and all the benefits that we have all talked about on U.S. exports to Korea.

So, it is a win-win on both strategic, as well as economic. Thank you.

Chairman BRADY. Thank you, Mr. Rhodes. Ambassador.

Mr. HUBBARD. Well, Mr. Chairman, several people today have mentioned that the United States in 2003 was South Korea's leading trading partner in the world. Now it is number four, with China in the lead. If you go around the East Asia region, you will find that China has moved into first place almost everywhere you look. And they are uncomfortable with that.

The other countries of Asia are looking to this agreement as an indication of whether the United States is committed to the region, whether we are committed to lead on trade liberalization in the region. And they are all hopeful that we will approve KORUS as quickly as possible, as a sign of our continued commitment there.

Chairman BRADY. Right. Great point. Thank you, Ambassador.

Ranking Member McDermott.

Mr. MCDERMOTT. Thank you, Mr. President. Mr. Holleyman, I do not have any real questions, because we all agree on the need to move this thing. But since I have got you sitting here, I have got a question.

I know that you are interested in Korea today, but I am going to ask you a question about China. At the end of last year, as part of the joint commission on commerce and trade, China's committed to a number of things to address software piracy in China. Just before that meeting, almost every member of the Ways and Means, including all the current subcommittee members on the Democratic side, wrote a letter expressing the need to "measure progress on greater U.S. market access into China, and protection of U.S. intellectual property rights by objective criteria," such as increased exports to and sales in China.

And almost four months have passed since then. Is there any measurable criteria or any statistics you can give us that will help us understand if this had any impact whatsoever?

Mr. HOLLEYMAN. Thank you, Mr. McDermott, for that question. Unfortunately, as of today, there is nothing that I can say, in terms of measurements of increased sales from my members that I have learned that would tell me that there has been any market improvement on the status that existed when Members of the committee sent that letter.

And I want to thank you for doing that, because that was enormously important. I know that the White House has made this an important issue. Your colleagues in the Senate have as well. But we have not seen the kind of measurable progress that was expected, I know, by members of this committee, and that was hoped for by our industry.

Mr. MCDERMOTT. Is there anything at all hopeful you can say about the relationship with respect to China in this area?

Mr. HOLLEYMAN. Well, I think the hopeful thing I can say is that the nature of the commitments, if fulfilled, should result in the kind of increased sales where we are happy for sales. So, this is a case where we do not need additional commitments. In fact, the commitments around business software are quite specific. What we need is full implementation.

I will also mention one thing in contrast with Korea. Korea has undertaken 40 to 50 criminal cases a month on a sustained basis against businesses using illegal software, and that has helped bring the piracy rate down, and we want to continue to do that. By contrast there has never been a criminal action in Korea—I'm sorry, in China—against a commercial enterprise using pirated software. China would indicate that that is not permitted under their law. And so it is not a surprise that the piracy rates in China, in terms of percentage of market, are double what they are in Korea. And, of course, the value keeps rising as the Chinese market grows.

So, I think that the continued interest and pressure from this committee and from the Administration—I know President Obama has personally engaged on this—but to show concrete results from China, not just commitments, will be critical.

Mr. MCDERMOTT. I think it is important for people to understand the Koreans keep their promise and work at it and bring cases. And, unfortunately, that is not happening in China.

I try to understand what their thinking is. Can you explain? Do they do it just more slowly, and some day they will do it? Or is it simply they make a commitment and then throw it in the waste basket and walk out of the room?

Mr. HOLLEYMAN. Yes, I mean we have certainly seen some efforts around creating budgets for purchase of legal software by the government, some administrative enforcement. But there is nothing that is of sufficient magnitude to provide a deterrence in the marketplace against businesses using illegal software or, indeed, for the government to use only legal software.

By contrast, Korea, which used to have periodic campaigns—2 or 3 months of a crackdown and then they would stop—about 10 years ago committed to the U.S. Government that they would do 40 to 50 end-user software cases a month, and that was sustained. And that has been the key to bringing piracy down in Korea, what we think is key, going forward, to future progress. We see periodic minor campaigns in China, but nothing on a sustained basis.

And so, Korea, I think, really is the model for what China should be doing.

Mr. MCDERMOTT. Thank you very much.

Chairman BRADY. Thank you. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. Ambassador Hubbard, KORUS has been strongly endorsed by many experts as a means of enhancing our economic and national security relationships between the two countries. President Obama has referred to our relationship with Korea as the lynch pin of a security in Asia policy.

Considering the United States maintains over 28,000 troops on the Peninsula right now, Ambassador, I was wondering if you could discuss, from your personal perspective and experience, how the passenger of KORUS will strengthen our relationship with this key ally, and how trade agreements more broadly—like Colombia and Panama—will have significant geostrategic impact, as well.

Mr. HUBBARD. Thank you, Mr. Davis. I—basically, this agreement, this trade agreement, in my view, will both broaden and strengthen the alliance that we have had for the last 60 years.

You know, military arrangements, military alliances, do not stand alone, even when you face a threat as palpable as the North Korean threat is to South Korea. They need to be given content through people-to-people ties, and we do have wonderful people-to-people ties with Korea. They need to be given content through trade relations. They need to be given content through special relationships of all kinds. For example, one of the things that was very, very important to Korea in recent years was to get on the visa waiver program, as kind of a symbol of their relationship with us.

Koreans, like other countries, need constant assurances that we are with them, that we understand their issues, their problems, we value the relationship. And at this stage, passage of this FTA, I think, is the best way we can give those assurances. And this is really a time when we need it, after the attacks on South Korea and the other issues that are concerning them.

Mr. DAVIS. Would you say that when the United States delays on passing agreements after they have been largely negotiated, that that can have an adverse effect on our long-term national security and geostrategic goals in a region of the world?

Mr. HUBBARD. Yes, indeed. I think the Koreans have disappointed in the delays in passing this agreement. Korea is a democracy, a functioning democracy, and I think they understand democracy in our country, and why it has been delayed. But over time, you know, a failure to fulfill governmental commitments of this kind does have a negative impact on the broader relationship, and we should get moving on this.

Mr. DAVIS. Would you agree that same principle applies in the—with the Colombia agreement, as well?

Mr. HUBBARD. Yes, indeed.

Mr. DAVIS. Okay, thank you.

Mr. HUBBARD. I strongly support that agreement.

Chairman BRADY. Thank you. The chair recognizes Chairman Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. I do not want to beat a dead horse, but no one works more closely with the Koreans than I do. And I am certain that they would rather have an agreement where they have the votes for it, no matter how long it takes, rather than not to have it.

Having said that, I think we all agree that it is good for our country, it is good for Korea, has all types of economic, political, national security reasons why we should support this agreement, especially after certain provisions were improved so that we can get the votes that are necessary in order to get it passed.

Having said all that, I think all of you would agree with me that the major obstacle that we have in the country and in the Congress is the belief that this agreement, as all trade agreements, will lose jobs. And, of course, most of us believe that the evidence would support otherwise. But it is difficult to explain to people without showing them what it means to our country, our region, our industries, and of course, our congressional districts.

So, if I could just say if someone challenged you, Dr. Rhodes—and we go down the line—and said that they knew specifically that we would lose jobs here, besides saying they are wrong, are you able to tell where these jobs will be located to any degree that the person walking away—say, "Well, I will check that tomorrow and I will get back to you?"

Mr. RHODES. I think—and you and I have discussed this before—I think at the Chamber we have been very specific on making trips throughout the United States to various areas, pointing out where job growth will take place. And I think that we could do a better job—you can always do a better job—but I think we have made a real effort to do so.

And I was just in Dallas last night, giving a talk to a group. And the question came up exactly on that. And so, I think we do have facts and figures in areas where these jobs are being created. And so, I think our job is to get out there and sell it even more, as you and I have discussed in the past.

Mr. RANGEL. But you would not be able to tell, say, a guy from New York exactly where to go for—so that I can go to the recipients of this agreement and tell them, "Look for an increase in jobs in this area."

Mr. RHODES. We will give you a list. Yes, we do. I will give you a list. We will make sure you get a list today.

Mr. RANGEL. That is great. Is there anyone that can give a little more specifics? Or generally, would you accept what Dr. Rhodes has said is the general answer?

Mr. HUBBARD. I agree with Mr. Rhodes, and will help him put that together.

Mr. RANGEL. You know, I have been impressed with the number of jobs that are going to be made available under the Colombian free trade agreement.

And just to test the knowledge of the Members of Congress, I asked them, "Do you really believe that Caterpillar and other earth-moving machinery will be one of our greatest exports?" They said there is no question about it. It is a mining country, and there is growth there, and they really want to buy from us.

Then I ask the next question, "Do you know where Caterpillars are made?" Nobody knows. It just seems to me that there is a big gap. Because if they were made in my district, you would have heard from me, loud and clear, "Give us a break, give us jobs, let us expand." And yet I do not remember anyone ever going to the floor, saying—with the exception of those from Michigan with the Korean agreement, which took a little time to reach, but we did—but I do not remember people saying, "I do not like trade generally, but this agreement is going to help my people in my district." And if you have any of those clippings around your office, you can send those in to me, as well.

Mr. Chairman, thank you so much.

Chairman BRADY. Thank you, Chairman, very much. Mr. Reichert, to close this out?

Mr. REICHERT. Thank you, Mr. Chairman. I want to touch on some of Mr. Rangel's comments. I totally agree with the gentleman in his observation that there really needs to be a concerted effort regarding education about the number of jobs that are created through these agreements.

And again, as I said earlier in—during the first panel discussion, this is all about selling American products. And so, we should all in America be about selling American. And, as was also stated earlier, 95 percent of our market is outside our borders.

So, we should really work hard. And again, this export council is looking at ways that we might be able to help in really beating the drum on the number of jobs that are created by these trade agreements and, of course, the other obvious benefits.

I would like to touch on with Ambassador Hubbard, first of all, thank you for your years of service to our country. And happy to have you here today. I am interested in your views on the importance of approving the Korean agreement and solidifying America's presence in the Asia-Pacific region. Mr. Davis touched on it just a little bit, as far as security goes. But how does finally coming to an agreement with Korea impact our ability to negotiate further trade agreements with other countries around the world?

Mr. HUBBARD. First and foremost, Mr. Reichert, it establishes a very good precedent and standard. This is a very high-quality agreement. Frankly, it is of higher quality than most of the agreements that have been reached within Asia and within the Asia-Pacific. And so this will be a standard that all other agreements can be measured——

Mr. REICHERT. Would it also—would this affect our ability in the TPP efforts, also?

Mr. HUBBARD. Yes. Very much so. I think this—you know, I think it relates to TPP in a couple of ways. One, our partners in the TPP are looking at KORUS as a signal of whether the United States can be counted on to do the sensible thing in its own interest. And that will have its impact.

Secondly, it will help improve the standards of the TPP. I think eventually, based on KORUS, that Korea will probably also want to join TPP at a later time, as might Japan.

Mr. REICHERT. Sure.

Mr. HUBBARD. And that will all strengthen our posture in Asia.

Mr. REICHERT. So there is a bright light shining on us right now, as to our success, right?

Mr. HUBBARD. Exactly.

Mr. REICHERT. Yes, sir.

Mr. HUBBARD. Exactly.

Mr. REICHERT. What about intellectual property rights in the region? How do you think the Korean agreement might affect those as we look at—of course everyone mentions China, it is the most obvious offender.

Mr. HUBBARD. Well, Mr. Holleyman obviously knows more about that than I do. But, again, it sets a very good standard. Korea's enforcement sets a good standard. And you know, I think other countries are going to bear that in mind as we move forward.

Mr. REICHERT. Mr. Holleyman, would you like to respond to that, please?

Mr. HOLLEYMAN. Certainly. The KORUS really provides the strongest levels of protection of intellectual property of any U.S. free trade agreements. Those are mirrored in substantial part in Colombia and Panama. Locking those in place will ensure not only tools against fighting piracy, but as new Commerce and services come aboard like software as a service and cloud computing, it will ensure that that next wave of computing technology has unfettered access to the Korean market.

So, it is critical. What we need on the IP side is to ensure that existing practices of high-volume sustained criminal actions against the enterprise end users of pirated software, will be maintained in Korea going forward, and that existing procedures that allow right holders to successfully resolve actions against those corporations when they become legal customers can be maintained. And that is a key element in implementation, where we urge this committee's continued attention.

Mr. REICHERT. Great. Thank you. I yield back, Mr. Chairman.

Chairman BRADY. Thank you, Mr. Reichert. I want to thank the Members for their thoughtful questions.

And let me note for our witnesses how much we appreciate your testimony. Members may submit questions for the record. And if they do, I hope you will respond promptly. I know you will.

And our witnesses today, who come from all parts of industry and job creation, as well as our geopolitical role, made clear the pending trade agreement with South Korea, as well as with the pending agreements with Colombia and Panama, offer significant benefits. Not moving forward will only harm American interests and the ability of American workers, businesses, and farmers to compete in these markets as our competitors move ahead.

As I said earlier, I am excited about moving forward on the South Korea Agreement. And just as I am excited to move forward with Panama and Colombia, I hope we will continue the constructive bipartisan technical work on the Korean agreement, and begin the work on the Latin agreements, to ensure that these draft implementing bills are complete and thorough, and ready to move forward in a timely manner. I strong believe we should consider all three agreements by July 1st, and I hope we will continue to work together to make that happen.

But for now, the committee is adjourned.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned.]

[Submissions for the Record follow:]

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS

THIRD IN A SERIES OF THREE HEARINGS
ON THE PENDING, JOB-CREATING TRADE AGREEMENTS:
SOUTH KOREA TRADE AGREEMENT

STATEMENT OF BEAM GLOBAL SPIRITS & WINE, INC.

April 21, 2011

Matthew J. Shattock
President & Chief Executive Officer
Beam Global Spirits & Wine, Inc.
520 Lake Cook Road
Deerfield, IL 60015-5611

Beam Global Spirits & Wine, Inc. is a global leader in the distilled spirits industry, with strong brands, innovation and distribution. We are the fourth largest premium spirits company in the world and the largest U.S.-based spirits company, with 10 of the world's top-100 premium spirits brands in our portfolio. Our flagship brand is Jim Beam® Bourbon, which is the #1 selling Bourbon worldwide. We also produce Maker's Mark® Bourbon, Sauza tequila, Canadian Club and Courvoisier, among many other global brands. Each year, we sell more than 33 million cases of spirits, and nearly half of our sales come from outside the United States.
Beam Global Spirits & Wine, Inc. has a long and proud heritage. Our flagship brand, Jim Beam, dates back to 1795, and is one of our many brands that have been trusted for generations – even centuries – for their craftsmanship and quality.

Our corporate headquarters is in Deerfield, Illinois. Our U.S. manufacturing and bottling operations include facilities in Clermont, KY, Boston, KY, Frankfort, KY, Loretto, KY, Cincinnati, OH and St. Croix, U.S. Virgin Islands.

Over the past several decades, Beam Global Spirits & Wine, Inc. has evolved into a truly global company. Our brands are sold in more than 150 countries worldwide, and international markets present some of the best growth opportunities for U.S. spirits producers.

As a global company, we are acutely aware of the still substantial barriers to trade that exist worldwide. That is why Beam Global Spirits & Wine, Inc. strongly supports market-opening agreements such as the U.S. – Korea (KORUS) Free Trade Agreement and urges the United States Congress to approve the agreement as quickly as possible. Korea is a commercially important market for distilled spirits. Indeed, Jim Beam® Bourbon is the largest selling Bourbon in the Korean market, just as it is worldwide. But Korea's tariff barriers are currently high – 20% *ad valorem* on nearly all imported spirits – significantly impeding U.S. spirits exports. The KORUS FTA will eliminate the tariff on U.S. spirits, promoting expanded trade opportunities for U.S. exporters.

Here are the facts:

- Korea is the 10th largest spirits market in the world, with retail sales valued at over $10 billion in 2010. Sales are dominated by whiskey and the domestically-produced spirit, soju. The whiskey category accounts for 39% by value of all spirits sold in Korea, but only 2% of all spirits sales by volume. Thus, the whiskey category comprises almost entirely higher-priced premium and super premium imported brands – the price segments in which U.S. spirits compete.

- U.S. spirits exports worldwide are dominated by whiskey. In 2010, total U.S. spirits exports reached almost $1.2 billion (FAS value, not retail sales value). Whiskey exports accounted for 70% of the total. U.S. spirits exports to Korea follow the same pattern. In 2010, total U.S. spirits exports to Korea were valued at just over $10 million (FAS value, not retail value). Whiskey exports accounted for 69% of the total, with Bourbon and Tennessee Whiskey accounting for the vast majority of export sales. In fact, Bourbon and Tennessee Whiskey accounted for 68% of total U.S. spirits shipments to Korea in 2010, with an export value of nearly $7 million (FAS value).

- Beam Global – and all American spirits producers – will benefit when the KORUS FTA enters into force. Once the KORUS FTA is implemented, Korea will *eliminate immediately* its 20% tariff on Bourbon and Tennessee Whiskey. Korea will phase out over five years its tariffs on all other categories of U.S. spirits, such as vodka, gin, rum, *etc.*, (currently 20% *ad valorem* for all categories except grape brandy, which is 15% *ad valorem*).

- The KORUS FTA plays to the strengths of our company – and to the U.S. spirits industry overall. The immediate elimination of the 20% tariff on Bourbon and Tennessee Whiskey will create an opportunity for U.S. exporters in a promising market and enhance choices for consumers. In particular, there is significant room for growth in U.S. Bourbon sales. Although Korea's spirits market is large, and whiskey accounts for a significant slice of it in value terms, sales of U.S. whiskeys still remain relatively small, accounting for only 2% of total whiskey sales. The whiskey market is dominated by Scotch whisky, which beat U.S. whiskey to the market by decades.

- The U.S. negotiators of the KORUS FTA are to be congratulated for having achieved such attractive terms relative to other competing products. For example, under the EU-Korea FTA, Korea will phase out its 20% tariff on Scotch and Irish whisky over three years, not immediately. This will give Bourbon and Tennessee Whiskey a small window of opportunity, but only if the U.S. Congress acts quickly. The European Parliament approved the EU-Korea FTA in February 2011, and the agreement will enter into force on July 1, 2011. Unless the U.S. Congress acts now, all U.S. exporters will be put at a significant competitive disadvantage.

- The Distilled Spirits Council of the United States (DISCUS), a national trade association representing U.S. producers, marketers, exporters and importers of distilled spirits products, including Beam Global, has estimated that the full elimination of Korea's 20% tariff on Bourbon and Tennessee Whiskey would reduce U.S. whiskey prices in Korea by about 12%. Assuming (as is reasonable) that the price elasticity of distilled spirits in Korea is similar to that in the United States, DISCUS estimates that U.S. whiskey could register an increase in volume of between 20% and 30% after the full elimination of the tariff. This translates to an anticipated increase in U.S. whiskey exports of between $1.5 million to $2 million in value terms (for total U.S. whiskey exports of up to $9 million the first year) and an increase of between 645 thousand and 890 thousand liters in volume terms.

- The timing is fortuitous: the KORUS FTA-inspired boost in U.S. whiskey exports would come at a time when Korea's whiskey market is projected to grow by 13.2% in value terms and by 9.7% in volume over the 2010-2015 period (according to Euromonitor International). Not surprisingly, Beam Global Spirits & Wine, Inc. is a strong supporter of the KORUS FTA.

- As an added important benefit, the KORUS FTA also includes an important anti-counterfeiting tool: Korea has agreed to recognize American's signature spirits -- Bourbon and Tennessee Whiskey -- as "distinctive products" of the United States. This means that only spirits produced in the United States, in accordance with the laws and regulations of the United States, may be sold in Korea as Bourbon and Tennessee Whiskey, thus offering important protection to our brands and products.

The potential benefits of the KORUS FTA to Beam Global and the rest of the U.S. distilled spirits industry are plain to see. But we will not be the only beneficiaries of this agreement. Distilled spirits are highly processed agricultural products. They are produced exclusively from agricultural raw materials and water. U.S. spirits producers are significant consumers of corn, wheat, molasses, rye, barley and other agricultural raw materials. The spirits industry's U.S.-sourced raw materials include grain from the Midwest, sweeteners and bulk spirits, wooden barrels, glass, plastic and aluminum containers, flavors and blending ingredients, labels, closures, folding cartons, corrugated shipping containers and much more. The KORUS FTA will have a multiplier effect: it will enable higher U.S. spirits exports to Korea, which in turn will enhance demand for U.S. agricultural products and the wide array of goods needed to produce, age, bottle, label, package and ship spirits.

For all of these reasons, Beam Global Spirits & Wine, Inc. urges the Ways and Means Committee to take up and approve the implementing legislation for the KORUS FTA at the earliest possible moment. It is good for American exporters, good for America's balance of trade and good for America's economy.

For additional information about this submission, please contact:

Matt Stanton
Vice President, Public Affairs
Fortune Brands, Inc.
1050 K Street, NW
Suite 1040
Washington, DC 20001
(P) 202-962-0551
(F) 202-962-0561

HOUSE WAYS AND MEANS COMMITTEE

SUBCOMMITTEE ON TRADE

HEARING ON

U.S. – Korea Free Trade Agreement (FTA)

April 7, 2011

STATEMENT BY

Euan Thomson

PRESIDENT AND CEO

Accuray Incorporated

1310 Chesapeake Terrace • Sunnyvale, CA 94089 • Tel: +1.408.716.4600 • Fax: +1.408.716.4601 • www.accuray.com

ACCURAY®

Accuray Incorporated, manufacturer of the CyberKnife® Robotic Radiosurgery System, would like to thank the Committee for holding this important hearing on the U.S. -Korea Free Trade Agreement (FTA). Not only will this FTA expand market access for our product and those of other U.S. companies operating in Korea, it will allow Accuray to improve access for patients in Korea to the life-saving technology that our company designs and manufactures.

Founded in 1990, Accuray manufactures the CyberKnife® Robotic Radiosurgery System, a non-invasive alternative to surgery for the treatment of both cancerous and non-cancerous tumors anywhere in the body. The treatment – which delivers precision beams of high dose radiation to tumors with extreme accuracy – allows physicians to treat highly complex or hard to reach tumors safely (for example, tumors inside the spine or those wrapped around critical structures) while sparing surrounding healthy tissue. For many patients, treatment with the CyberKnife System, is life-saving. For others, it is a clinically effective and patient-friendly alternative to invasive surgery or long courses of less precise radiation treatment. CyberKnife treatments are typically offered in five or fewer short daily sessions. They are pain-free with minimal to no side effects, and allow patients to return immediately following treatment to normal activities, minimizing time away from family and work. The CyberKnife System exemplifies American ingenuity in the service of the public's health.

To date, over 200 CyberKnife Systems have been installed worldwide, and over 100,000 patients have been treated, including over 6,000 in Korea. Accuray's business is strong, but we cannot underestimate the importance of sales outside the U.S. to the continued health of our organization. In FY 2010, 57 percent of new orders for the CyberKnife System were generated

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outside of the U.S. Company exports, therefore, play a key role in supporting our U.S. workforce of over 400 employees. Accuray employs a highly skilled and highly paid work force, including jobs in engineering, clinical development, manufacturing, management, marketing, service, and sales.

The U.S. Department of Commerce notes that Korea is one of the largest and fastest growing export markets for medical technology, with growth between 10 and 15 percent expected over the next several years[1]. To date, Accuray has had good success making its cutting edge technology available to Korean patients, with export sales of roughly $30 million and an installed base in Korea of 9 Systems. By expanding market access, free trade agreements like the U.S.-Korea FTA will support the commercial success of companies like Accuray, increasing US competitiveness in a global economy. At the same time, they will allow our trading partners to benefit from American leadership in medical technology through adoption of products like the CyberKnife System that benefit the health and welfare of their citizens.

The U.S.-Korea FTA comes at a timely moment. With Korea's evolving national health insurance system expanding to cover more and more procedures, the Korean people are becoming accustomed to a higher level of health care. This could create significant U.S. export opportunities for companies like ours. However, expansion of the health insurance system has not been without growing pains. As government officials seek, understandably, to control cost while expanding access, a need arises to ensure that well-intentioned payment policies do not

[1] International Trade Administration, US-Korea Trade Agreement, Opportunities for the US Medical Equipment Sector, April 2011 Report

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have the unintended consequence of reducing patient access to Accuray's and other U.S. companies' effective, patient-friendly and efficient technologies. Without the FTA, American manufacturers have no voice in the Korean reimbursement setting process, or ability to provide crucial product information to support informed decision-making by the Korean agencies. With the FTA, both U.S. manufacturers and Korean patient interests are better served.

The U.S.-Korea FTA is the first U.S. free trade agreement with specific provisions for the medical technology industry. Included in Chapter 5 on Pharmaceutical Products and Medical Devices, these provisions, among other things, affirm the importance of sound economic incentives in assuring patient access to medical technology and provide a needed voice for the manufacturer in the determination of product reimbursement. Specific provisions of the U.S. – Korea FTA addressing the concerns of U.S. medical technology companies, like Accuray, include the following:

- The FTA acknowledges the importance of access to medical technology to the provision of high quality health care and the importance of patented products in reducing other more costly expenditures;
- It provides for the promotion of innovation and timely and affordable access to safe and effective medical devices through transparent and accountable procedures;
- It calls for fair, reasonable and non-discriminatory procedures for the setting of reimbursement rates that are mainly derived from market competition;

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- In instances where non-competitive practices define reimbursement rates, the agreement permits manufacturers to apply for increased level of reimbursement based on the product's safety or efficacy;
- The FTA contains a requirement for transparency of regulations and rules affecting medical technology, including advance publication of rules prior to implementation with a reasonable opportunity (at least 60 days) to provide comment;
- It calls for timely approval of reimbursement requests for medical technology products;
- It enhances transparency via a commitment to make available in a timely manner to applicants all procedural rules, methodologies, principles, and criteria, used to determine pricing and reimbursement for medical technology, including detailed written information regarding the basis for a decision or recommendation;
- It provides manufacturers timely and meaningful opportunities to provide comments at relevant points in the pricing and reimbursement decision-making processes;
- It establishes an independent review process that may be invoked at the request of a manufacturer directly affected by a recommendation or determination; and
- It establishes an important commitment to openness of reimbursement decision-making bodies to all stakeholders, including innovative and generic companies.

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These commitments are especially important to Accuray at this moment in time. The Korean Government health insurance authority is in the midst of setting a new price for CyberKnife treatments in Korea. Without the important safeguards provided in the U.S.-Korea FTA, we find ourselves, as a manufacturer, without a place in the decision-making process and concerned that a new pricing policy may be implemented based on incomplete assumptions about our product, its clinical applications, and its cost. Without the kind of transparency safeguards, and commitments to pricing policies that are based on sound economics that exist in the US-Korea FTA, our ability to continue to do business in Korea may be compromised, to the detriment of both US economic and Korean patient interests. Accordingly, the value of Chapter 5 has become increasingly apparent to Accuray. It is for this reason that we are reaching out to support approval of the FTA by the Congress as quickly as possible.

We join our trade association, AdvaMed, in recognizing the strong effort by USTR in negotiating these provisions on behalf of our industry. We agree that the U.S.-Korea FTA will establish essential protections that will better ensure a more competitive, transparent and predictable market in Korea. Importantly, it will also better enable Accuray and other U.S. medical technology companies to bring life saving treatments to Korean patients who need them.

Thank you for the opportunity to comment on this important trade agreement.

CalChamber
CALIFORNIA CHAMBER OF COMMERCE

ALLAN ZAREMBERG
President and Chief Executive Officer

March 31, 2011

The Honorable Kevin Brady, Chairman
Subcommittee on Trade,
Committee on Ways and Means
US House of Representatives
Washington, DC. 20510

Dear Chairman Brady,

Re: Support of US Free Trade Agreement with Korea

On behalf of the California Chamber of Commerce, I am writing to urge Congressional approval of the pending Free Trade Agreement with Korea. Congressional leaders of both parties have indicated their intent to bring this agreement up for a vote in the months ahead, and it is critical to companies, workers, farmers, and ranchers in our state that you support this job creating trade agreement.

The California Chamber of Commerce, established in 1890, is the largest, broad-based business advocate that works at both state and federal levels to influence government actions affecting all California businesses. Our members include more than 15,000 firms of all kinds and sizes, as well as 450 affiliated local chambers of commerce and 200 trade associations. Our members employ one-fourth of the private sector workforce in California. Through its grassroots action program, the California Chamber reaches out to a statewide network of 430,000 small business owners.

The trade agreement with Korea is a big win for the California and U.S. economies. Korea is the seventh-largest U.S. export market in the world (and our fifth-largest market for farm exports). In 2010, U.S. exports to Korea reached $38.8 billion, with U.S. small and medium-sized companies accounting for a third of this impressive total. By giving U.S. exporters a leg up in one of the world's largest economies, the agreement with Korea will enhance the ability of U.S. companies to compete in the dynamic Asian economy. Korea is California's 5th largest exporting partner. In 2010, California exported goods worth $8 billion to Korea.

The CalChamber, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business.

California is one of the ten largest economies in the world with a gross state product of approximately $1.9 trillion. As one of the largest exporting states, with exports to 226 economies around the world, international-related commerce accounts for approximately one-quarter of California's economy.

The California Chamber of Commerce urges your support of this FTA that will continue to keep American and Californian businesses competitive. Thank you for your consideration.

Sincerely,

Allan Zaremberg

AZ:STS:alb

U.S.-KOREA BUSINESS COUNCIL

U.S.-Korea FTA Business Coalition

Hearing of the

U.S. House of Representatives
Committee on Ways and Means Trade Subcommittee

on the

U.S.-South Korea Trade Agreement

Thursday, April 7, 2011
10:00 a.m.
1100 Longworth House Office Building

Statement by

William Rhodes
Chairman, U.S.-Korea Business Council
President and CEO, William R. Rhodes Global Advisors, LLC
Senior Advisor to Citigroup

on behalf of the

U.S.-Korea Business Council
U.S.-Korea FTA Business Coalition

U.S.-Korea Business Council/U.S.-Korea FTA Business Coalition
Hearing of the House Ways and Means Trade Subcommittee
on the U.S.-South Korea Trade Agreement
April 7, 2011

Thank you for this opportunity to share the views of the members of the U.S.-Korea Business Council, and the U.S.-Korea FTA Business Coalition, on the economic benefits and geopolitical implications of the U.S.-South Korea Trade Agreement.

The U.S.-Korea Business Council is the leading business organization promoting the bilateral U.S.-Korea economic and commercial relationship and is composed of U.S. companies that are significant investors in and exporters to the Republic of Korea (South Korea). The Council is secretariat for the U.S.-Korea FTA Business Coalition, which represents nearly 1,000 American companies, business and agricultural organizations, and chambers of commerce that support approval of the pending trade agreement with South Korea.

The members of the Council and of the Coalition vigorously support the U.S.-South Korea trade agreement ("KORUS"). This groundbreaking market opening agreement will bring significant benefits to American workers, businesses, farmers, consumers, and the U.S. economy. The scale and breadth of U.S. trade with South Korea—a $1 trillion economy with 49 million consumers that is already the seventh-largest U.S. export market and trading partner—make KORUS the most commercially significant bilateral U.S. trade agreement in nearly two decades. The comprehensive scope of this agreement, and its strong protections and provisions eliminating non-tariff barriers to trade, set important new benchmarks for future U.S. and global trade agreements. Moreover, the agreement cannot solely be quantified in terms of its bilateral economic impact, but also has significant implications for U.S. national economic security and geostrategic priorities, including promoting trade liberalization in Asia and globally.

Approval and implementation of the agreement with South Korea, along with the agreements with Panama and Colombia, are among the most important actions that the U.S. Congress can take to achieve President Obama's goal of doubling U.S. exports in five years—creating new jobs and economic opportunities in communities across the country—and to building an infrastructure that promotes regional prosperity and stability. I would like to describe why the U.S. business community sees the South Korea agreement, specifically, as beneficial to U.S. economic and geostrategic goals.

Economic Benefits

Trade and investment with South Korea already contributes significantly to the U.S. economy and supports tens of thousands of U.S. jobs. Two-way trade in manufactured and agricultural goods reached nearly $88 billion in 2010. Demand in South Korea for "made in U.S.A." products is growing: U.S. goods exports to South Korea rose to $38 billion in 2010, and South Korea was the fastest growing export market for U.S. manufactured goods that year, increasing 39.6%. South Korea was the seventh-largest export market for U.S. goods and fifth-largest market for U.S. agriculture exports last year.

Two-way trade in cross-border services amounted to $19 billion in 2009, with U.S. exporters running a $6.2 billion trade surplus in services exports that year. South Korea is also an important export destination for U.S. small and medium-sized enterprises, which accounted for more than

89% of all U.S. companies exporting to Korea in 2008 and $14.2 billion of U.S. exports to Korea that year.

U.S. producers face significantly higher tariffs in South Korea than Korean producers face in the already open U.S. market. Currently, non-agricultural U.S. goods face an average applied tariff in Korea of 6.2%, and U.S. agricultural products face an average applied tariff of 54%. Under KORUS, nearly 95% of bilateral trade in consumer and industrial products will become duty free within five years and tariffs on almost all goods will be eliminated within ten years. Additionally, nearly two-thirds of U.S. agricultural exports to South Korea will become duty-free immediately, and the agreement will phase out over 90 percent of all South Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, and oranges, over 15 years.

The Council and the Coalition expect the elimination of these tariffs to boost significantly U.S. exports to South Korea. The United States International Trade Commission (USITC) estimated in September 2007 that the agreement could increase U.S. exports by $10 billion to $11 billion annually.

KORUS will also remove significant non-tariff market access barriers in South Korea to U.S. goods, services, and investment. It guarantees transparent and predictable regulatory and rule making procedures in South Korea, and includes commitments to apply a negative list approach, under which all sectors are liberalized except where South Korea has taken a specific reservation, and will automatically include future liberalization actions taken by Korea under the agreement. It includes possibly the strongest ever protections for intellectual property within a bilateral U.S. trade deal, which is of great importance given the significant impact that counterfeiting and piracy in South Korea have had on U.S. companies in the entertainment, software, ICT, and other sectors.

KORUS includes strong provisions and protections on investment and competition policy, and will help ensure the fair and transparent application of competition policy for all U.S. companies doing business in South Korea. Under the agreement, the Korean government has committed to provide national treatment to U.S. stakeholders so that they will have equal footing in regulatory proceedings and in standards-setting processes. South Korea has also agreed to allow 100 percent foreign ownership of telecommunications providers and certain broadcasting channel operators, areas in which foreign investment has been restricted until now, and committed to opening previously closed sectors, such as legal and health care services, to U.S. companies. In addition, the agreement includes important new commitments on customs administration and rules of origin, and streamlined procedures that will facilitate more trade by ensuring timely and efficient clearance of customs.

KORUS includes the strongest financial services chapter in a U.S. bilateral trade agreement. It will create a more level playing field for U.S financial services companies in South Korea and establish a more competitive market environment, which we expect will generate significant new business and benefits for U.S. firms in this sector. Even though U.S. financial services companies have in recent years made major investments in South Korea, it remains a challenging market because of complex regulatory procedures and other non-tariff barriers. KORUS will address these through commitments that are the most progressive made with any U.S. trading partner to date and that will increase transparency, predictability, and accountability in its financial services sector. These commitments will promote greater sectoral stability and international regulatory cooperation, and will increase—not decrease—sound regulatory oversight of the financial system. KORUS also includes provisions that will allow for cross-border data flow, which will enable U.S. based back office support to U.S. firms' operations in South Korea and bring U.S. best practices there.

We expect these and many other provisions in KORUS to level the playing field for U.S. workers and businesses in South Korea, and to stimulate new demand there for U.S. goods and services—which will generate new American jobs and growth.

Job Creation Benefits

KORUS holds great potential to grow new U.S. American jobs. Increased demand in South Korea for U.S. manufactured and agricultural products—and increased imports to the United States from South Korea resulting from the FTA—will create new American jobs at ports, in transportation and logistics, warehousing, marketing, advertising, retail sectors, and other sectors. U.S. exporters would not only need production workers but also engineers, designers, and marketing specialists. All of these new employees will help drive retail and other services-sector growth in their communities.

South Korean companies are expanding their investment in the United States, and have created tens of thousands of American jobs in manufacturing as well as in distribution and supplier networks across the country. These jobs contribute to economic growth in local communities, generating jobs in services and other sectors. By reaffirming the openness of the U.S. market and attractiveness of the United States as a destination for investment, KORUS has the potential to accelerate this trend.

President Obama has said that at least 70,000 U.S. jobs would be supported by KORUS. This figure is a conservative estimate and does not capture the potential for growth of U.S. services exports to South Korea. An updated assessment of the potential economic effects of the agreement prepared in January 2011 by USITC economic staff at the request of the Senate Finance Committee Trade Subcommittee estimated that the agreement could generate as many as 280,000 U.S. jobs.

KORUS includes all of the labor protections and environmental provisions specified in the May 10, 2007, Congressional-Executive Agreement on Trade Policy, which ensure that U.S. trading partners promote and protect global labor and environmental rights and standards.

Geostrategic Benefits

KORUS is also important for U.S. security and geostrategic goals, both in the Asia-Pacific region and globally. Implementation of KORUS will strengthen the United States' relationship with South Korea, one of our country's strongest partners in advancing regional and global security. U.S.-South Korea ties have long focused on defense and security and, by expanding trade and investment, KORUS will broaden this relationship by deepening economic links. North Korea's continuing provocations, including the sinking of the *Cheonan* navy ship and the attack on Yeonpyeong Island last year, firmly reinforce the importance of the U.S.-Korea security alliance for protecting regional stability.

KORUS is a core component of U.S. strategies to secure a competitive edge in Asia, as the region becomes increasingly interwoven by trade agreements that leave out the United States. It provides a model for ways that major developed economies can successfully tackle challenging regulatory and other market access barriers to create a fair and competitive business environment. KORUS' strong rules and protections are seen as the baseline for the ongoing Trans-Pacific Partnership negotiations which, if successful, could lay the foundation for a possible future free trade area of the Asia-Pacific region.

The South Korean government has been steadfast in reiterating its commitment to open markets and in cautioning against protectionism during the recent global economic downturn. South Korea has increased its international leadership role as well through the G-20, partnering closely with the United States to address shared global challenges. In fact, South Korea was the chair of the ambitious and successful G-20 summit last November. Approval and implementation of the FTA will send a powerful signal to other major economies that the United States is committed to advancing global economic recovery and prosperity through open markets and the removal of barriers to opportunity and fairness.

South Korea is also an important provider of international development assistance, and plays an increasingly active role in peacekeeping and disaster relief efforts. U.S. and South Korean leaders say bilateral relations today are at their strongest level ever—and it is in America's interests to take every action that will reinforce this. By further integrating the two countries' economies, the FTA will deepen and add to the resiliency of this partnership.

The Cost of Inaction

The window of opportunity for the United States to take full advantage of the potential to create new jobs and growth through KORUS is, however, shrinking rapidly. On February 17, the European Parliament approved a free trade agreement with South Korea that will eliminate nearly 99% of all duties on trade in manufactured and agricultural goods between the European Union (EU) and South Korea within five years. That agreement will also offer EU manufacturers, farmers, and services providers many of the same protections and market opening provisions that their American counterparts will enjoy under KORUS. The EU agreement is slated to enter into effect on July 1. Without KORUS, American workers and producers risk losing out on the chance to increase their business and market share in South Korea while European exporters enjoy vast new market access there. We have already seen these kinds of market share losses in Colombia and Panama with the delay to act on passing these two important agreements as well. A study by the U.S. Chamber found that as many as 345,000 U.S. jobs and $35 billion in U.S. exports will be lost if the EU-Korea FTA and the pending Canada-Korea FTA enter into effect and KORUS does not.

Since the U.S. and South Korean governments first announced the launch of trade agreement negotiations more than five years ago, the Council and the Coalition have worked to inform the wider U.S. public about the important potential benefits of KORUS to the U.S. economy and geostrategic goals. During the nearly four years since the agreement was signed on June 30, 2007, U.S. exports to and trade and investment with South Korea have increased, but at nowhere near the level that could have been possible had the agreement been implemented then—costing American workers and exporters valuable opportunities to grow their business in Korea.

We recognize that concerns raised by U.S. stakeholders with respect to certain measures in KORUS needed to be addressed in order for the agreement to move forward. We applaud the tireless efforts of the White House and Blue House, the Office of the U.S. Trade Representative, in consultation with members of Congress and their Korean trade negotiator counterparts, to identify solutions. The provisions agreed to in December have created important new access in South Korea for U.S. automakers, brought together business and labor in support of the FTA, and added powerful new momentum to moving the agreement forward.

Now it is time for Congress to swiftly approve the agreement with South Korea – as well as the other two pending agreements with Colombia and Panama - in order to open significant new access in South Korea's $1 trillion economy to U.S. workers, manufacturers, farmers, and services providers. This is the strongest action that Congress can take to support new American job growth through export creation, and to ensure that American workers and producers can compete in rapidly integrating markets across the Asia-Pacific.

Statement
of the
U.S. Chamber
of Commerce

ON: Third in a Series of Three Hearings on the Pending, Job-Creating Trade Agreements (specifically on the U.S.-Korea Free Trade Agreement)

TO: U.S. House of Representatives Committee on Ways and Means Subcommittee on Trade

BY: John Schoch, President and CEO, Profile Products LLC, Buffalo Grove, IL

DATE: April 7, 2011

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Brady, Ranking Member McDermott, and distinguished members of the House Ways and Means Subcommittee on Trade. My name is John Schoch, and I am President and CEO of Profile Products LLC, headquartered in Buffalo Grove, Illinois. I am testifying today on behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

Today, I would like to speak about the important benefits of passing the pending free trade agreements for American jobs and U.S. economic growth, and specifically how the U.S.-Korea Free Trade Agreement (FTA) — known as KORUS — will boost Profile's exports and generate greater employment opportunities for our company's manufacturing facilities around the country.

Profile Products (www.profileproducts.com) has been a leading producer of erosion control, vegetation establishment, soil modification, and sports field renovation and maintenance products for over 50 years. We manufacture and distribute the market's broadest line of erosion and sediment control products, turf establishment products and complementary accessories to control erosion and accelerate seed germination. We also manufacture the industry's best-selling inorganic soil amendments for sports fields, golf courses and landscaping.

With approximately 200 employees in four manufacturing facilities, two sales offices, and sales personnel domiciled around the country, Profile is able to manufacture and market its entire line of products from the United States. Our commitment to world-class service, state of the art technology, and results-based performance providing measurable value to our customers has allowed our company to stand out in its industry and receive orders from clients around the world. Today, I am proud to say that our products are represented in more than 50 countries in Central America, the Caribbean, South America, Europe, Africa, the Middle East and the Asia Pacific.

With the U.S. unemployment rate hovering around 10 percent, the number one priority for the nation is putting Americans back to work through sustained economic growth. A robust U.S. trade policy will help America reach this job-creation goal. With 73 percent of the world's purchasing power, 87 percent of its economic growth, and 95 percent of the its consumers represented outside the United States, we can no longer rely on domestic consumption to generate enough demand for the goods and services America produces. We must look beyond our borders for new customers and tap into the growing global demand for the high-quality, innovative products that U.S. manufacturers produce every day.

I am honored to be before you today to discuss how the passage of the pending trade agreements, including KORUS, will give small and medium-sized businesses like mine the upper hand in foreign markets, and help America reach its goal of doubling exports in the next several years.

Trade Brings Growth, Prosperity, and Jobs for Small Businesses

While many Americans believe that trade only benefits large, multinational corporations, the reality is that more than 97 percent of the quarter million U.S. exporters are small and medium-sized enterprises (SMEs). Together, SMEs account for nearly a third of U.S. merchandise exports, according to the U.S. Department of Commerce. In 2008, 20,788 U.S. companies exported $34.8 billion worth of merchandise to Korea alone. Of this total, 18,545—or over 89 percent—were SMEs. Profile was one of the many U.S. SMEs that benefitted from exporting to Korea's dynamic market.

Of the more than 50 countries we export to around the world, Korea is our single largest export market, making up 12 percent of our total international sales revenue. Since 2008, Profile has sold to Korea more than 1200 tons of our Flexterra FGM, our highest technology hydraulically applied mulch product used to prevent soil erosion and develop healthy plant establishment, and 600 tons of our Porous Ceramic, an inorganic soil amendment used to manage the moisture and nutrient holding ability of sand-based root zones, specifically in golf course and sports field construction. Several golf courses in Korea, including the prestigious Jack Nicklaus Signature Golf Club, Hyundai Sungwoo Ostar Country Club, Alpensia Troon Estate Golf Club, and Nine Bridge Country Club, feature Profile's products. We hope to continue expanding our reach as Korea's demand for sustainable golf courses soars in the coming years.

As global demand for Profile's innovative solutions has increased, so too has the effect of global sales on our company's work force. In 2010, 13 percent to 14 percent of our sales came from overseas orders. If you do the calculations, approximately 28 of our 200 employees are employed as a direct result of the company's exports. We anticipate that number to grow to 15 percent to 17 percent of our total sales in 2011.

As the president of the firm, I have seen first-hand the impact that international trade can have on a small business like ours. Since I started with the company eight years ago, our international output has risen exponentially. As our exports grow, so does the employment in our manufacturing facilities. Since employment is a direct function of the volume of our orders, additional volume means additional shifts, which then translates into hiring additional workers.

Trade already sustains millions of American jobs. More than 50 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury. With the passage of KORUS and the pending trade deals with Colombia and Panama, I have no doubt that thousands of SMEs like Profile will be able to hire and retain a larger, more productive workforce.

FTAs will Level the Playing Field for Profile Products and Other SMEs

While our company has achieved considerable success in Korea and other markets, one of the greatest challenges we face is the complex array of foreign barriers to American exports. These include both tariffs and non-tariff barriers which pose a major competitive challenge to U.S. manufacturers, service providers, farmers, and the millions of U.S. workers whose jobs depend on exports.

Free trade agreements like the pending trade deal with Korea will remove these barriers and create new opportunities and economic benefits for U.S. businesses through tariff elimination, greater market access, more efficient customs regimes, stronger intellectual property protections, and other market-opening provisions.

At its core, these agreements are about making trade fair. Most Americans do not realize that while the U.S. market is largely open to imports from around the world, other countries continue to impose steep tariffs on U.S. products. For example, Korean average applied tariffs on U.S. industrial and consumer goods are 6.2 percent, as compared to the average U.S. applied tariff of 2.8 percent. For agricultural goods, Korea applies an average tariff of 54 percent, as compared to the 9 percent average tariff that the United States applies to agricultural imports.

The pending trade agreements will level the playing field for U.S. companies to compete fairly with their foreign competitors. Under KORUS, nearly 95 percent of bilateral consumer and industrial goods trade will become duty-free within three years, with almost all remaining tariffs eliminated within 10 years.

For Profile, this would mean being able to sell our hydraulically applied mulch products such as Flexterra, our Porous Ceramics for golf course construction, as well as numerous other products to Korea at a significantly lower landed price. For example, Profile's Porous Ceramics currently faces a tariff of three percent that will be eliminated immediately with the passage of the KORUS FTA. FlocLoc, a soil and fiber mulch stabilizer that we also export to Korea, currently faces a tariff of eight percent that will be eliminated immediately when the KORUS FTA is implemented. When you are exporting products by the truckloads, eight percent makes a huge difference.

Approval of the pending trade agreements with Korea, Colombia, and Panama will not only eliminate tariffs in these countries. These agreements will open the door to new opportunities for Profile Products and other SMEs in ways that go far beyond just cutting tariffs:

- **Intellectual Property Protections:** Korea has been a particularly challenging market for Profile in terms of trademark and patent infringement. KORUS will give protections for intellectual property similar to those in the U.S. law and will criminalize trademark and copyright infringement by destroying both the counterfeited goods and the equipment used to produced them. As a result, Profile would not have to invest its time, money, and other resources into protecting patents. Our bottom line profit would be higher and we could invest our resources into other areas to grow our business and thereby create the need to hire more employees, build infrastructure, and purchase additional equipment.

- **Reduced Red Tape and Expedited Customs Procedures:** Although Korea's customs process is relatively easy to navigate, KORUS would help streamline the delivery process so that the time to market is reduced. This would facilitate increased trade and sales for U.S. SMEs and allow companies like Profile to deliver our products to the final destination at a lower cost, making us more price-competitive.

- **Increased Transparency:** KORUS includes provisions that will ensure clear, consistent and predictable regulatory procedures across all sectors of its economy. These guarantees of open and fair regulatory processes address one of the most costly challenges for U.S. companies doing business with Korea.

For years, Profile Products has been able to stand out from its competitors because of our ability to provide customized, holistic soil solutions that combine environmentally friendly components and designs with top-notch agronomic and erosion control expertise. We have full confidence in our products and services, and have no qualms about competing in foreign markets—as long as it's fair. Passage of KORUS and other pending trade agreements would ensure that U.S. businesses are competing on a level playing field with companies from other countries.

Rural Development through Exports

One area that is often overlooked is the positive impact that international trade has on rural development and growth. Profile manufactures its line of products in four rural towns throughout the country: Blue Mountain, Mississippi; Conover, North Carolina; Limestone, Tennessee; and Sanger, California. Although the plant in Sanger, California is not owned directly by Profile Products, we purchase all of the products that this firm manufactures, so the livelihood of the plant's workers is directly affected by our sales volume.

Profile has a longstanding presence in each of these towns and is considered one of the largest employers in all of these communities. Over the 50 years we have been in Mississippi and the 25 years we have been in North Carolina and Tennessee, our company has worked hard to cultivate relationships with our employees' families and has reinvested its resources in the local community's infrastructure and economic development. For example, in Blue Mountain, Mississippi, we are currently in the process of donating over 30 acres of land to Blue Mountain College for the construction of a new sports complex to benefit both the college and the surrounding communities.

Our manufacturing facilities employ a fairly senior workforce that is closely tied with their communities. Our workforce is not transient and their families typically stay close to home. Because Profile is so active in the local community, the local community has been the recipient of the opportunities and benefits the company provides through both its domestic and international output.

These communities understand that their jobs depend on the volume of orders our company receives, so as exports grow, so will the hours of production and the number of employee shifts we need fulfilled to complete those orders. With the passage of the pending trade agreements, the lowered costs of exporting to foreign markets will undoubtedly increase our sales abroad and will ultimately lead to hiring more employees in our manufacturing facilities.

The Cost of Inaction: The Risk of Losing 380,000 Jobs

Timing will play a major role in affording America's small and medium sized enterprises a fighting chance in the Korean market. On July 1, 2011, American companies exporting to Korea will face a severe and immediate threat to their livelihood as Korea's free trade agreement with the European Union goes into effect. If this agreement is implemented before KORUS, it will generate a clear competitive disadvantage for U.S. exports as Korean consumers turn towards more price-competitive EU member country goods.

According to a study by the U.S. Chamber of Commerce entitled ***Trade Action — Or Inaction: The Cost for American Workers and Companies***, the United States risks losing more than 380,000 jobs and $40 billion in export sales if we fail to implement our pending trade agreements with Korea and Colombia while the European Union-Korea Free Trade Agreement and the Canada-Colombia Free Trade Agreement enter into force. I don't want any of those lost jobs to be any of my employees.

Furthermore, a comparison of leading U.S. and EU exports to Korea reveals the significant degree of overlap between them — a fact that highlights our vulnerability to market destabilization by one of our biggest competitors. However, this is just one example of the many agreements the Korean government is pursuing while the U.S. delays action on the Korea trade agreement.

Korea has ongoing negotiations with Canada, Australia, Peru, New Zealand, the Gulf Cooperation Council, and Japan. For these reasons, the American business community considers ratification and implementation of KORUS indispensable in maintaining and increasing our market share, revenue streams, and highly skilled workforce.

The Time is Now to Pass the Pending FTAs

When examining President Obama's goal of doubling U.S. exports in the next several years, it's plain that approval of the negotiated agreements with Korea, Colombia, and Panama is critical to success.

Over the past 25 years, the United States has negotiated free trade agreements (FTAs) with 17 countries around the globe. While those 17 countries represent just 7.5 percent of global GDP, in 2010 they purchased more than 40 percent of U.S. exports. Some of these countries are small, but FTAs make big markets even out of small economies. Moreover, the United States has a trade surplus with its 17 FTA partners in manufactured goods on top of global surpluses in international trade in services and agricultural products. For those worried about the U.S. trade deficit, trade agreements are clearly the solution — not the problem. Profile is helping to create the trade surplus by exporting hydraulic mulch, soil, and vegetation solutions to countries all over the world. We need more of these agreements and we need more U.S. factories exporting.

Korea, with a $1 trillion economy, is the United States' seventh-largest trading partner in terms of two-way trade, which reached nearly $88 billion in 2010. Korea is a major market for U.S. producers across numerous sectors. Over 80 percent of U.S. merchandise exports to Korea are manufactured goods. Korea is the fifth-largest market worldwide for U.S. agricultural goods, with U.S. agricultural exports totaling nearly $5 billion in 2010. In addition, Korea is one of the largest markets for U.S. services in Asia, and U.S. cross-border exports of services to Korea totaled $12.6 billion in 2009, netting a U.S. services trade surplus of $6.2 billion.

With passage of KORUS, American businesses stand to gain unparalleled access to a thriving market. Conversely, these companies stand to lose precious market share if Congress delays action on the agreement.

Conclusion

The U.S.-Korea Free Trade Agreement further strengthens one of our most important bilateral partnerships by deepening the economic ties between our two countries. The most significant step the U.S. government can take to enhance the bilateral trade and investment relationship is to approve and implement the FTA at the earliest possible time.

The United States is at a crossroads on global trade. American companies have the ability to flourish in foreign markets if we are given the chance. Thousands of small and medium-sized businesses like Profile Products stand to gain immensely through the passage of the pending trade agreements, or lose significant market share as a result of inaction. In support of the job-creating, market-opening deal with Korea and our other partners, I respectfully urge you to increase boost exports and generate jobs through swift approval of the U.S.-Korea Free Trade Agreement and the pending trade deals with Colombia and Panama.

Thank you for the opportunity to testify.

COUNCIL FOR INTERNATIONAL TRADE

CALIFORNIA CHAMBER of COMMERCE CalChamber

April 6, 2011

The Honorable Kevin Brady, Chairman
Subcommittee on Trade,
Committee on Ways and Means
US House of Representatives
Washington, DC. 20510

Dear Chairman Brady,

Re: Support of US Free Trade Agreement with Korea

On behalf of the California Coalition for Free Trade, the member companies and associations listed below strongly urge Congressional approval of the US-Korea Free Trade Agreement. Agreements like the proposed US- Korea FTA ensure that the United States may continue to gain access to world markets, which will result in an improved economy and additional employment of Americans.

The California Coalition for Free Trade was initiated in May of 2008 by the California Chamber of Commerce's Council for International Trade. This group of California companies and business organizations believe that opening markets and promoting fair trade rules are critical for California's economy. The Coalition is working to secure Congressional approval of the Free Trade Agreements with Colombia, Panama, and South Korea.

The trade agreement with Korea is a big win for the California and U.S. economies. Korea is the seventh-largest U.S. export market in the world (and our fifth-largest market for farm exports). In 2010, U.S. exports to Korea reached $38.8 billion, with U.S. small and medium-sized companies accounting for a third of this impressive total. By giving U.S. exporters a leg up in one of the world's largest economies, the agreement with Korea will enhance the ability of U.S. companies to compete in the dynamic Asian economy.

The US-Korea FTA will greatly expand market access in Korea for US farmers, manufacturers, service providers, and financial services firms. Under the FTA, more than half of current US agricultural exports to Korea—with a value of $2.8 billion—will become duty-free immediately. Almost 95 percent of all bilateral trade in consumer and industrial products will become duty-free within three years under the agreement, and virtually all remaining tariffs on consumer and industrial goods will be eliminated in ten years. Moreover, this agreement will eliminate significant non-tariff market access barriers in Korea to US goods, services, and investment. Consumers in both countries stand to gain from the broad benefits of this agreement.

1215 K STREET, SUITE 1400 SACRAMENTO, CALIFORNIA 95814 916 444 6670 www.calchamber.com

US interests are protected under this agreement through robust provisions on transparency, intellectual property rights, competition, investment, and other rules, particularly in the area of services. The agreement also has important implications beyond bilateral trade and investment. By giving US exporters and investors a preferential position in one of the world's largest economies, an FTA with Korea will enhance US businesses' ability to compete in the dynamic Northeast Asia regional economy. From a strategic vantage point, the FTA will reinforce the critical partnership and alliance between our two countries.

California is one of the ten largest economies in the world with a gross state product of approximately $1.9 trillion. As one of the largest exporting states, with exports to 226 economies around the world, international-related commerce accounts for approximately one-quarter of California's economy.

Korea is California's 5th largest exporting partner. In 2010, California exported goods worth $8 billion to Korea. According to the International Trade Administration in the US Department of Commerce, computer and electronic products accounted for $2 billion of California's merchandise exports to Korea in 2010. With immediate removal of many of these related tariffs, exports will become more competitive and affordable to Koreans. California's exports of machinery also will benefit from US-Korea FTA reductions as machinery manufactures accounted for $1.8 billion of the state's merchandise exports to Korea in 2010. Transportation equipment accounted for $548 million of the state's export sales to Korea in 2010 and most of these duties also would be eliminated immediately. In addition, tariffs and other barriers would be eliminated on most agricultural products produced in California. From pharmaceuticals to pistachios – the US-Korea FTA is a win for California.

South Korea has concluded trade agreements with major trading partners and export competitors of the United States, so U.S. failure to implement our own trade agreement with South Korea could severely disadvantage U.S. exporters and jeopardize U.S. job creation.

The US-Korea FTA will bring real benefits for US workers and businesses and help maintain America's leadership position in an increasingly competitive global environment. We urge you to work to obtain passage of this historic and commercially significant agreement.

Sincerely,

The California Coalition for Free Trade
(members listed below)

COUNCIL FOR INTERNATIONAL TRADE

CALIFORNIA CHAMBER of COMMERCE CalChamber

California Coalition for Free Trade Member Companies April 2011

- 32 South, Inc.
- Applied Materials,Inc.
- Arrowhead Credit Union
- Bear Creek Winery
- Blue Diamond Growers
- California Business Ventures
- Cange International Inc.
- Caterpillar Inc.
- Chevron
  Citigroup, Inc.
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- East Bay CITD
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- Express Employment Professionals
- Fernandez Barragan & Associates
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- Lyles Diversified, Inc.
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- North County BMW
- Northern California World Trade Center
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- Silicon Valley CITD
- South Bay BMW
- So. Orange Cty Reg Chambers of Commerce
- SunWest Foods, Inc
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- The California Parks Co.
- The Dow Chemical Company
- Toyota of Santa Barbara
- Voiland Enterprises
- WJ Byrnes & Co.

Wine Institute
601 13th St., N.W., Suite 330 South
Washington, D.C. 20005

WineAmerica
The National Association of American Wineries
WineAmerica
1015 18th Street, N.W., Suite 500
Washington, DC 20036

April 7, 2011

Testimony of Wine Institute and WineAmerica
House Committee on Ways and Means
Subcommittee on Trade

Hearing on
"Pending, Job-Creating Trade Agreements: South Korea Trade Agreement"

Wine Institute and WineAmerica submit these comments in support of approval of the United States Free Trade Agreement with the Republic of Korea in response to the March 31, 2011 Committee Advisory No. TR-03.

Established in 1934, Wine Institute is the association of more than 1,000 California wineries and affiliated businesses that initiates and advocates public policy to enhance the ability to responsibly produce, promote and enjoy wine. Wine Institute membership represents 85 percent of U.S. wine production and 90 percent of U.S. wine exports. For more information visit www.wineinstitute.org

WineAmerica (formerly the American Vintners Association) was founded in 1978. With more than 800 members from 48 states WineAmerica supports initiatives to expand opportunities for US wine producers to export their product worldwide. For more Information visit www.wineamerica.org

Together, Wine Institute and WineAmerica represent virtually all U.S. wine production and U.S. wine exports.

Executive Summary

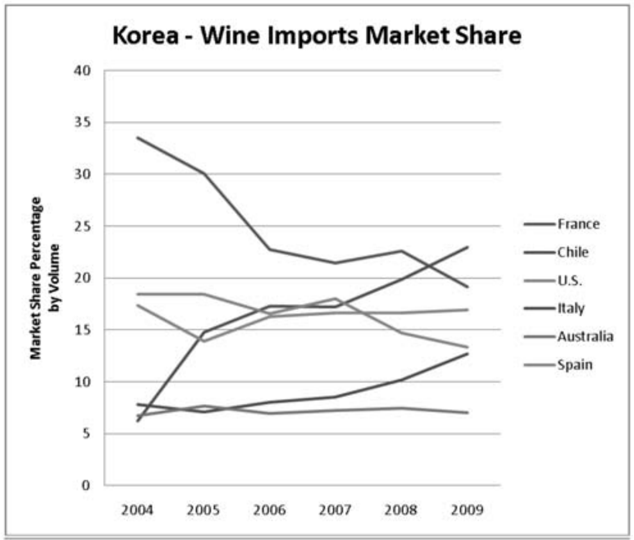
Wine Institute and WineAmerica support the Administration's trade policy, including support in Congress for approval of the Korea trade agreement (KORUS). Throughout the negotiation process, U.S. wine producers requested the immediate duty elimination for wine (HTS 2204) and grape-juice concentrate (HTS 2009) by both parties. U.S. negotiators achieved that objective. Korea is not a significant wine producer and is not a threat to U.S. producers. By comparison, Chile and the

European Community (EC) are significant wine producers and have the potential to be significant grape juice concentrate exporters to Korea. Both have also negotiated and are implementing free trade agreements with Korea.

The current import tariff for grape juice concentrate is 45 percent *ad valorem.* That tariff is eliminated immediately upon implementation of KORUS. The current import tariff for Chilean concentrate and wine is zero and the tariff for EC concentrate and wine will be zero in five years. The lack of implementation of an agreement with the U.S. will result in a significant economic disadvantage for U.S. grape juice concentrate and wine producers in Korea. As described below this disadvantage affects all U.S. interests from the farmer, labor worker and wine producer through the service providers in the distribution supply chain.

How implementation of the FTA will affect wine trade between Korea and the United States

- Implementation of a free trade agreement with Korea will overcome the substantial competitive disadvantage facing U.S. exports compared to other countries that have preferential trading agreements with Korea. Korea has high import tariffs. For wine it is 15 percent and for grape juice concentrate it is 45 percent. That 15 percent preference also reduces the amount of excise, VAT and other taxes that are imposed on the import as a result of compounding. That reduction along with the elimination of the duty will provide a greater competitive margin at retail over those paying the duty.
- In 2005, Korea was the 4th largest export market for U.S. grape juice concentrate.
- Concentrate imports from the U.S. into Korea rank number one with a 36 percent share of those imports in 2008.
- In 2005, Korea was the 13th largest export market for U.S. wine and those imports ranked 2nd in imports of wine into Korea
- Of the more than a dozen FTAs negotiated by the U.S. over the past several years, KORUS is the most economically significant since Canada and Mexico.
- There is no significant Korean grape growing, concentrate, or wine production to be protected by import tariffs. Without that production there is no negative impact on the U.S. market from a potential increase of Korean wine or concentrates imports into the U.S.
- Since 2004 when Chile signed the FTA with Korea, U.S. wine exports to Korea have declined as a percent of import market share.
- Wine demand and consumption are increasing significantly in Korea, but Chilean wines are largely satisfying that demand thanks to Chile's FTA with Korea.
- Since the inception of the Chile-Korea FTA, Chilean wine imports have risen dramatically and now hold the dominant market share position. The recent EU-Korea FTA will likely have a similar impact on the market shares of France, Italy, and Spain – thus further diminishing the already falling U.S. market share.



Economic costs and benefits to U.S. workers, farmers, ranchers, businesses and consumers of removal of tariffs and non-tariff barriers affecting trade between the United States and Korea

- At the time it negotiated its free trade agreement, Chile's import market share for wine was 6.25 percent. In 2009, that share even in a growing market had increased to 23 percent. It is the number one Korean wine import by volume. That growth has been coincident with the decrease in tariffs.
- Elimination of tariffs for U.S. wines will simply make U.S. wine competitive with Chile. Anything less leaves U.S. wine producers and winegrape growers in a secondary position.
- Elimination of the grape juice concentrate tariff will help retain market share for U.S. grape juice producers.
- There will be no economic cost to U.S. workers, farmers, ranchers, businesses, and consumers resulting from increased imports of wine or grape concentrate from Korea. As stated above, Korea does not have an industry that poses any threat to U.S. producers.
- There ***will*** be significant economic costs to those U.S. interests if there is no agreement. Since the Chile Agreement, U.S. wine producers have lost almost 6 percentage points in import market share by volume. Korean wine imports grew to $174 million in 2008 resulting in a loss of about $10 million in lost sales because U.S. wine could not retain its market share. Imports dropped to $124 million in 2009 with most of that loss attributable to decreases in French and U.S. imports

of 44 and 31 percent respectively. In the absence of approval of KORUS these losses will increase as the EC Agreement provides a more favorable environment for EC wine imports.

- One of the major concerns of many of our trading partners is the predictability of the commercial relationship. To invest and grow business and trade for the benefit of U.S. workers, farmers, business and civil society long-term stable business and government relationships are required. Wine production and sales are not an *ad hoc* business venture. By its nature, wine requires long lead times for production, distribution and retail sale. Customers need to know that their supply chain will not be interrupted by one party wanting to re-negotiate the agreement to change terms or other action that could disrupt that supply chain.
- There are provisions in the agreement concerning customs clearance and distribution that are as equally important as the reduction of tariffs. Attention should be given to the implementation and monitoring of those obligations to ensure both parties fully comply with those obligations.
- As a result of the preference to be provided under the agreement, the regulatory bodies in both parties should increase their cooperation and consult often to enable the greatest benefit from the agreement. Be it labor, environment, health and safety standards or other regulatory matters, transparent administration of those regulations is a must. Policies and procedures should be put in place to facilitate regular communication and cooperation between the parties.

Conclusion

Wine Institute supports the implementation of the KORUS as soon as possible. The current delay is costing U.S. producers millions of dollars each year. The net result of those losses is economic harm to workers, farmers, service providers and businesses. Wine production in the U.S. supports more than 875,000 jobs throughout the entire supply chain. Assisting U.S. wine exporters to grow their market in Korea and other countries provides an indirect benefit to all of those workers by keeping the producers economically sound. That benefit is badly needed during this financial recession, growing unemployment and increasing business bankruptcies just to stem the tide of further economic decline.

Respectfully submitted by:

Tom LaFaille
Director of International Trade Policy
Wine Institute
601 13th St., N.W., Suite 330 South
Washington, D.C. 20005
Cell (415) 310-8800
Fax (415) 356-7582

Cary M. Greene, Esq.
Chief Operating Officer & General Counsel
WineAmerica
1015 18th Street, N.W., Suite 500
Washington, D.C. 20036
Tel (202) 223-5173
Fax (202) 347-6341

Statement
of the U.S. Chamber of Commerce

ON:	Third in a Series of Three Hearings on the Pending, Job-Creating Trade Agreements (specifically on the U.S.-Korea Free Trade Agreement)
TO:	U.S. House of Representatives Committee on Ways and Means Subcommittee on Trade
BY:	John Schoch, President and CEO, Profile Products LLC, Buffalo Grove, IL
DATE:	April 7, 2011

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Brady, Ranking Member McDermott, and distinguished members of the House Ways and Means Subcommittee on Trade. My name is John Schoch, and I am President and CEO of Profile Products LLC, headquartered in Buffalo Grove, Illinois. I am testifying today on behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

Today, I would like to speak about the important benefits of passing the pending free trade agreements for American jobs and U.S. economic growth, and specifically how the U.S.-Korea Free Trade Agreement (FTA) — known as KORUS — will boost Profile's exports and generate greater employment opportunities for our company's manufacturing facilities around the country.

Profile Products (www.profileproducts.com) has been a leading producer of erosion control, vegetation establishment, soil modification, and sports field renovation and maintenance products for over 50 years. We manufacture and distribute the market's broadest line of erosion and sediment control products, turf establishment products and complementary accessories to control erosion and accelerate seed germination. We also manufacture the industry's best-selling inorganic soil amendments for sports fields, golf courses and landscaping.

With approximately 200 employees in four manufacturing facilities, two sales offices, and sales personnel domiciled around the country, Profile is able to manufacture and market its entire line of products from the United States. Our commitment to world-class service, state of the art technology, and results-based performance providing measurable value to our customers has allowed our company to stand out in its industry and receive orders from clients around the world. Today, I am proud to say that our products are represented in more than 50 countries in Central America, the Caribbean, South America, Europe, Africa, the Middle East and the Asia Pacific.

With the U.S. unemployment rate hovering around 10 percent, the number one priority for the nation is putting Americans back to work through sustained economic growth. A robust U.S. trade policy will help America reach this job-creation goal. With 73 percent of the world's purchasing power, 87 percent of its economic growth, and 95 percent of the its consumers represented outside the United States, we can no longer rely on domestic consumption to generate enough demand for the goods and services America produces. We must look beyond our borders for new customers and tap into the growing global demand for the high-quality, innovative products that U.S. manufacturers produce every day.

I am honored to be before you today to discuss how the passage of the pending trade agreements, including KORUS, will give small and medium-sized businesses like mine the upper hand in foreign markets, and help America reach its goal of doubling exports in the next several years.

Trade Brings Growth, Prosperity, and Jobs for Small Businesses

While many Americans believe that trade only benefits large, multinational corporations, the reality is that more than 97 percent of the quarter million U.S. exporters are small and medium-sized enterprises (SMEs). Together, SMEs account for nearly a third of U.S. merchandise exports, according to the U.S. Department of Commerce. In 2008, 20,788 U.S. companies exported $34.8 billion worth of merchandise to Korea alone. Of this total, 18,545—or over 89 percent—were SMEs. Profile was one of the many U.S. SMEs that benefitted from exporting to Korea's dynamic market.

Of the more than 50 countries we export to around the world, Korea is our single largest export market, making up 12 percent of our total international sales revenue. Since 2008, Profile has sold to Korea more than 1200 tons of our Flexterra FGM, our highest technology hydraulically applied mulch product used to prevent soil erosion and develop healthy plant establishment, and 600 tons of our Porous Ceramic, an inorganic soil amendment used to manage the moisture and nutrient holding ability of sand-based root zones, specifically in golf course and sports field construction. Several golf courses in Korea, including the prestigious Jack Nicklaus Signature Golf Club, Hyundai Sungwoo Ostar Country Club, Alpensia Troon Estate Golf Club, and Nine Bridge Country Club, feature Profile's products. We hope to continue expanding our reach as Korea's demand for sustainable golf courses soars in the coming years.

As global demand for Profile's innovative solutions has increased, so too has the effect of global sales on our company's work force. In 2010, 13 percent to 14 percent of our sales came from overseas orders. If you do the calculations, approximately 28 of our 200 employees are employed as a direct result of the company's exports. We anticipate that number to grow to 15 percent to 17 percent of our total sales in 2011.

As the president of the firm, I have seen first-hand the impact that international trade can have on a small business like ours. Since I started with the company eight years ago, our international output has risen exponentially. As our exports grow, so does the employment in our manufacturing facilities. Since employment is a direct function of the volume of our orders, additional volume means additional shifts, which then translates into hiring additional workers.

Trade already sustains millions of American jobs. More than 50 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury. With the passage of KORUS and the pending trade deals with Colombia and Panama, I have no doubt that thousands of SMEs like Profile will be able to hire and retain a larger, more productive workforce.

FTAs will Level the Playing Field for Profile Products and Other SMEs

While our company has achieved considerable success in Korea and other markets, one of the greatest challenges we face is the complex array of foreign barriers to American exports. These include both tariffs and non-tariff barriers which pose a major competitive challenge to U.S. manufacturers, service providers, farmers, and the millions of U.S. workers whose jobs depend on exports.

Free trade agreements like the pending trade deal with Korea will remove these barriers and create new opportunities and economic benefits for U.S. businesses through tariff elimination, greater market access, more efficient customs regimes, stronger intellectual property protections, and other market-opening provisions.

At its core, these agreements are about making trade fair. Most Americans do not realize that while the U.S. market is largely open to imports from around the world, other countries continue to impose steep tariffs on U.S. products. For example, Korean average applied tariffs on U.S. industrial and consumer goods are 6.2 percent, as compared to the average U.S. applied tariff of 2.8 percent. For agricultural goods, Korea applies an average tariff of 54 percent, as compared to the 9 percent average tariff that the United States applies to agricultural imports.

The pending trade agreements will level the playing field for U.S. companies to compete fairly with their foreign competitors. Under KORUS, nearly 95 percent of bilateral consumer and industrial goods trade will become duty-free within three years, with almost all remaining tariffs eliminated within 10 years.

For Profile, this would mean being able to sell our hydraulically applied mulch products such as Flexterra, our Porous Ceramics for golf course construction, as well as numerous other products to Korea at a significantly lower landed price. For example, Profile's Porous Ceramics currently faces a tariff of three percent that will be eliminated immediately with the passage of the KORUS FTA. FlocLoc, a soil and fiber mulch stabilizer that we also export to Korea, currently faces a tariff of eight percent that will be eliminated immediately when the KORUS FTA is implemented. When you are exporting products by the truckloads, eight percent makes a huge difference.

Approval of the pending trade agreements with Korea, Colombia, and Panama will not only eliminate tariffs in these countries. These agreements will open the door to new opportunities for Profile Products and other SMEs in ways that go far beyond just cutting tariffs:

- **Intellectual Property Protections:** Korea has been a particularly challenging market for Profile in terms of trademark and patent infringement. KORUS will give protections for intellectual property similar to those in the U.S. law and will criminalize trademark and copyright infringement by destroying both the counterfeited goods and the equipment used to produced them. As a result, Profile would not have to invest its time, money, and other resources into protecting patents. Our bottom line profit would be higher and we could invest our resources into other areas to grow our business and thereby create the need to hire more employees, build infrastructure, and purchase additional equipment.

- **Reduced Red Tape and Expedited Customs Procedures:** Although Korea's customs process is relatively easy to navigate, KORUS would help streamline the delivery process so that the time to market is reduced. This would facilitate increased trade and sales for U.S. SMEs and allow companies like Profile to deliver our products to the final destination at a lower cost, making us more price-competitive.

- **Increased Transparency:** KORUS includes provisions that will ensure clear, consistent and predictable regulatory procedures across all sectors of its economy. These guarantees of open and fair regulatory processes address one of the most costly challenges for U.S. companies doing business with Korea.

For years, Profile Products has been able to stand out from its competitors because of our ability to provide customized, holistic soil solutions that combine environmentally friendly components and designs with top-notch agronomic and erosion control expertise. We have full confidence in our products and services, and have no qualms about competing in foreign markets—as long as it's fair. Passage of KORUS and other pending trade agreements would ensure that U.S. businesses are competing on a level playing field with companies from other countries.

Rural Development through Exports

One area that is often overlooked is the positive impact that international trade has on rural development and growth. Profile manufactures its line of products in four rural towns throughout the country: Blue Mountain, Mississippi; Conover, North Carolina; Limestone, Tennessee; and Sanger, California. Although the plant in Sanger, California is not owned directly by Profile Products, we purchase all of the products that this firm manufactures, so the livelihood of the plant's workers is directly affected by our sales volume.

Profile has a longstanding presence in each of these towns and is considered one of the largest employers in all of these communities. Over the 50 years we have been in Mississippi and the 25 years we have been in North Carolina and Tennessee, our company has worked hard to cultivate relationships with our employees' families and has reinvested its resources in the local community's infrastructure and economic development. For example, in Blue Mountain, Mississippi, we are currently in the process of donating over 30 acres of land to Blue Mountain College for the construction of a new sports complex to benefit both the college and the surrounding communities.

Our manufacturing facilities employ a fairly senior workforce that is closely tied with their communities. Our workforce is not transient and their families typically stay close to home. Because Profile is so active in the local community, the local community has been the recipient of the opportunities and benefits the company provides through both its domestic and international output.

These communities understand that their jobs depend on the volume of orders our company receives, so as exports grow, so will the hours of production and the number of employee shifts we need fulfilled to complete those orders. With the passage of the pending trade agreements, the lowered costs of exporting to foreign markets will undoubtedly increase our sales abroad and will ultimately lead to hiring more employees in our manufacturing facilities.

The Cost of Inaction: The Risk of Losing 380,000 Jobs

Timing will play a major role in affording America's small and medium sized enterprises a fighting chance in the Korean market. On July 1, 2011, American companies exporting to Korea will face a severe and immediate threat to their livelihood as Korea's free trade agreement with the European Union goes into effect. If this agreement is implemented before KORUS, it will generate a clear competitive disadvantage for U.S. exports as Korean consumers turn towards more price-competitive EU member country goods.

According to a study by the U.S. Chamber of Commerce entitled ***Trade Action — Or Inaction: The Cost for American Workers and Companies***, the United States risks losing more than 380,000 jobs and $40 billion in export sales if we fail to implement our pending trade agreements with Korea and Colombia while the European Union-Korea Free Trade Agreement and the Canada-Colombia Free Trade Agreement enter into force. I don't want any of those lost jobs to be any of my employees.

Furthermore, a comparison of leading U.S. and EU exports to Korea reveals the significant degree of overlap between them — a fact that highlights our vulnerability to market destabilization by one of our biggest competitors. However, this is just one example of the many agreements the Korean government is pursuing while the U.S. delays action on the Korea trade agreement.

Korea has ongoing negotiations with Canada, Australia, Peru, New Zealand, the Gulf Cooperation Council, and Japan. For these reasons, the American business community considers ratification and implementation of KORUS indispensable in maintaining and increasing our market share, revenue streams, and highly skilled workforce.

The Time is Now to Pass the Pending FTAs

When examining President Obama's goal of doubling U.S. exports in the next several years, it's plain that approval of the negotiated agreements with Korea, Colombia, and Panama is critical to success.

Over the past 25 years, the United States has negotiated free trade agreements (FTAs) with 17 countries around the globe. While those 17 countries represent just 7.5 percent of global GDP, in 2010 they purchased more than 40 percent of U.S. exports. Some of these countries are small, but FTAs make big markets even out of small economies. Moreover, the United States has a trade surplus with its 17 FTA partners in manufactured goods on top of global surpluses in international trade in services and agricultural products. For those worried about the U.S. trade deficit, trade agreements are clearly the solution — not the problem. Profile is helping to create the trade surplus by exporting hydraulic mulch, soil, and vegetation solutions to countries all over the world. We need more of these agreements and we need more U.S. factories exporting.

Korea, with a $1 trillion economy, is the United States' seventh-largest trading partner in terms of two-way trade, which reached nearly $88 billion in 2010. Korea is a major market for U.S. producers across numerous sectors. Over 80 percent of U.S. merchandise exports to Korea are manufactured goods. Korea is the fifth-largest market worldwide for U.S. agricultural goods, with U.S. agricultural exports totaling nearly $5 billion in 2010. In addition, Korea is one of the largest markets for U.S. services in Asia, and U.S. cross-border exports of services to Korea totaled $12.6 billion in 2009, netting a U.S. services trade surplus of $6.2 billion.

With passage of KORUS, American businesses stand to gain unparalleled access to a thriving market. Conversely, these companies stand to lose precious market share if Congress delays action on the agreement.

Conclusion

The U.S.-Korea Free Trade Agreement further strengthens one of our most important bilateral partnerships by deepening the economic ties between our two countries. The most significant step the U.S. government can take to enhance the bilateral trade and investment relationship is to approve and implement the FTA at the earliest possible time.

The United States is at a crossroads on global trade. American companies have the ability to flourish in foreign markets if we are given the chance. Thousands of small and medium-sized businesses like Profile Products stand to gain immensely through the passage of the pending trade agreements, or lose significant market share as a result of inaction. In support of the job-creating, market-opening deal with Korea and our other partners, I respectfully urge you to increase boost exports and generate jobs through swift approval of the U.S.-Korea Free Trade Agreement and the pending trade deals with Colombia and Panama.

Thank you for the opportunity to testify.

A M T A C
American Manufacturing Trade Action Coalition

www.amtacdc.org
910 16th St NW, STE 402
Washington, DC 20006
Telephone (202) 452-0866

April 7, 2011

The Honorable Kevin Brady, Chairman
The Honorable Jim McDermott, Ranking Member
Subcommittee on Trade
Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Brady and Ranking Member McDermott:

The American Manufacturing Trade Action Coalition (AMTAC) would like to submit the following comments for the record in conjunction with the Ways and Means Trade Subcommitte on the U.S.-Korea Free Trade Agreement (KORUS).

AMTAC is a not-for-profit trade association that represents domestic manufacturers. All of our members share the common objective of preserving and expanding manufacturing in the United States by recapturing lost markets and winning new ones at home and abroad. A significant component of AMTAC's membership consists of textile and apparel producers.

Summary

AMTAC strongly opposes the KORUS. First, the agreement itself is flawed in concept; second, the terms of the agreement were poorly negotiated to the disadvantage of key industries such as textiles; and third, the textile and apparel provisions in the agreement are unlikely to be adequately enforced. As a result, AMTAC expects that the flaws in the textile chapter of the agreement alone could result in an estimated loss of 40,000 U.S. jobs.

KORUS is a Continuation of Flawed U.S. Trade Policy

It is AMTAC's strong position that the KORUS is a continuation of the flawed U.S. trade policy of negotiating free trade agreements (FTAs) with countries that can produce low-cost goods for export but that are unable or consistently refuse to buy finished products made in the United States. The substantial market disparity in relation to South Korea will continue this trend. South Korea's GDP is $986.3 billion, or less than 7 percent of the U.S. GDP of $14.6 trillion in 2010.[1]

With South Korea's current capabilities as a major producer and exporter of industrial products, its close proximity to China, and its traditional hostility to imports, the agreement will be a major blow to U.S. manufacturers. The U.S. trade deficit in goods with South Korea was $10.0 billion in 2010, with a $10.6 billion deficit in motor vehicles and motor vehicle parts and a $600 million deficit in textiles and apparel.[2]

[1] CIA World Factbook. Official Exchange Rate GDP.
[2] U.S. International Trade Commission, DATAWEB. Total Exports minus General Imports for All Commodities, DOC Automotive HTS10 List, and Textiles and Apparel HTS Chapters 50-63.

The KORUS will eliminate U.S. tariffs on 95 percent of current trade in industrial products within three years of implementation of the agreement. Despite this, the agreement does not guarantee reciprocal U.S. access to the South Korean market for key industrial products such as autos and textiles. Virtually all U.S. tariffs on textile and apparel products will be eliminated by January 1 of the 5th year of the agreement. In addition, the FTA does not take into account the fact that South Korea has a long history of unfair trading practices. Currently, there are 18 antidumping and countervailing duty orders in place against U.S. imports from South Korea.

We would also note that while KORUS will give South Korean goods duty-free entry into the U.S. market, U.S. exports to South Korea will be subjected to a 10 percent Value Added Tax (VAT). Through their VAT system, South Korea will be allowed to maintain what amounts to a permanent 10 percent tariff on U.S. exports to their market. Moreover, South Korea has complete freedom to raise their VAT rate above the current 10 percent at any point in the future. It is important to address this inequity as part of any trade agreement, as border taxes are another persistent example of foreign practices that place domestic companies at a competitive disadvantage.

U.S. Jobs at Stake

The Economic Policy Institute predicts the KORUS agreement will increase the total U.S. trade deficit with South Korea by about $16.7 billion annually and displace approximately 159,000 American jobs within the first seven years after it takes effect. Of that total, we estimate that between 9,300 and 12,300 jobs will be lost in the U.S. textile and apparel sectors as a result of KORUS trade. U.S. government figures show that approximately three additional jobs are lost to the U.S. economy for each textile job that is eliminated; this increases the job loss estimate to nearly 40,000 textile and related jobs due simply to the flaws in the KORUS textile chapter. It is also important to note that these figures do not account for job losses as a result of illegal Chinese transshipments, which we expect to be significant.

Impact on U.S. Textile and Apparel Sector

According to the U.S. International Trade Commission's analysis of the agreement, "The largest gains for Korean exports to the United States are anticipated in textiles, apparel, and leather goods, and other manufacturing (e.g., chemicals and allied products, electronics, and transportation)." In these sectors, U.S. output is estimated to decline by 1.3 percent as a result of the FTA.

South Korea is a major exporter of textile and apparel products to the United States as our 8th largest supplier of textiles and apparel by volume for the year-ending January 2011. In yarns and fabrics alone, where South Korea is particularly competitive, they are our 2nd largest supplier in terms of volume. As a result, we are deeply concerned about the KORUS agreement and how it is expected to impact our industry and its ability to remain competitive in the global marketplace.

In addition to its direct threat to the U.S. market, KORUS represents a significant attack on the hemispheric textile production structure encouraged by U.S. policy for three decades. As a result of trade preference programs and the NAFTA/ CAFTA/Peru FTAs, nearly two million textile and apparel workers produce garments, home furnishings and the textile components incorporated in those products in the region. The U.S. textile and apparel industry exports more than $10 billion a year, predominantly in components such as yarns, fabrics and cut pieces, to our preferential partners in the Western Hemisphere. This trade accounts for the overwhelming majority of total U.S. textile and apparel exports.

The KORUS threatens to damage the Western Hemisphere because South Korea's textile and apparel exports are expected to surge and displace orders currently being sourced in the region. When finished product orders are lost by manufacturers in the Western Hemisphere, U.S. mills also lose the orders for the yarns and fabrics that go into garments and made-up articles.

Moreover, the poorly-negotiated textile and apparel text will exacerbate the negative effects of the agreement. Our principal concerns with the text include accelerated tariff phase-outs that do not give U.S. producers time to adjust, non-reciprocal tariff phase-outs that favor the South Korean textile industry in key products, exclusion of certain textile components from the rule of origin, and strong evidence that Customs' ability to enforce this agreement will be ineffective.

Tariff Phase-Out

Contrary to the precedent established in the NAFTA and succeeding FTAs, 86 percent of textile and apparel product lines are duty free immediately under KORUS and an additional 10 percent will be duty free on January 1 of Year 5 of the agreement. This is the first time a large number of sensitive products from a country with a sophisticated textile industry have received immediate access to the U.S. market. Tariff phase-outs for sensitive products have traditionally been a key part of trade agreements in order to give companies time to adjust business models and minimize large-scale potential job displacement.

For example, South Korea exports of polyester fiberfill have entered the United States under anti-dumping orders for the past 15 years. This dumping case passed two sunset reviews, the last of which was successfully completed prior to the end of the KORUS negotiations. However, the KORUS agreement immediately removes the U.S. duty on polyester fiberfill, defeating the purpose of the anti-dumping rule and defying logic of equitable trade negotiations.

The agreement also provides South Korea with a more generous and expedited tariff elimination schedule than what is afforded U.S. producers and exporters for certain products. One example is para-aramid fiber, which is used to produce tough, flame-retardant fabrics for industrial and military applications including body armor. Under KORUS, South Korea will be allowed to export aramids to the U.S. with immediate duty free treatment. U.S. producers do not get duty free access to the Korean market as South Korea is allowed to phase out its tariff to be duty free on January 1 of Year 5. This puts U.S. manufacturers at a direct disadvantage.

Rule-of-Origin

The rule of origin is a critical element of any free trade agreement in that it defines which products qualify for preferential treatment under the agreement and whether countries not party to the agreement will receive benefits. The KORUS contains a "yarn forward" rule of origin. While we support a basic yarn forward rule as opposed to value-based rules, the limited scope of the rule under KORUS is very problematic.

In essence, the rule applies only to the apparel or home furnishing component that determines the tariff classification of the good (the "essential character" rule) plus certain visible lining fabrics. Applying origin rules in this manner means that key component yarns, threads and fabrics are not adequately covered under the rule of origin and therefore do not have to be of U.S. or South Korean origin. This conflicts with the majority of our recent agreements including CAFTA-DR, Peru, Colombia and Panama which apply the yarn forward rule beyond just the essential character fabric.

Under KORUS, components including sewing thread, pocketing and narrow fabrics, all of which are in plentiful supply from U.S. producers, are allowed to come from anywhere. This allows third parties, such as China, to benefit without making any concessions of their own. Domestic producers of these types of component yarns fabrics provide thousands of U.S. jobs, which will be put into jeopardy if KORUS is implemented.

Customs Enforcement

Due to South Korea's history of transshipment paired with significant cross-border investment with China, upgraded customs enforcement provisions were necessary to prevent large-scale customs fraud under KORUS. However, the KORUS customs enforcement language was significantly weakened compared to other high risk agreement such as the Singapore FTA. Furthermore, the KORUS text also includes several problematic new measures, such as an exemption for small and medium-sized enterprises from reporting requirements, which hamper CBP's ability to enforce the agreement.

China already exports nearly $4 billion in textiles and apparel to South Korea each year, and South Korea was labeled by U.S. Customs as a major transshipment point for Chinese exporters when quotas were in place.[3]

The substandard customs provision in the KORUS leave the U.S. textile industry and its workers vulnerable to large-scale illegal imports from China through South Korea. As a result, the industry fully expects Chinese textile exporters to be a primary beneficiary of the KORUS agreement.

Industrial Textiles

In addition to these overarching concerns, U.S. industrial textile manufacturers are particularly concerned about this agreement and its impact on the extended domestic supply chain for coated and laminated membranes used in industrial and military applications such as fuel cells, oil booms, rapidly deployable shelters/tents, radar attenuating covers, safety and protective gear, and many more advanced applications, including automotive fabrics. This particular component of the U.S. textile industry represents over 25,000 jobs throughout the country and many companies participating in this supply chain also support the military needs of our warfighters. The ability to innovate and responsively supply the military is dependent on an overall healthy domestic market and industry.

In the U.S. technical textile market, South Korea has emerged as the number one exporter of advanced textile reinforcements, and this sensitive tariff line is scheduled for immediate tariff phase out. U.S. industrial textile producers have already lost significant market share to South Korean manufacturers and this FTA will do significant harm to the industrial textile industry and greatly diminish the sustainability of our fragile domestic supply base.

[3] CBP (July 10, 2008). "CBP Charges More Than 1,000 Containers of Illegal Textile Shipments to China's Quota Levels." Press release.
http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/2008_news_releases/july_2008/07102008_3.xml

Textile Provisions Left Unaddressed in Reopening of Agreement

Last August, AMTAC and other industry associations requested that the Obama administration reopen the textile and apparel chapter of the agreement along with autos in order to fix the above-outlined problems. However, textile concerns were never raised with South Korea, and these provisions remain unchanged despite the reasonable requests which were made by the industry.

As a result, we urge Members of Congress to reject the agreement due to an overall lack of reciprocity and negative impact on U.S. companies and jobs. Congress should prioritize fixing U.S. trade policy, stopping manufacturing job loss, and closing the trade deficit before considering any new trade deals including KORUS.

Sincerely,

Augustine D. Tantillo
Executive Director

BEAM GLOBAL SPIRITS & WINE, INC.
Accuray Incorporated
California Chamber of Commerce
U.S.-Korea Business Council and U.S.-Korea FTA Business Coalition
U.S. Chamber of Commerce
California Coalition for Free Trade
Wine Institute and WineAmerica
THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION (AdvaMed)
American Manufacturing Trade Action Coalition (AMTAC)
American Apparel & Footwear Association

April 6, 2011

The Honorable Dave Camp, Chairman
The Honorable Sander Levin, Ranking Member
Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Camp and Ranking Member Levin:

The United States Industrial Fabrics Institute (USIFI) submits the following comments for the record in conjunction with the Ways and Means Hearing on the U.S.-Korea Free Trade Agreement.

The United States Industrial Fabrics Institute (USIFI) has fifty company members, each with significant U.S. manufacturing. The member companies supply technical textiles and made-up products for advanced industrial and military applications. USIFI is a sub-set of the 2,000 member not-for-profit Industrial Fabrics Association International (IFAI).

The United States technical textile industry (also known as specialty or industrial textiles) continues to be a pawn in the chess game of international trade agreements. Our own government, in its analysis of the pending U.S. Korea Free Trade Agreement, states "The expected increase in imports from Korea will likely be concentrated in goods for which Korea is a competitive, and major supplier, and U.S. tariffs are high, such as man-made fibers, yarns, fabrics, and hosiery, and will likely displace domestic production of such goods and especially imports of such goods from other sources..... The expected increase in U.S. imports of textiles and apparel from Korea under the FTA will likely be concentrated in man-made fibers and goods made of such fibers, for which Korea is a major world producer and has a "proven advantage." [1]

In fabrics, the expected growth in U.S. imports from Korea will likely be concentrated in knit and woven industrial and specialty fabrics and will likely displace domestic production of such fabrics. Korea was the third-largest source of U.S. fabric imports in 2006 with 11 percent ($953 million) of the total, reflecting significant positions in knit fabrics (27 percent import share or $203 million) and specialty fabrics (13 percent or $116 million). Korean producers reportedly are expanding output of industrial and specialty fabrics that use information technology and biotechnology for use in tire-cord fabrics and engineering, construction, and medical applications.[2] Industrial fabrics include high-strength reinforcements, textile reinforcements, and laminated sheet goods that use the textile reinforcements to make them stronger. The fabrics are used in awnings, tents and shelters, signs and banners, tarpaulins, commercial roofing membranes, health-care mattress and seating covers, truck covers, conveyor belting, fabrics for package handling and treadmills, and geotextiles for water-containment linings and erosion control.[3]

Committee Members, these are the products our member companies produce in the United States.

U.S. companies in the specialty technical textile industry manufacture highly specialized products for protection (ballistic, shelter, chemical-biological-radiation-nuclear protection textiles, potable water and fuel fabrics and bladders); partner with our military and academic institutions to develop new textile fibers,

[1] U.S. International Trade Commission. Washington, DC 20436. Publication 3949, "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects," September 2007, pages 3-51, 52, 54.

[2] KOFOTI, "Special Report: Korean Textile and Clothing Industry," March 2007. The "2015 vision plan" introduced by Korea's Ministry of Commerce, Industry and Energy in November 2005 features the development of advanced industrial textiles. KOFOTI, "Industry Scoreboard," March 2007.

[3] U.S. International Trade Commission. Washington, DC 20436. Publication 3949, "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects," September 2007, pages 3-55.

fabrics, and finishes; and employ highly skilled workers in almost every state in the Union. The U.S. technical textile industry is a success story - expanding, efficient, and leading the world in innovation. These are the jobs that will disappear if you ratify the U.S. Korea Free Trade Agreement.

A USIFI member, one of the largest U.S. military tent manufacturers, shared this comment:

> *The technical textile military shelter supply base consists of suppliers of fibers, yarn, woven fabrics, specialty chemical films and technical coatings, all of which are combined by our technical fabric suppliers to our end products manufacturers for use in the manufacture of military tent liners, covers and flooring materials in broad range military tent shelters as well as a large family of related products made from technical fabrics. This supply chain employs unique and highly sophisticated processes that require major capital investments, thus making their sustainability extremely sensitive to the loss of volume.*
>
> *The severe constriction that has already occurred in the U.S. technical fabrics supply chain has greatly diminished the sustainability of the industry. This proposed FTA will further reduce the sustainability of our extremely fragile domestic supply base upon which our U.S. military relies for shelters and related personal protection products.*
>
> J.C. Egnew, President
> Outdoor Venture Corporation
> Stearns, KY

The technical textile segment of the U.S. textile and apparel industry has grown; in 1998, this segment made up 25% of the market by volume. Now it comprises 43% of the domestic market. In contrast, the apparel market in 1998 had 38% share and now is only 20%, directly due to imports and the move to off-shore manufacturing.

According to the U.S. Bureau of Labor Statistics, there are 393,000 textile and apparel jobs left in the United States as of February 2011. Five years ago, this segment employed 617,500 (February 2006), a loss of 224,500 jobs (-36%). Ten years ago, the textile and apparel industry employed 1,028,900 (February 2001), making a cumulative loss of 635,900 good paying, skilled jobs (-62%) in the last decade. It is estimated that U.S. domestic textile mills and finishers producing fabrics specifically for the technical textile market employ approximately 160,000. USIFI member companies account for more than 25,000 of this number. This figure does not include made-up products nor does it include the raw materials like fiber or chemicals for dyes and finishes. The U.S. textile industry predicts that the threat placed on us by the substantial increase in Korean imports if KORUS is ratified will jeopardize 40,000 technical textile and related jobs. The Economic Policy Institute estimates that 159,000 good paying American manufacturing jobs across all sectors will be lost if the KORUS agreement is passed.

With South Korea's current capabilities as a major producer and exporter of industrial products, its close proximity to China, and its traditional hostility to imports, the Agreement is not in the best interests of American manufacturing. USIFI has been tracking imports from Korea for more than a decade; their data, compiled from the U.S. Department of Commerce (DOC) and the USITC, shows that Korea is the largest supplier to the U.S. of advanced textiles reinforcements, the second largest supplier of yarns and fabrics, and second largest supplier of coated and laminated membranes.

Specifically, we have three main concerns with the Agreement:

- Customs enforcement
- Tariff phase-out schedule
- Product coverage of the rules of origin

Customs Enforcement: Korea is a known illegal transshipment axis for Asia, especially China. The Agreement as drafted leaves the U.S. and its workers vulnerable to large-scale fraud. The long history

between the South Korean and Chinese textile industries and the documented cases of transshipment cooperation between producers in these countries are major sources of concern. Korea's position as a transit hub for Chinese goods will make the enforcement of the KORUS particularly challenging. The Korean port of Busan is the 5th largest container port in the world and is the largest transshipment port in northeast Asia, handling more than 13 million twenty-
foot equivalent unit (TEU) containers annually. The port handles cargo from 500 ports and 100 countries with an expansive feeder vessel operation connecting Busan with China, Japan and Russia. The U.S. Customs and Border Patrol, while its budget has increased, has decreased its commitment to its customs textile enforcement program as priorities have shifted to other areas.

Tariff Phase-Out Schedule: Korean textile products are provided a much more generous phase-out schedule than U.S. products, allowing many Korean products immediate duty-free access to the enormous U.S. market (96% of their products go to zero duty within three years). Access to the much smaller Korean market for those same U.S.-made products will be phased in over ten years. The disparity in the phase-out schedule is particularly concerning because Korea is already the largest supplier to the U.S. of technical textiles and has a sophisticated, government supported technical textile industry, with excess capacity, just waiting for this agreement to pass so they can flood the U.S. market with their products.

Product Coverage of the Rules of Origin: The rules of origin under the KORUS agreement exclude certain components such as sewing thread, narrow fabrics and pocketing fabrics, items that are required under the CAFTA-DR and Panama Agreements and are important to U.S. textile manufacturers. Allowing these inputs to be sourced from countries not party to the Agreement is a departure from recent FTAs and it is illogical that these and other products were excluded in this Agreement.

You have seen the Agreement and studied its analysis. You read in government documents that whole segments of the U.S. economy will not be helped by this Agreement, including technical textiles. We are asking that you address this flaw now with your vote against the U.S. Korea Free Trade Agreement, ending the chess match where U.S. textile manufacturing never wins.

Sincerely,

Ruth A. Stephens

Ruth A. Stephens, Executive Director
U.S. Industrial Fabrics Institute (USIFI)
rastephens@ifai.com

BEAM GLOBAL SPIRITS & WINE, INC.
Accuray Incorporated
California Chamber of Commerce
U.S.-Korea Business Council and U.S.-Korea FTA Business Coalition
U.S. Chamber of Commerce
California Coalition for Free Trade
Wine Institute and WineAmerica
THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION (AdvaMed)
American Manufacturing Trade Action Coalition (AMTAC)
American Apparel & Footwear Association
U.S. Industrial Fabrics Institute (USIFI)
California Association of Winegrape Growers

Statement of Mr. Bill Donald, President, National Cattlemen's Beef Association
Submission for the record to the
House Ways and Means Committee, Subcommittee on Trade
Hearing on the Korea-United States Free Trade Agreement
April 7, 2011

The National Cattlemen's Beef Association (NCBA) considers the pending free trade agreements with Korea, Colombia and Panama a top priority Congress and the Obama Administration need to pass and implement all three agreements immediately. Ninety-six percent of the world's consumers live outside of the United States, and future growth of the U.S. economy depends upon our ability to produce and sell products competitively in a global marketplace. Economic globalization is not simply a matter of ideological or political preference, but rather a fundamental reality that will determine whether America remains an economic superpower or a secondary economic force.

NCBA urges Congress and the Obama Administration to take immediate action on these free trade agreements because the rest of the world is taking a very aggressive approach in securing access to the same markets. The European Union, Australia, Canada, Argentina and Brazil are all competing with the United States for access and market share in foreign markets. Continued delay of these free trade agreements keeps outrageously high tariff rates in place that put American cattlemen at a competitive disadvantage. If other countries secure agreements that eliminate or reduce these tariff rates before we do, we will in essence have exported our jobs. Also, failure to implement the pending free trade agreements sends the wrong message to major export markets like China and Russia; markets with tremendous potential consumer demand but limited or nonexistent access. That demand will be met, why not with American beef?

Much attention has been placed on the pending free trade agreement with Korea (KORUS FTA), and much of that attention has been directed at beef. Make no mistake, NCBA's membership fully supports immediate implementation of the KORUS FTA. Korea is one the largest export markets for American beef, purchasing nearly $518 million of American beef in 2010, a 140 percent increase in sales from 2009. American beef exports to South Korea added $25 in value to each of the 26.7 million head of steers and heifers produced in the United States in 2010. Unfortunately, American beef faces a 40 percent tariff on all cuts, resulting in over $200 million in tariffs in 2010. That is $200 million that could have been invested in the United States instead of Korea. Implementation of the KORUS FTA would phase out South Korea's 40 percent tariff on beef imports with $15 million in tariff benefits for beef in the first year of the agreement alone and about $325 million in tariff reductions annually once fully implemented.

As previously mentioned, other countries are aggressively pursuing free trade agreements, especially with Korea. For example, Australia is currently negotiating an FTA with South Korea. If Australia successfully ratifies a similar bilateral trade agreement with South Korea a year before the United States, it would give them a 2.67 percent tariff advantage over American beef for the next 15 years. Australia is one of the biggest competitors of U.S. beef for sales in Korea, and they have a greater share of the Korean beef market than the United States. Also, South Korea and the European Union signed an FTA in October 2010 that will take effect in July 2011. Korea is actively pursuing FTAs with several other countries and the United States cannot afford to lose market share by delaying implementation. Other key Asian trading partners are watching this agreement closely as the KORUS FTA will likely set the benchmark for American beef trade with Japan, China and Hong Kong.

The United States is also competing with other countries for market share in Central and South America. Most recently, Canada and Mexico have aggressively pursued free trade agreements with Colombia and have been successful in securing those agreements. NCBA supports immediate passage of the U.S.-Colombia Trade Promotion Agreement (CTPA) and urges Congress and the Obama Administration to immediately pass and implement the revised agreement with Colombia. The United States cannot afford to lose Colombian market share to our neighbors.

The CTPA not only provides an opportunity to level the playing field for U.S. beef but it also provides a significant opportunity to expand sales to the Colombian market. Colombia is an important market for U.S. beef and beef variety meat exports. Unfortunately, Colombia places an 80 percent tariff on U.S. beef imports today, making it one of the highest tariffs U.S. beef faces anywhere in the world. Once the CTPA is implemented, this agreement immediately provides duty free access for high quality U.S. beef, reduces tariffs on all other beef and beef products over 15 years, and for the first time ever, puts American beef on a competitive footing with beef imports from Brazil and Argentina. In 2009, the United States exported approximately $436,000 of beef and beef products to Colombia, a paltry sum considering the 80 percent duties imposed. Another important part of the CTPA is this agreement provides assurances for a stable export market through plant inspection equivalency. It also fully reopens the Colombian market to U.S. beef by assuring that Colombia adheres to the World Organization for Animal Health (OIE) guidelines related to BSE.

Another important lynch pin for U.S. beef trade is the Panama Free Trade Agreement. Like the Korean and Colombian agreements, the Panamanian agreement has been stalled for far too long. It's time to ratify them and start shipping U.S. beef to these markets. If Congress approves these agreements, the U.S. will ultimately have free trade for U.S. beef with approximately two-thirds of the population in the Western Hemisphere.

The United States and Panama concluded negotiations on a free trade agreement on Dec. 19, 2006. Panama agreed to accept imports of all U.S. beef and beef products. Additionally, the 30-percent tariff on prime and choice cuts would be immediately eliminated and the duties on all other cuts would be phased out over 15 years. Like the CTPA, the agreement with Panama provides assurances for a stable export market through plant inspection equivalency and Panama also modified its import requirements related to BSE to be consistent with international standards.

All three of these free trade agreements are an economic boon for American beef producers. We strongly encourage Congress and the Obama Administration to put aside partisan differences and focus on creating job opportunities for our cattle producers.

Thank you.

Staff Contact
Kent Bacus
Manager, Legislative Affairs
National Cattlemen's Beef Association
1301 Pennsylvania Ave, NW Suite 300
Washington DC 20004-1701
(202) 347-0228 (Office)
kbacus@beef.org
www.beefusa.org

BEEF USA **National Cattlemen's Beef Association**

INTA International Trademark Association

655 Third Avenue, 10th Floor, New York, NY 10017-5646, USA
t: +1-212-642-1700 | f: +1-212-768-7796
inta.org | info@inta.org

April 12, 2011

The Honorable Kevin Brady
Chairman
Subcommittee on Trade
Ways and Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Brady,

RE: U.S.-Korea Free Trade Agreement

The International Trademark Association (INTA) wishes to express its support for the prompt approval of the pending Free Trade Agreement (FTA) with the Republic of Korea. Consistent with practice in the United States and in many other countries worldwide, the Republic of Korea FTA includes important measures that will enable the more efficient protection of trademarks, which are key intellectual property assets to United States businesses. Congressional approval of this agreement would be significant for trademark owners as the FTA includes important requirements for the Republic of Korea by committing to provide a broad scope of protection for trademarks and to streamline administrative requirements and to prohibit mandatory recordation of trademark licenses.

INTA is a 133-year-old not-for-profit membership association of more than 5,700 trademark owners and professionals, from more than 190 countries, dedicated to the support and advancement of trademarks and related intellectual property as elements of fair and effective national and international commerce. INTA members share the common interest in the protection and development of trademark law and rely on INTA to represent their trademark interests in government affairs and to help promote those interests throughout the international community.

The Republic of Korea FTA includes important provisions dealing with the scope of trademark protection for: well-known marks, including dilution protection; certification marks; non-traditional marks, leaving open the possibility to protect sound and scent marks and the like. Strong provisions also are included with regards to trademark office practices in order to

The Honorable Kevin Brady
April11, 2011
Page 2

establish a clear framework for the registration of trademarks, including for opposition and cancellation proceedings. The trademark section includes major provisions that should serve trademark owners from the US but also local trademark owners, in protecting their intellectual property rights. Importantly, the Republic of Korea is committed to making its best effort to ratify the Singapore Treaty on the Law of Trademarks, which basically updates the Trademark Law Treaty for which the Republic of Korea has been a member since 2003.

To address uncertainty and confusion that results when there are no transparent mechanisms to determine whether a GI should be granted protection, the Republic of Korea FTA provides clear language setting a framework for the procedures involved in the registration of geographical indications and establishing the proper relationship between geographical indications and trademarks. The FTA also calls for the possibility that geographical indications can be afforded protection as registered trademarks, which is the case in the United States.

Another challenge faced by trademark owners doing business in the Republic of Korea is its burdensome license recordation requirement. Compliance with mandatory recordation is costly to small businesses and larger companies with expanding product lines and multiple licenses. Failure to follow the procedures of recordation can result in the loss of substantive trademark rights. The Republic of Korea FTA specifically includes a provision that eliminates the recordation requirement for trademark licenses as a prerequisite for establishing license validity or asserting any trademark rights.

In conclusion, a main objective of the Republic of Korea FTA is to strengthen intellectual property protection. With its implementation, trademark registration procedures in the Republic of Korea would be further streamlined and harmonized. Trademark owners, especially those working with limited budgets, would benefit from a simplified and standardized trademark system. The prompt approval by Congress of the Republic of Korea FTA is crucial to advancing the protection of trademarks. Therefore we respectfully urge the committee to act favorably on the measure.

Sincerely yours,

Gerhard Bauer
President

United States House of Representatives
Subcommittee on Human Resources of the Committee on Ways and Means
Hearing on GAO Report on Duplication of Government Programs

Testimony Submitted for the Record
National Skills Coalition

April 5, 2011

GAO Training Reports – What it Found, What it Did Not Find

In March 2011, the United States Government Accountability Office (GAO) issued a statutorily-mandated report entitled "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue," which examined 34 areas of potential overlap, duplication, and fragmentation across a range of federal agencies, programs, and functions.[1] In addressing the area of "training, employment, and education," GAO drew primarily from its findings in a January 2011 report[2] examining various employment and training programs across the federal government.

GAO found that there were 47 federally funded employment and training programs offered through nine different federal agencies, and indicated that 44 of those programs—including multipurpose block grant programs such as the Temporary Assistance for Needy Families (TANF)—overlapped with at least one other program in providing at least one similar service to a similar population. One area of particular focus was potential overlap between TANF and the Department of Labor's Wagner-Peyser Employment Service (ES) and Workforce Investment Act (WIA) Adult programs, with GAO noting that these programs can provide some of the same services to the same populations. GAO found that co-locating services and consolidating administrative structures between these three programs may increase efficiencies and reduce program costs, and recommended that the Departments of Labor (DOL) and Health and Human Services (HHS) work together to develop and disseminate information to support such efforts and investigate options to increase state and local incentives for pursuing such strategies.

While there is little question that workforce programs like WIA and TANF could be more closely aligned to improve service delivery and participant outcomes, some policymakers have chosen to interpret GAO's relatively narrow findings as evidence of significant waste and inefficiency across federal workforce programs.[3] National Skills Coalition strongly disagrees

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[1] http://www.gao.gov/new.items/d11318sp.pdf
[2] http://www.gao.gov/new.items/d1192.pdf
[3] For example, http://coburn.senate.gov/public//index.cfm?a=Files.Serve&File_id=9f1e1249-a5cd-42aa-9f84-269463c51a7d

with such interpretations, and we urge the committee and Congress to reject any efforts that involve program changes or funding cuts in the absence of clear evidence that such efforts will result in increased effectiveness of, and expanded access to, critical employment and training services.

No Evidence of Duplication

Although GAO found that WIA Adult, TANF, and ES *may* offer similar services to similar populations, the reports offer no evidence of specific instances where individuals received the same services through multiple programs or funding streams. Current data reporting requirements for the three programs make it difficult to assess whether individuals are receiving relatively low-cost, low-touch services (such as self-guided job search activities) through multiple programs, but it is unlikely that many participants are receiving duplicative education and training services. Indeed, Department of Labor data indicates that only 3.3 percent of all individuals receiving intensive or training services who exited the WIA Adult program in Program Year 2008 were also co-enrolled in TANF.[4] Far from providing evidence of duplication between these programs, this suggests that relatively few participants are receiving the full range of employment and supportive services necessary to enhance their employment opportunities.

It is important to note that while TANF funding may be used for employment and training services, this has not been the primary focus of the program on the state and local level, with only about 2 percent of federal TANF dollars in Fiscal Year (FY) 2009 used for training and education.[5] There is also evidence that many state TANF agencies are not taking full advantage of education and training options to meet work participation rates. In FY 2008, only six states maintained a monthly average of more than 20 percent of work-eligible individuals participating in vocational education and training, and the national monthly average was only 10.4 percent, far below the 30 percent permitted under the statute.[6] Fewer than 4 percent of individuals participated in job skills training; fewer than 2 percent participated in education related to employment; and less than one-half of 1 percent engaged in on-the-job training.[7] These statistics indicate that, while some states are investing TANF dollars to complement their WIA-funded education and training services, the bulk of TANF funding is going to services beyond the limited scope of either the WIA or ES programs, reducing the potential risk of overlap and duplication on the state and local levels.

[4] http://www.doleta.gov/performance/results/pdf/PY_2009_WIASRD_Data_Book.pdf, p.23
[5] http://www.acf.hhs.gov/programs/ofs/data/2009/table_a4_2009.html
[6] http://www.acf.hhs.gov/programs/ofa/particip/2008/tab6b.htm
[7] http://www.acf.hhs.gov/programs/ofa/particip/2008/tab6b.htm

Insufficient Evidence on Cost Savings

Congress should also be cautious about relying on program consolidation as a cost-cutting device, and of using presumed savings as a justification for significant funding cuts to workforce programs. After examining systems in Texas, Florida, and Utah, the three states that have consolidated their welfare and workforce service agencies, GAO found that, although the states believed they had reduced costs and improved services, "data on the cost savings associated with such consolidation initiatives are not readily available."[8] GAO also pointed out that "it is important to recognize that improvements in administrative efficiency may not necessarily result in improvements in program effectiveness."[9] While National Skills Coalition generally agrees with GAO's recommendations that DOL and HHS should work with states to encourage closer collaboration between WIA, ES, and TANF, it is clear that insufficient evidence exists at this time to conclude that wholesale consolidation of programs will create significant cost savings or noticeably increase service levels for program participants.

It is worth noting as well that Congress has already significantly reduced funding for WIA and TANF in recent years. Formula funding under WIA Title I fell by nearly 30 percent in constant dollars between FY 2001-2010,[10] while the purchasing power of the TANF block grant has declined by 28 percent since 1996.[11] This erosion in federal funding has come at a time when demand for employment and training services has skyrocketed—participation rates for WIA Title I programs increased by 234 percent between FY 2008-2010—forcing states and localities to stretch already limited resources to the brink in order to provide services for job seekers and employers. While there are undoubtedly minor efficiencies to be gained by encouraging states to streamline program administration, the fact is that any improvements that might result from such initiatives are far outweighed by lost opportunities due to insufficient investments over the last decade.

In summary, we would note for the committee that WIA was designed by Congress as a universal program charged with providing a wide array of employment and training services (as opposed to the program it replaced, the Job Training Partnership Act (JTPA), which was a job training program targeted to low-income individuals). As a universal program, WIA should by definition have some overlap with other programs. Given the program's limited funding, though, it is simply impossible that WIA alone can meet all of the needs of every individual seeking services through the program, particularly lower-skilled individuals. As a result, federal policy should actually encourage alignment (what some might call "overlap") between programs such as the Employment Services, WIA, and TANF to address this need.

[8] http://www.gao.gov/new.items/d1192.pdf, p.27
[9] http://www.gao.gov/new.items/d1192.pdf, p.31
[10] http://www.nationalskillscoalition.org/resources/reports/tpib/nsc_tpib_wia_titlei.pdf
[11] http://www.nationalskillscoalition.org/resources/reports/tpib/nsc_tpib_tanf.pdf

The budget and appropriations process are not the appropriate forum for addressing these issues. Instead, we would urge Congress to use the opportunities provided by the reauthorization of TANF and WIA to carefully and comprehensively address issues of fragmentation and promote alignment between federal employment and training programs.

Recommendations for Further Action

If Congress truly wishes to improve the effectiveness of TANF and other federal employment and training programs, and expand access to programs that can provide the skills U.S. workers and businesses need to compete in today's global economy, there are a number of steps that could be taken as part of TANF reauthorization that would support this objective.

Increase Access to Training for Skilled Jobs

TANF currently reflects a "work-first" philosophy, requiring states to ensure that a certain percentage of individuals participate in work activities but limiting the amount of training and education that qualifies towards these work requirements. While these restrictions were intended to reduce dependence on government assistance, in practice such limits reduce the number and kinds of jobs for which recipients are qualified, and therefore paradoxically limits their efforts to become self-sufficient. Congress should lift the twelve-month restriction on postsecondary education and the 30 percent cap on the number of TANF participants engaged in vocational educational training who may count toward a state's work participation rate. Congress should also signal to states through the program goals and other legislative language a move away from "work-first" models toward strategies that promote meaningful skills and credential attainment for TANF program participants.

Encourage Stronger Alignment between TANF and Other Federally-Funded Workforce Programs

In recent years, a number of states have taken steps to develop career pathways programs that link adult education, job training, and higher education systems to allow individuals to obtain or pursue employment and training opportunities leading to well-paying careers. Congress should build on these efforts by providing states and localities with greater flexibility to blend TANF and funding streams under WIA Titles I and II to support employment and training activities that support low-income individuals. Congress should permit agencies to report a single set of outcomes for individuals enrolled in both WIA and TANF programs, encourage unified state planning across all programs that serve low-income individuals, and require states to establish and meet annual co-enrollment goals to ensure eligible participants have access to needed services.

Reward States Moving People into Real Jobs and Better Wages

Current law focuses on work participation rates and caseload reductions, rather than on positive outcomes for program recipients. Congress should develop performance measures that reward states for moving TANF recipients toward stable employment at family-sustaining wages, and should consider including measures of educational attainment, including interim basic skills gains and attainment of industry-recognized degrees, credentials, and certificates that lead to employment. Congress should consider requiring HHS to set national and state goals for training participation under TANF, and give states flexibility to transition from the current process-based approach to an outcomes-based performance accountability system over time.