



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 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 produce 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.