Testimony

of Roy V. Paulson
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On *behalf* of the National Association of Manufacturers

before the Committee on Ways and Means

on Pending Free Trade Agreements with Colombia, Panama, and South Korea and the Creation of U.S. Jobs

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COMMENTS OF ROY PAULSEN

BEFORE THE

COMMITTEE ON WAYS AND MEANS

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Good morning Chairman Camp, Ranking Member Levin, and members of the Committee. I am Roy Paulson, President of Paulson Manufacturing Corporation. I am pleased to testify before the Committee on Ways and Means on “Pending Free Trade Agreements with Colombia, Panama, and South Korea and the Creation of U.S. Jobs.”

I am testifying as a Member of the Board of Directors of the National Association of Manufacturers (NAM). The NAM is the nation’s largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Its membership includes both large multinational corporations with operations in many foreign countries and small and medium manufacturers that are engaged in international trade on a more limited scale.

Paulson Manufacturing is a manufacturer of safety equipment specializing in eye and face protection. This is a family business with about 140 employees, yet it is a high technology business that utilizes state of the art equipment and modern methods. You have seen our products many times as the face shields on fireman’s helmets or the heat reflective face shields worn by steel workers in the mills. What you have not seen are the many forms of eye and face protection, used in so many ways, from medical surgery to high technology.

We have a growing and expanding business that is thriving even in this difficult economy. Because of our involvement in industry, we get to experience the return of the economy, before the general public. We design and manufacture our products in California with domestic materials and local labor. I am able to complete domestically and abroad with my product line, as long as I am selling innovative cutting edge products. The keys are innovation, quality and customer service.

As I moved into the international markets, I brought along our business philosophy. This helped to develop our long-term relations with the foreign customers and we have been successful at building our distribution and creating repeat sales in many countries. There was a time that I viewed foreign countries as competitors and I made a whole series of defensive moves to protect my sales in the domestic market.

However, my perspective has changed. This came about gradually and grew through my direct experience in building up my international sales. Now I am playing offence and I view the foreign countries as customers. I love my customers! With this change in attitude I discovered that I could successfully sell to most countries, with the proper application of our business methods and a large dose of patience.

Today we are specifically speaking about the three pending Free Trade Agreements. Take a moment and think of the opportunity these agreements will present to the small business community here in the United States. I have had success selling such varied items as patented eye care products on South Korean cable television to Electrical Safety equipment in Colombia. The security products sold to Panama are a continuing source of repeat business, and safety equipment with a 6 percent duty that will be eliminated will be a viable item as the canal is widened over many years. In addition to my own sales, I encourage other manufactures to sell their products in these countries and freely supply my contacts and experience gained from my years of effort.

In all three countries with pending Free Trade Agreements the reduction in tariffs will have a direct impact on sales of our products. I just spoke to my Korean contact, Bryan Kim, and he is extremely excited about the 8 percent tariff being removed immediately because now he is in a stronger competitive position and the market immediately becomes broader allowing sales into main stream applications. He also commented that the Korean consumer's perception of US products is one of quality and that the Made in the USA label is very important. He went on further to say that the price is critical and import duties are generally paid by the importer along with the freight charges. Eliminating the eight percent tariff will have a direct and immediate benefit and increased sales.

Colombia is truly a special case in South America. The Free Trade Agreement has been sold to the people as tremendous improvement and everyone is waiting for this to occur. My customers have been paying 20 percent tariffs on hundreds of thousands of dollars of my imported products and this has reduced the range of items that they could purchase from me. In other words, from my broad product offering, only the items that they could not purchase from Europe, Brazil or China were being brought in from the USA. After the agreement we can all begin to enjoy a more competitive environment for my full product range.

I am convinced of the effects related to the Free Trade Agreements because I have seen the reduction in tariffs and government regulations improve my sales in other countries, the results are clear, we just need action.

Manufacturing

I would now like to turn to manufacturing more generally and to the importance of trade agreements to America's manufacturers. Manufacturing is a critical part of the American economy and, contrary to some opinions, it is not dead. The United States is the world's largest manufacturing economy, producing one in every five dollars of all manufactured goods in the world. Last year, America's factories shipped $5.0 trillion dollars of products – not far from the record $5.5 trillion of 2008, before the recent serious recession. Manufacturing supports an estimated 18.6 million jobs in the U.S. – about one in six private sector jobs. Nearly 12 million Americans (or nine percent of the workforce) are employed directly in manufacturing.

Exports are vital to American manufacturing and to the creation of jobs in the United States. Exports are now 22 percent of U.S. manufacturing production, and that ratio has been increasing over time as world markets outpace the domestic market. Over the past decade, reflecting the two manufacturing recessions we have gone through, factory shipments rose only 19 percent. The importance of exports is seen in that during that period, shipments for the domestic market rose 14 percent, but exports of manufactured goods were up 46 percent. Exports grew more than three times as fast as shipments for the domestic market.

U.S. manufacturing is the most productive in the world. Our productivity grows rapidly as we improve manufacturing processes, obtain greater efficiencies, and turn to new and more productive software and machinery. Over the past decade manufacturing productivity rose at an average 3.8 percent per year. If jobs are to increase, production has to grow faster than 3.8 percent a year – otherwise jobs will be shed.

The message is that hardly anyone forecasts that domestic demand for manufactured goods over the next decade will grow 3.8 percent annually in volume terms. That means we must turn to exports for job creation. Virtually all forecasts point out that economic growth will be faster overseas – particularly in the developing markets.

The NAM endorses the Administration's goal of doubling exports by 2014. The goal is very ambitious, but it is achievable. The NAM has spelled out how this can be done in its "Blueprint to Double Exports," available on the NAM website. The blueprint calls for expanded export financing, greater export promotion, modernizing export controls, fixing business visas, increasing the protection for intellectual property, and many other things. But of all the things that must be done to double exports, by far the most important is obtaining greater access to foreign markets. And that can only be done by negotiating more trade agreements.

The Three Pending Free Trade Agreements and Jobs

That brings me to the pending trade agreements. The United States has not progressed on a bilateral trade agenda since Congressional passage of the U.S.-Peru FTA in December 2007. There are three bilateral trade agreements pending approval in Congress: U.S.-Colombia, U.S.-Korea, and U.S.-Panama. I and the manufacturing community are extremely concerned about the lack of movement on these trade agreements. Manufactured goods comprise two-thirds of overall U.S. exports of goods and services, and experience with previous trade agreements shows they provide robust new market access and increased growth in U.S. exports. The U.S. International Trade Commission estimates these three completed agreements would increase U.S. exports by at least $13 billion. This growth in exports – the majority of which would be manufactured goods – will drive U.S. employment and economic growth.

These agreements can be best described as "preferential trade agreements" because in every case they reduce barriers to U.S. exports far more than any concessions made by the United States. Our tariff rates are far lower than those in almost any other nation and we are open to foreign investment, so any free trade agreement we sign benefits our manufacturing exports to a far greater degree than those that export to the United States.

The fact is we had a combined trade *surplus* in 2009 of $27 billion in manufactured goods trade with our existing free trade agreement partners, despite the overall trade deficit we have in manufactured goods trade with the world. We are on track to record a $20 billion surplus in manufactured goods with our FTA partners in 2010.

Standing still on trade agreements is more accurately described as "falling behind." Since the Peru FTA was passed by Congress in 2007, while the United States has not taken action to pass existing agreements or begin new negotiations on any bilateral agreement, four of our largest competitors – Canada, the European Union (EU), Japan and Korea – have either completed or are in the process of negotiating nearly 40 separate trade agreements with nearly 100 countries. In every one of these markets, we will face disadvantages that will impair our ability to competitively sell our products.

The U.S.-Colombia Trade Promotion Agreement

The U.S.-Colombia Trade Promotion Agreement (Colombia TPA) will increase trade in goods, services and agricultural products between the United States and Colombia, one of the fastest growing economies in the Western Hemisphere. As manufactured goods are roughly two-thirds of our exports to Colombia, manufacturers in America will be the largest beneficiaries of this trade agreement.

Congress has repeatedly voted tariff preferences for Colombia that permit it to export duty-free to the United States, as part of the Andean Trade Preference Act. The Colombia TPA would convert this one-way free trade to two-way free trade by giving U.S. exporters to Colombia the same open access to that market that Colombia's exporters already have to the U.S. market. Thus, the agreement would truly level the playing field.

The U.S.-Colombia agreement will immediately eliminate the vast bulk of Colombia's tariffs on manufactured goods, and would improve rules governing trade – strengthening intellectual property protection, increasing safeguards against product counterfeiting and copyright piracy, strengthening investment rules, opening access to government procurement, facilitating electronic commerce, speeding customs processing, encouraging express delivery, and opening It is important to stress financial telecommunications and other services markets.

While almost all of Colombia's exports enter the United States duty-free, U.S. manufacturers face significant tariff barriers in Colombia. Colombia's average import duty on manufactured goods is 11.3 percent. These duties, however, are assessed not only on the invoice value of the goods but also on the freight and insurance charges (known as the "C.I.F value"). When other charges are applied as well, the effective import duty on manufactured goods is 14 percent.

Colombia imported $9.4 billion worth of U.S. products in 2009 and is on track to import $11.6 billion in 2010. It is the third largest export market in South America for U.S. exports, behind only Brazil and Venezuela. Manufactured goods predominate in U.S. trade with Colombia – 89 percent of total U.S. exports. We had a trade surplus in manufactured goods of $5.5 billion in 2009.

According to U.S. Department of Commerce methodology, U.S. manufactured goods exports to Colombia in 2009 supported over 70,000 U.S. jobs. The United States represents over one-quarter of Colombia's imports of manufactured goods. Small and medium-sized exporters, like my company, form the vast majority of U.S. exporters to Colombia – over 85 percent of all exporters to Colombia are SMEs. Over 10,000 U.S. SMEs exported products to Colombia in 2008, making up over a third of total exports by value. This point cannot be made enough times – our free trade agreements benefit firms of all sizes.

In 2009, while the United States imported nearly $13 billion in products from Colombia, $8.7 billion – or over two-thirds of which – was oil and other mineral fuels. Coffee, precious stones, fruits and nuts, and cut flowers follow in importance. These four product sectors, together with mineral fuels, comprise 90 percent of total U.S. imports from Colombia. While the United States had a 2009 trade deficit of $1.9 billion with Colombia, if mineral fuels are excluded, the United States had a trade surplus of over $6 billion – most of which was in manufactured goods.

Implementation of the U.S.-Colombia agreement is unlikely to result in significant new increases in U.S. imports from Colombia beyond those which can be expected to occur without the trade agreement. We expect that U.S. imports from Colombia will continue to increase, but the principal drivers of this will be the expansion of Colombia's oil production and the continuation of the duty-free treatment that the U.S. Congress has already given to imports from Colombia. In fact, 99 percent of non-mineral fuel imports from Colombia already enter the United States duty-free. I note that the 110th Congress only extended these benefits for Colombia through next month, and would urge this Committee to act quickly to extend these preferences to Colombia for a longer period.

The U.S.-Korea Free Trade Agreement (KORUS)

The KORUS Agreement will increase bilateral trade in goods and services between the United States and Korea, our eighth largest trading partner and one of the most dynamic economies in the Asia-Pacific region. Manufactured goods predominate our exports to Korea. I would note that the NAM has long believed that the automotive provisions needed strengthening, and we are very pleased to see that with the December 2010 supplemental agreement, this has been done.

The KORUS agreement will immediately eliminate nearly all of Korea's tariffs on manufactured goods and would improve the rules governing trade – by strengthening intellectual property protection, increasing safeguards against product counterfeiting and copyright piracy, strengthening investment rules, opening access to government procurement, facilitating electronic commerce, speeding customs processing, encouraging express delivery, and opening financial telecommunications and other services markets.

The United States is already a very open market to Korea. Over half of all Korean exports to the United States enter duty-free. The average U.S. duty on dutiable imports from Korea is only 3.5 percent. Korea's market is considerably more closed than the U.S. market. Korea's duties on dutiable manufactured imports average 6.6 percent. Since Korean tariffs are assessed on not just the invoice value of the imports but also on the cost of the freight and insurance (known as "C.I.F. value"), and Korea's 10 percent Value Added Tax (VAT) is levied on the C.I.F. duty paid value, the effective Korean import duty is actually about eight percent.

The KORUS agreement would level the playing field for U.S. producers by providing much greater access to Korea – and provide American manufacturers with a competitive advantage over most other exporters. The European Union's FTA with Korea will go into effect on July 1, 2011, and Canada is pursuing a trade agreement with Korea as well. Particularly in the case of the EU, this agreement will give their exporters a competitive advantage and would lead to significant trade diversion and loss of market share for American manufactured goods that can now only be prevented by quick passage and implementation of the KORUS agreement.

U.S. Manufactured Goods Trade with Korea

Korea imported $29 billion worth of U.S. products in 2009 and is on track to import $34 billion in 2010. It is the third largest export market in Asia for U.S. exports, behind only China and Japan. Manufactured goods predominate in U.S. trade with Korea. U.S. exports of manufactured goods to Korea totaled $21.9 billion in 2009 – 75 percent of total U.S. exports.

According to U.S. Department of Commerce methodology, U.S. manufactured goods exports to Korea in 2009 supported over 175,000 U.S. jobs. Small and medium exporters form the vast majority of U.S. exporters to Korea – 89 percent of all exporters to Korea are SMEs. Over 18,000 U.S. SMEs exported products to Korea in 2008, making up over a third of total exports by value.

The KORUS agreement has the potential to have a significant positive effect on U.S. exports, an increase of as much as $10.9 billion, according to the Korea analysis performed by the U.S. International Trade Commission (ITC). Non-tariff effects are important as well, but difficult to quantify, and are not included in the ITC estimate. NAM analysis indicates that if exports meet the ITC forecast (which has been demonstrated to be conservative in past FTAs), the increased manufactured goods exports goods to Korea could contribute 70,000 new U.S. jobs.

The U.S.-Panama Free Trade Agreement

The Panama FTA is strongly in the interests of U.S. manufacturers by providing increased market access for U.S. goods exported to Panama. Panama is currently undertaking one of the largest public works projects on earth with the widening of the Panama Canal, and that project will generate enormous demand for U.S.-made equipment and supplies. The U.S. trade surplus with Panama, at $3.8 billion, is the eighth-largest in the world. The U.S. is Panama's largest supplier of manufactured goods, with 31 percent of Panama's total import market share. Growth opportunities for U.S. manufactured goods, particularly with the multi-billion dollar expansion of the Panama Canal, are robust, and a U.S.-Panama FTA will provide strong commercial links for U.S. companies to supply goods and services under this expansion.

It is important to understand that Panama's exporters have had nearly complete open access to the U.S. market through preference programs like the Caribbean Basin Initiative (CBI) and the Caribbean Basin Trade Partnership Act (CBTPA), while NAM members and other U.S. exporters have to pay import duties to sell their products in Panama. The agreement will allow duty-free entry for U.S. manufactured goods into Panama.

Last year fully 96 percent of Panama's exports to the United States entered duty-free. Panama's average tariffs are 7 percent – but nearly 90 percent of U.S. exports of consumer and industrial goods to Panama will become duty-free immediately, with remaining tariffs phased out over 10 years. The agreement includes "zero-for-zero" immediate duty-free access for key U.S. sectors including agricultural and construction equipment and medical and scientific equipment.

The Future: Far More Trade Agreements Are Needed

NAM members – particularly smaller members – believe the most important trade policy shift for doubling exports is an immediate change in the U.S. aversion to concluding market-opening bilateral trade agreements. As competitors race to negotiate barrier-reducing trade agreements for their companies, the United States is frozen by the widespread misperception in Congress that trade agreements are harmful to the U.S. economy. The truth is that NAFTA, CAFTA and other U.S. FTAs have never been a significant factor in the U.S. manufactured goods deficit. They have given the United States a manufactured goods surplus for the last three years, in fact.

Rapid passage of the three pending FTAs will barely get the United States back into the race. Our competitors around the world have spent the last three years rushing to negotiate and sign new FTAs with rapidly growing economies. We need to embrace the same enthusiasm and redouble our efforts. I commend the Obama Administration for pursuing the Trans-Pacific Partnership (TPP) agreement, which will lead to critical new market openings in key economies like Malaysia, New Zealand and Vietnam. If negotiations on the TPP are successful, it could form the foundation of a larger Asia-Pacific Free Trade Area that could grow to include the most dynamic and rapidly growing economies on earth.

The TPP model should form the basis of new initiatives. It is time for the Obama Administration to propose and pursue a re-opening of the Free Trade Area of the Americas (FTAA) as well. The strong success of NAFTA, as well as that of CAFTA-DR, shows that we must link the entire Western Hemisphere together in a tariff-free economic zone. Economies like Brazil, Argentina and others are key growing markets and by removing their tariff and non-tariff barriers for U.S. exports, we will tap into important new avenues of growth.

Only 40 percent of U.S. exports benefit from existing FTAs. The other 60 percent face trade barriers, particularly in fast-growing emerging nations. Using the USITC methodology for estimating the export expansion effect of existing trade agreements, and extrapolating to the major markets where the United States does not have FTAs, the NAM estimates that a robust program of FTAs with significant trading partners could generate as much as an additional $100 billion in U.S. exports by 2014 – accounting for one-third of the $300 billion increase needed to reach the President's stated goal to double exports by that point.

Thank you, Mr. Chairman