

**Statement of
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International Association of Machinists & Aerospace Workers
before the
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Committee on Armed Services
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The International Association of Machinists and Aerospace Workers (IAM) represents several hundred thousand active and retired workers in North America in a variety of industries, including aerospace, ship building and ship repair, electronics, wood working, defense and transportation just to name a few. Among other things, IAM members work for prime and sub-tier contractors producing, assembling and maintaining almost every imaginable product that is involved in the aerospace industry. IAM members have helped build some of the most successful aerospace companies in the world.

Given our membership in the aerospace industry, the IAM understands the importance of ensuring the competitiveness of the U.S. aerospace industry in creating, maintaining and preserving the jobs of our members in this highly competitive industry. We are also mindful that healthy and vibrant aerospace employment in the U.S. contributes to our nation's economic security as well as our defense.

Despite our warnings, for years we have witnessed the decline in the stature of the U.S. aerospace industry as foreign competitors rise. While there are many factors for this decline, one of them is due to the short, medium and long-term impact that offsets, as well as other types of outsourcing, have had on our nation's aerospace workforce.

Given our enormous interest in this issue, we are grateful for the opportunity to appear before you today.

For many people the use of the term "offsets" can be quite a mystery. In their simplest form, however, the concept of offsets is really quite easy. Basically, one country demands the transfer of production and/or technology in return for a sale. [For detailed explanations see Bureau of Industry and Security, "Offsets in Defense Trade," Seventh Report to Congress, 7/31/03.]

Traditionally, offsets have been divided into two categories—direct and indirect offsets. Direct offsets involve technology and/or production directly related to the purchased product. For example, the production of part of a fighter jet is transferred to another country in return for

that country purchasing the fighter jet. Indirect offsets involve transfers of technology, production, or other innovative schemes unrelated to the product being purchased. For example, in return for an agreement by one foreign government to purchase a jet fighter made in the U.S., the U.S. producer of the fighter agrees to find someone in the U.S. who will purchase a totally unrelated product from a company in the foreign country. [see Bureau of Industry and Security reports]

Although the basic concept of offsets is relatively simple, as transactions impact on different products, services, and industries, they can rapidly become more complicated. Among many other things, the nature of the transaction can also make things very complex. For example, in addition to the transfer of technology and production, offsets can involve various forms of outsourcing, licensing procurement, subcontracting, research and development, foreign investments, counter trade, financing, and co-production. Innovative methods for valuing some offset packages can also make them exceedingly complex. [Again, see Bureau of Industry and Security reports for further details.]

While more information is needed regarding offsets themselves and how they are implemented, what we do know is highly disturbing. Indeed, the little information we have should raise concern for anyone who is interested in maintaining and expanding the success of the U.S. aerospace industry.

We know that other countries use offsets to gain production and technology in return for sales. In attempts to satisfy offset demands, approaches are becoming more and more creative. More and more jobs will be sacrificed in the future to offset demands by other countries. In addition, offsets have contributed to the ability of other countries to establish their own industries which in turn compete with companies in the U.S. This trend will become even more problematic in the future. As the Bureau of Industry and Security stated in its Seventh Report to Congress on Offsets in the Defense Trade “Imports of aerospace products into the United States have increased rapidly in the last decade for a variety of reasons, one of which is the increase in aerospace-related offsets.”

We also know that offsets in the aerospace industry are extensive. As the Bureau of Industry and Security also reports, a significant number of all U.S. offsets involve aerospace products.

While we know that offsets are extensive, particularly in the aerospace industry, inadequate reporting requirements concerning offsets and all of their variations, prevent us from knowing exactly how widespread they are. Although some reporting requirements exist for the defense side of the industry, reporting requirements for the commercial side of the industry are extremely limited. Moreover, the reporting requirements that do exist basically exclude the direct and indirect effects that these offset agreements have on subcontractors and producers in unrelated industries that are caught in the offset trap.

We also know that U.S. aerospace workers have suffered huge job losses over the past several years. We know that estimates predict that several thousand more jobs in the U.S. aerospace and related industries will be lost in the next few years with offsets accounting for a significant number of them.

It is also clear that some foreign competitors in the aerospace and related industries have emerged with assistance from sophisticated national offset policies that exist in their countries. These companies compete directly with U.S. companies, including hard hit suppliers. A study of U.S. aerospace suppliers found that there was a large decrease in the number of direct production suppliers between 1991 and 1995...in both the commercial and defense sides@ of three sectors of the aerospace supplier base: Aairframes, electronics and avionics, and engines and other.@ [“Trends and Challenges in Aerospace Offsets,” National Research Council, 1999]

In addition to the employment issues and the increase in foreign competition, offsets can lead to the transfer of technology and production to other countries which raise national security issues.

If history shows us anything, it is that the negative effects of offsets on U.S. industry will only increase unless it is not immediately addressed in a comprehensive fashion. This is why the IAM has on numerous occasions urged U.S. policy makers to acknowledge that offsets are serious and establish a comprehensive national policy. Sadly, neither the Commission on Offsets nor the Commission on the Future of the United States Aerospace Industry adequately addressed this issue.

The conclusion of some people that offsets are at best, a way for the U.S. to enter foreign markets and at worst a necessary evil must be rejected once and for all. While much more must be learned about the precise impact that offsets and all of their variations have on the U.S. workforce in the short and long-term, labeling offsets as an inconvenience or a necessary evil is an unacceptable response to the U.S. aerospace workers, their families and the communities that have made this industry so successful.

The U.S. Government must take action now to develop a comprehensive policy to address offset issues.

We welcome efforts to address this issue and thank you for the opportunity to appear before you today.