HELP WANTED: HOW PASSING FREE TRADE AGREEMENTS WILL HELP SMALL BUSINESSES CREATE NEW JOBS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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HELP WANTED: HOW PASSING FREE TRADE AGREEMENTS WILL HELP SMALL BUSINESSES CREATE NEW JOBS

WEDNESDAY, APRIL 6, 2011

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

The Committee met, pursuant to call, at 10:00 a.m., in room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, Coffman, West, Walsh, Velázquez, Critz, Tipton, Peters, Chabot, Fleischmann, Landry, Cicilline, and Richmond.

Chairman GRAVES. We had a slight delay. We had a vote which we had to take. I want to thank all of you for joining us today on a very timely hearing on the importance of passing the pending free trade agreements specifically for small business. And it sounds like we have come to agreement at least today on the Colombian Free Trade Agreement. But I definitely want to thank all of our witnesses for coming and traveling long ways in many cases.

Today we are going to hear directly from those businesses on the importance of passing free trade agreements and how it affects their ability to reach new markets and create new paying U.S. jobs.

With the unemployment rate hovering around nine percent, passing the free trade agreements with Panama, Colombia, and Korea is an important tool for spurring job creation. Free trade boosts our economy by eliminating trade barriers and allowing U.S. exports to reach new markets, giving American companies an opportunity to grow. In 2010, total U.S. exports of goods and services reached $1.8 trillion, including $12.9 billion from Missouri alone. Those exports equal 12 percent of the U.S. gross domestic product and translate into over 10 million jobs, including more than four million from small businesses.

It has been nearly four years since these trade agreements were negotiated and no congressional action has been taken. As we remain idle, our major competitors, like Canada and the European Union, are aggressively moving forward to negotiate free trade agreements with other nations. If we fail to pass these free trade agreements before July 1st, our small businesses and farmers will lose even more market share to foreign competitors. We owe it to our small businesses to open new markets and lower trade barriers so that they can compete with their foreign counterparts and continue to increase their exports, grow their businesses, and create jobs.

The independent U.S. International Trade Commission estimates that passing the free trade agreements would increase U.S. exports by $13 million and create over 75,000 jobs. Unfortunately, until the administration and Congress act on these agreements, small businesses will continue to face higher tariffs and these jobs will not be created.

So I look forward to hearing from our witnesses on how passing free trade agreements is going to benefit them. And I now recognize Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Chairman Graves.

The story of the economy this year has been one of recovery. Last week, the Department of Labor reported that over 216,000 new jobs were added in March. Payrolls are on track to see nearly two million jobs created by the end of this year. Small businesses are at the forefront of this recovery. They generate nearly two out of every three jobs, but among these engines of economic growth one group excels above all others. Small businesses that export tend to grow faster, create more jobs, and pay higher wages than businesses that do not. As the recovery continues gaining steam, small firms will increasingly depend on foreign trade to fuel new growth. Despite the many advantages of trade, it remains exceedingly difficult for entrepreneurs to sell their goods overseas. Even though small- and medium-sized businesses account for nearly 97 percent of American exporting companies, their exports account for only a third of U.S. goods shipped overseas.

Studies show that only one percent of small- and medium-sized businesses are currently exporting. Most small exporters sell their goods to only one foreign country and to only one customer in that country. Clearly, there is a vast potential to grow exports among small firms and today's hearing will help us understand how the pending trade agreements with South Korea, Panama, and Colombia can have that potential.

There is a growing consensus that well balanced free trade agreements can be a significant driver of prosperity. By eliminating tariffs and other trade barriers, the pending agreements with Korea, Panama, and Colombia can help small firms expand sales globally and create jobs at home.

More than 32,000 small businesses here in the U.S. export more than $17.8 billion in goods to these three countries. We should not underestimate the importance of getting it right. While well trusted trade agreements and balance trade relationships, an overly permissive approach to imports can push American businesses out of the marketplace and exacerbate our growing trade deficit.

Even with potential benefits of free trade, there are looming issues in all three trade agreements. Panama's recent economic growth has made it a sanctuary for tax evasion and money laundering. Under the South Korean agreement, other barriers such as efficiency standards and high taxes on American cars go unaddressed.

Colombia's persistent record of violence and human rights abuse against organized labor is the source of serious concern. Any trade agreement that opens these countries to an influx of U.S. capital while ignoring problems like this will be a burden, not a benefit, to businesses in this country that played by the rules. Now more than ever our country needs policies that encourage fair trade and promote small business expansion.

I look forward to hearing how the proposed trade agreements can achieve this goal. I would like to thank all the witnesses in advance for their testimony and I am pleased that they could join us and I look forward to hearing from you. Thank you.

Chairman GRAVES. I might explain the light system for you. Each of you has five minutes to give your testimony, and when it comes down to one minute left the lights will turn yellow and red when your time is up. If you do go over a little bit, that is fine. Just please try not to go over too much.

I would like to introduce Mr. Tipton to introduce his first witness of the day.

STATEMENTS OF BILL PATTERSON, FOUNDER AND CHIEF ENGINEER, TEI ROCK DRILLS, INC.; PHILLIP WISE, OWNER AND OPERATOR, WISE FAMILY FARM ON BEHALF OF THE NATIONAL PORK PRODUCERS COUNCIL; TREVOR MYERS, CEO, CLOYES GEAR AND PRODUCTS, INC., ON BEHALF OF THE MOTOR AND EQUIPMENT MANUFACTURERS ASSOCIATION; JASON W. SPEER, VICE-PRESIDENT, QUALITY FLOAT WORKS, INC., ON BEHALF OF THE UNITED STATES CHAMBER OF COMMERCE

Mr. TIPTON. Thank you, Mr. Chairman and Ranking Member Velázquez. I am very proud to be able to introduce somebody from my home area, Montrose, Colorado, and an example of American entrepreneurialship, creativity, and job creation.

And I want to welcome Mr. Bill Patterson from Montrose, Colorado. He is the founder and chief engineer of TEI Rock Drills, Inc. and is based in Montrose, Colorado. His company manufactures high tech drilling equipment for the mining and construction industry and has 40 employees. He is also the holder individually of six patents relating to rock drilling and noise control. He received his master's degree in mechanical engineering from Ohio State University in '71 where he was summa cum laude and in his current role he oversees full operation of the company and leads their international sales division. Thanks for being with us today, Bill, and I appreciate you making the trip.

STATEMENT OF BILL PATTERSON

Mr. PATTERSON. Thank you, Scott. And thank you for this. It is a unique opportunity for me. I have been here a long time ago but this is where the action happens and this is where we need to make sure that we do things for small business.

Let me start by telling my story. You kind of heard the background there but I am a mechanical engineer and I started a company in 1980. And as with many entrepreneurs, I started the business after the company I served as chief engineer, Gardner-Denver was sold and the machinery division of which I was working was essentially cashed out.

Now, I left there figuring I would never see another rock drill in my life except when I drove by it. But what I found is that the new company, Gardner-Denver, could not produce. They laid off all their workers and I basically went and found the workers that were laid off. They were the ones that knew how to produce parts and I produced those parts for the clients, my clients that I knew, and basically became a pirate part manufacturer for Gardner-Denver. That is how I got started in business. And I thank Gardner-Denver all the time for doing that.

You know, with our crew we became a family business. I brought my sons and daughter in. In fact, my daughter is president of the company. And we sell percussion and rotary rock drills. We are the last U.S. manufacturer of percussion rock drills in the United States. Albany Company does still market the jelly drill but we are actually the last one to actually produce rock drills. All the other companies have either been sold or basically have stopped production. And it is a good market.

To increase jobs and sales we did expand into exports some time ago. I worked with the local Colorado Department of Labor in international sales and we started marketing primarily to South America. The language was one that we understood, and that is rule number one. You have to. If you are going to sell in any country you have to be a part of that country.

And we became a leader in rock drilling equipment. Primarily, we sell attachments to construction equipment for limited access. Our current sales are over $8 million, of which about 40 percent typically is exported primarily to America—North and South America and Europe. We employ about 40 total workers and we pay good wages in Montrose, Colorado. That is the nice part about manufacturing. Manufacturing tends to pay good wages. It is not the service industry. It is a producing industry, yet it is a value-added industry, and that is why I think it is so important.

The benefits to trade and job creation. Today our brand is sold worldwide. We proudly put "Made in America" on every unit we sell because that really, I mean, it is amazing. Even here, I just got back and was down in Arizona and we had four units that are working on the solar generation plant down there and those workers said our stickers are falling off. Would you bring us more stickers? Because they are proud to be using a machine that is made in the United States. And it carries a quality connotation that we can also market to the rest of the world.

If we are going to expand we need to be able to sell worldwide. It is very difficult for a small company to do this. And that is where we need the help because we need a level playing field to work with and Congress is in the best position to do that. So the free trade agreements under consideration are vital for providing a level playing field.

In particular, what we have found is that one of the major problems is transportation. How do you get your product to the other country? And how do you make that as seamless as possible? The primary advantage of the NAFTA agreement for TEI Rock Drills was that we could produce a product, we could put it on the truck, and we could ship it into Mexico and Canada without changing shippers. And you would be amazed at how seamless it is today and how difficult it used to be. Everything would stack up in Laredo. So we need these direct transportation opportunities. That is an aspect that is in most of these bills.

The other aspect of international trade that we always run into is what I call technical requirements. That is where you look at trade agreements as leveling the playing field in terms of what you have to pay. But even more so is individual companies do not erect technical barriers to your sales. And this also needs to be addressed. And we have filed—we can address most of these. We work 9,000 IFOs, 9,001. And all of these make it easier from a technical standpoint.

And I see I am almost out of time so I had better hurry up.

But again, what we get in there is Japan—as unique technical requirements. And if we are going to export there, Korea is working with the United States but that can be a lever to make Japan do the same thing. But tariffs are the largest barrier, but in particular it is value-added taxes that are used as a tariff barrier. And we get that in every country that we deal with. It is basically a sales tax. Not many people in the United States understand this, but it is as high in Brazil as 40 percent. So when we try and sell a product into Brazil, we get tacked on a value-added tax.

And the final issue to be addressed, worldwide trade and touching intellectual property. We have patents. It is very difficult, very expensive, for any company to protect their patents. We protect them very vigorously but the problem is that, you know, you need more clout. And what can we do if they copy our product other than say, gee, that is too bad and go on our way? We need some clout and that is why it is important that these trade agreements have protection of intellectual property.

In conclusion, I ask that you reduce the restriction starting with the manufacturing business because that is where good jobs are created. We need good value-added jobs. It takes a tremendous amount of money required per job. We estimate it costs a half million dollars in capital equipment for one good manufacturing job.

For access to capital and the expertise, you can use—you can get that expertise. The patent needs to be advertised.

And if I can say one thing from a business standpoint. Uncertainty is far more of a barrier than cost or others. We can overcome cost. We can be more efficient. But if we do not have a certainty with what we are going into as a business, it is the greatest barrier that we run into.

So I thank you. I see I am over time but I appreciate the opportunity to come here and speak to you.

[The statement of Mr. Patterson follows:]

STATEMENT BY:

BILL PATTERSON, PE

FOUNDER AND CHIEF ENGINEER

TEI Rock Drills

I thank the House Committee on Small Business, especially Chairman Graves and Ranking Member Valezquez for providing me with the opportunity to testify regarding the importance of passing the free trade agreements to my small business.

Let me start by telling you our story. I am a Mechanical Engineer that started a company called TEI Rock Drills, Inc. in 1980. As with many entrepreneurs, I started this business after the company I served as Chief Engineer, Gardner-Denver was sold and the Drilling Machinery Division essentially cashed out. I used my knowledge of the rock drilling industry to market and produce spare parts for Gardner-Denver drilling equipment employing the workers laid off by Gardner-Denver. As our sales grew, we became a family business producing and selling percussion and rotary rock drills of our own design and manufacture. To increase sales and jobs, we expanded into exporting, mostly into the Americas (Canada, Mexico, Central and South America). We became successful at exporting by using the State of Colorado International Trade office as a resource to market our products and provide information on export requirements. TEI Rock Drills is a recognized leader in rock drilling equipment, especially as attachments to construction equipment and for limited access. Our current sales total over $8,000,000, of which about 40% is exported, primarily to the Americas and Europe. We employ about 40 total workers paying good wages for Montrose, Colorado. This result was achieved with hard work and a commitment to excellence.

Benefits to Trade Agreements and Job Creation.

Today, our brand is sold worldwide proudly displaying "Made in America" on every unit. Our manufacturing uses modern machine tools that increases the productivity of our workers. We now produce over 10 times the volume using the same production workforce. To maintain and increase production and jobs, TEI Rock Drills needs to sell worldwide. We need an open market with a level playing field. This is the secret to competing on a worldwide level.

The free trade agreements now under consideration are vital in providing a level playing field. In particular, much of the trade restrictions center on ease of transport between nations. For TEI Rock Drills, the primary advantage of the NAFTA agreement was direct transportation to and within Mexico and Canada. We need the same direct transportation opportunities for the rest of the world.

Another aspect of international trade is the technical requirements on products, so called non-tariff barriers. Many nations use the technical requirements to hinder outside imports. Any trade agreements need to apply uniform technical requirements on products for export. The three pending trade agreements work to lower these non-tariff barriers and harmonize technical standards. Examples of technical requirements are the EU noise and safety restrictions. Japan in particular has unique technical requirements that are difficult to achieve.

Tariffs often are the largest barrier. Value added taxes are used in many countries and constitute the largest part of any import tariff. All of these cost factors reduce our ability to compete competitively in the international market. Reducing the tariff on our export product will increase our ability to sell more products, which will create more jobs for the people of Montrose, CO.

The final issue to be addressed for worldwide trade is protection of intellectual property. TEI Rock Drills has many patents for our products. These patents are very expensive to maintain, especially in that each nation has their own patent requirements. We do not currently plan to export to Asia or Africa, except South Africa. The main concern is that our products will be copied in these markets. As a small business, we do not have the resources to protect our intellectual property worldwide. The free trade agreements provide strong oversight and protection of our intellectual property. This will help us reach new markets and create more jobs.

Conclusion.

As my representatives, I ask that you consider how to reduce the restrictions to starting a manufacturing business that can compete in the world market. The capital requirements are tremendous with at least $500,000 required per job. We need information and access to capital. We need simple and easy to understand tax laws. It is not so much the amount of taxes but the unfairness of our system. Above all, we need to know what to expect. Exporting to other nations requires expertise in efficient manufacturing in order to compete. Even more important is knowledge of the customs and requirements in each nation served. This expertise and knowledge can be provided by universities, state governments, or local business organizations. In your work here at the Capitol, please be respectful of the impact from each new regulation on the ability to start and operate a business. Every job you save is very important.

To close, I hope that I have presented my concerns about our future. We have the ability and the resources to strengthen the U.S. manufacturing sector, and exporting is a key component to making our future successful. We need to continue to open new markets and level the playing field for U.S. products, and these trade agreements are essential to accomplish this.

Please help by providing less, not more regulation. Most important, give individuals the hope and opportunity to fulfill their dreams of a world business. My dream became a reality because I am an American and I had the freedom and ability to build. Make this dream continue to be available to all Americans.

Thank you again for the opportunity to appear before this Committee, I look forward to answering your questions.

Bill Patterson

Chairman GRAVES. Thank you, Mr. Patterson. At the very beginning of your testimony you said that this is where it all happens. And I assume what you meant by that is the Small Business Committee.

Mr. PATTERSON. Yes. Well, I am talking, I mean, I should not say that. All politics are local.

Chairman GRAVES. You said Small Business Committee. Quit while you are ahead. Next, I would like to introduce a constituent of mine, Mr. Phillip Wise. And Mr. Wise is the owner and operator of Wise Family Farm located in Harris, Missouri. He is a local pork producer and operates two 2,400-head hog facilities on 500 acres. He grew up on the family farm. He is an active member of the Pork Producers Association. He and his wife, Jane, live on their farm and are the proud parents of three grown children. I want to welcome you to the Small Business Committee.

STATEMENT OF PHILLIP WISE

Mr. WISE. Thank you very much. Thank you very much. Good afternoon, Chairman Graves, Ranking Member Velázquez, other members of the Committee.

I am Phillip Wise. I am a pork producer from Harris, Missouri, and unless you have made a series of really bad turns I am sure you have never been to my community. I do appreciate the opportunity to come here today and speak.

The future of the U.S. pork industry and the future of American family farms such as mine depend on the continued expansion of exports. The U.S. is now the lowest-cost producer of pork in the world and the number one global exporter of pork. Last year nearly 20 percent of pork produced in the United States was exported compared to only about 10 percent, I am sorry, six percent 10 years ago. In 2010, the United States exported more than 1.9 million tons of pork valued at $4.8 billion.

There is no disputing that free trade agreements have been a major factor in the rapid growth of U.S. exports during the past two decades. Since the year before NAFTA was implemented in 1994 as an example, U.S. exports to Mexico went from 780 percent to $986 million last year. Increasing pork exports is important to more than just pork producers. The U.S. pork industry supports an estimated 550,000 domestic jobs; 110,000 of those jobs are the result directly of U.S. pork exports. Just last year the U.S. exports grew by about a half million dollars. The USDA estimates that each one billion in meat exports generates approximately 12,000 new jobs, meaning that last year the pork exports would have created approximately 6,000 new jobs.

Currently, the United States has pending FTAs with Colombia, Panama, and South Korea. According to Iowa State University economist, Dr. Dermot Hayes, with full implementation, three FTAs will generate over $770 million in additional pork exports annually, causing live hog prices to increase by approximately $11.35, consequently creating more than 10,200 direct pork industry jobs.

But in the year since these agreements were signed, the benefits the FTAs would have offered to our nation have been lost. Not only have we lost future benefits but also continue to lose current market shares in these countries. While we sit on our hands, other pork exporting countries are moving forward with FTAs of their own with Colombia, Panama, and South Korea. In fact, both the European Union, Korea, and the Canada-Columbia FTAs are set to go in force in about 60 days, July 1st of this year. Dr. Hayes estimates or calculates that we will be out of the Korean and Colombian markets within 10 years, primarily due to the fact that the EU and Canada have these FTAs and we do not.

Losing these markets means lost value to the hogs that I sell, which translates ultimately to less profits and less jobs in the community. I know firsthand how important agriculture is to America as a result of the farm crisis in the early '80s. I shut down my business and reduced my farming operations and left the community. It was not until recently when things appeared to become somewhat more profitable that I returned back to the community that I was from after about a 15 year absence and began raising hogs again. Today, without those industry-wide exports, the price I received for my hogs would not allow me to remain in this business. In fact, for every hog marketed in 2010, approximately $56 of value is attributable to exports.

This increase in profitability has led Farmland Foods to establish a plant in nearby Milan, Missouri, which has allowed local producers to expand their operations, which ultimately has saved small communities such as my own. In my own operation dealing with Farmland, approximately one out of three of every hog that I produced last year was exported. I can assure you that with the 11.35 percent increase in live hog prices from these pending three FTAs, I will not be leaving the farming operation anytime soon and will strongly consider expanding my operations.

Before concluding, I would like to point out the U.S. domestic policy can and does affect our exports. Currently, 366 the livestock industry is waiting for a final USDA regulation on the buying and selling of livestock and poultry, the GIPSA rule, which if implemented as currently drafted will have an absolutely devastating impact on producers. According to analysis of the rule conducted by Informa Economics, it would cost the U.S. pork industry nearly $400 million annually. That means our production costs would rise. And if we are no longer the world's lowest-cost producer, our exports are going to suffer and all the FTAs in the world will not help us. The National Pork Producers Council continues to urge the USDA to scrap the current GIPSA rule and rewrite the regulations that stick to the five mandates that were given to Congress in the 2008 USDA Farm Bill.

In conclusion, if the United States fails to implement the trade agreements it has negotiated and fails to move ahead with new trade deals, it will forfeit sales to foreign competitors who are aggressively negotiating FTAs of their own. The National Pork Producers Council asks or calls on the Obama administration to send up the implementing legislation on the Colombia, Panama, South Korea FTAs and urges Congress to approve them before its August recess.

On behalf of myself, the pork producers of the United States, agriculture in general, I just want to say thank you very much for your time and your consideration of this activity. Thank you very much.

[The information follows:]

Statement of the

National Pork Producers Council

Before the

U.S. House of Representatives Committee on Small Business

On the

Impact of U.S. Trade Policies

April 6, 2011

The National Pork Producers Council is an association of 43 state producer organizations, representing the federal and global interests of 67,000 U.S. pork operations, which annually generate approximately $15 billion in farm gate sales and add nearly $35 billion to the U.S. gross domestic product.

The future of the U.S. pork industry and of America's family hog farms depend on the continued expansion of exports. Demand in the United States for pork continues to grow, but demand in global markets for pork is growing much faster. The United States must take the steps necessary to increase its access to those overseas markets or it will start to lose even the shares of those markets it currently has.

In short, there is no standing still when it comes to trade. If the United States does not implement the trade agreements it has negotiated with Colombia, Panama and South Korea and fails to move ahead with new trade deals, it will forfeit sales to foreign competitors who are aggressively negotiating free trade deals of their own.

As important as opening new markets through trade negotiations is, so is keeping those markets open through enforcement efforts. Through those efforts, the United States has been able to re-open a number of markets closed to it because of spurious sanitary or food-safety obstacles erected by governments for protectionist purposes. Dealing with these issues, unfortunately, is a never-ending task; the United States continues to face such barriers in a number of markets around the world.

It is important to note that the ability of the United States to challenge protectionist foreign restrictions disguised as safety measures is weakened when the United States resorts to such restrictions. U.S. pork exports to Mexico, for example, have suffered from retaliatory tariffs as a result of the failure of the United States to abide by its NAFTA commitment on cross-border trucking. U.S. pork exports to Mexico from August to December were down 9 percent from the same period in 2009. And, while U.S. exports fell, Canadian exports grew by 99 percent over the same period, with September and October reaching near-record levels. Although its exports are low relative to U.S. exports, Canada's sizable export growth because of this dispute has become a concern to the U.S. pork industry.

According to an analysis conducted by Iowa State University economist Dermot Hayes, the loss of the Mexican market over several years would result in the loss of 1,389 direct jobs in the pork industry and 22,009 in secondary employment in areas such as veterinary services, input supplies and local businesses and government. Labor income lost would total $827 billion. U.S. pork producers need the United States to resolve the trucking dispute with Mexico. As long as these tariffs remain, the United States will continue to lose exports and jobs.

The insistence of the United States that other nations abide by their trade agreement obligations is only credible if it practices what it preaches. Resolving the Mexican trucking dispute will demonstrate the commitment of the United States to abide by the terms of trade agreements it signs. NPPC urges members of Congress to support the recently agreed arrangement to establish a new cross-border pilot program and to eliminate the retaliation against U.S. pork and the other 97 products on Mexico's retaliation list.

Importance of Trade Agreements

There is no disputing that free trade agreements have been a major factor in the rapid growth in U.S. pork exports over the last two decades. Since the year before NAFTA was implemented in 1994, U.S. pork exports to Mexico have increased 780 percent to $986 million last year; since the year before the Australia FTA was implemented, our exports to that country have grown by 1,300 percent to $148 million; since the year before the Central America FTA was implemented, U.S. pork exports to the CAFTA countries have increased by 313 percent to $119 million; and in the two years since the Peru FTA took effect, our pork exports to that South American country have almost doubled to $1.2 million.

The United States is now the lowest-cost pork producer in the world, and we have established ourselves as the No. 1 global exporter. But we will not stay in that position, even as the lowest-cost producer, if competitor countries cut trade deals in key markets and the United States does not. How could we possibly compete in a foreign market if we face tariffs that may almost double our price to consumers and our competitors are free of those tariffs? This is what is happening and will continue to happen if the United States sits on the sidelines as other nations implement free trade deals.

In 2010, nearly 20 percent of the pork produced in the United States was exported compared with only about 6 percent 10 years ago. In 2010, the United States exported more than 1.9 million metric tons of pork, valued at $4.8 billion. Virtually all of this trade today is the direct result of U.S. efforts over the years to tear down foreign import barriers through bilateral, regional and multilateral trade agreements.

But increasing pork exports is important to more Americans than just pork producers. The U.S. pork industry supports an estimated 550,000 domestic jobs, 110,000 of which are the result of U.S. pork exports. And the industry generates more than $97 billion annually in total U.S. economic activity. For each 1 percent increase in the size of the U.S. pork industry, the U.S. economy creates 920 full-time pork industry jobs and 4,575 jobs in total. And for each additional 1 percent of U.S. pork production that is exported, live hog prices increase by approximately $3 per hog. Higher prices eventually stimulate additional pork production, and the industry expands to meet the new opportunity, thus creating more jobs. Just last year, U.S. pork exports grew by almost $500 million. The U.S. Department of Agriculture estimates that each $1 billion in additional agricultural exports generates approximately 8,400 new U.S. jobs. For the meat sector, however, USDA puts the job-creating number at more than 12,000. So, the increase in pork exports last year created about 6,000 new jobs.

Impact of Sitting on the Trade Agreement Sidelines

The pork industry's disappointment in having lost new market opportunities for so many years is rapidly being replaced by fear. While the U.S. has dithered on trade agreements, other countries have moved ahead with their own – and many of those have the effect of putting U.S. pork at a competitive disadvantage in key markets. For example, Iowa State's Hayes calculates that, with the European Union implementing an FTA with Korea on July 1, if the United States does not implement its own FTA with Korea, it will be completely out of the Korea pork market within 10 years. This, Hayes calculates, would cost 3,628 full-time direct pork industry jobs and 18,000 economy-wide full time positions, after allowing for indirect employment impacts. To make matters worse, Korea has negotiated or is negotiating some 13 separate FTAs, which include 50 countries. They include some major agricultural producing and exporting countries: Chile, Australia, New Zealand, Canada, the 27-nation European Union, Mexico, Mercosur (Argentina, Brazil, Paraguay and Uruguay), Peru, and the ASEAN bloc.

Korea is just one example. Colombia is on the verge of implementing FTAs with Canada and the European Union. And other major agricultural exporting countries, such as Argentina and Brazil, already have preferential access to that market. The U.S. share of that market in wheat, feed grains and other products is certain to plummet unless the United States acts promptly to correct these inequities. According to USDA, the U.S. share of Colombia's total agricultural imports already has fallen from almost 44 percent in 2007 to 27 percent in 2009.

Panama does not currently have an FTA in place with any major pork exporting country, but it finalized free trade agreements with Canada and (along with other Central American nations) the EU in 2010. Once again, the United States will win if it implements the Panama Trade Promotion Agreement, and it will be certain to lose if it does not.

Globally, the situation is no better. The WTO reports that as of July 2010 some 371 bilateral or regional trade agreements had been notified to the organization, of which 193 were in force. The WTO also estimated that about 400 new agreements are either pending notification to the WTO, are being negotiated or are in the proposal stage. Of those, the U.S. is a party only to the three pending agreements and the Trans-Pacific Partnership.

The U.S. trade agenda must recognize that by sitting on the sidelines, the United States is forfeiting the ability to compete on a level playing field. The United States, and no one else, will be to blame when it is left behind as much of the rest of the world engages in global trade liberalization. Market access gains, economic growth and job creation will be achieved by those who are not afraid to participate.

U.S. Pork Producers Would Benefit From Pending Agreements

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

The Korean market is currently the fifth largest for U.S. agricultural exports, valued at $5.3 billion in 2010. According to an economic analysis by the American Farm Bureau Federation, the Korea FTA would expand exports in a wide range of commodities and result in $1.9 billion in additional sales – a 36 percent increase.

The KORUS FTA would be one of the most lucrative for the U.S. pork industry. According to Iowa State University economist Dermot Hayes, by the end of the FTA's 15-year phase-in period, total U.S. pork exports to South Korea will be almost 600,000 metric tons. That represents nearly twice the current U.S. export level to Japan – now the top value market for the U.S pork industry. The FTA will lift live hog prices by a staggering $10 per animal and will generate an additional $687 million in U.S. pork exports. South Korea alone will absorb 5 percent of total U.S. pork production, and the FTA will create more than 9,100 new direct jobs in the U.S. pork industry.

It has been more than three years since the KORUS FTA was signed. While the U.S. delays implementation, Korea continues to move forward in strengthening trade relationships with other countries. Korea already has concluded, is negotiating or is planning FTAs with Chile, Australia, New Zealand, Canada, China, the European Union (27 nations), India, Japan, Mexico, Mercosur (Argentina, Brazil, Paraguay and Uruguay) and Peru. Many of these countries are competitors of U.S. pork exports. Two major competitors, Chile and the EU, pose the largest threat to the future success of U.S. pork exports to Korea.

U.S.-Colombia Free Trade Agreement

According to the American Farm Bureau Federation, the U.S.-Colombia FTA, if and when it is implemented, would result in U.S. agricultural export gains of more than $815 million a year at full implementation.

In the agricultural sector as a whole, not a single U.S. product currently receives a zero tariff in Colombia, and applied tariffs range from 5 to 20 percent. These could rise to as much as 388 percent under Colombia's current WTO commitments. Under the U.S. FTA, tariffs on 77 percent of all agricultural tariff lines, accounting for more than 52 percent of current U.S. trade by value, would be eliminated immediately.

Iowa State University economist Dermot Hayes calculates that when fully implemented the U.S.-Colombia FTA will generate an additional $68.9 million in U.S. pork exports and will create 919 new jobs because of increased pork exports alone. In addition, live hog prices will be $1.15 higher per animal than would be the case if we lost an export market of this size, and this beneficial price impact is based on the assumption that the Canada-Colombia FTA is implemented in 2011. However, should the U.S. fail to implement its FTA with Colombia, the U.S. will be completely out of the Colombian pork market within 10 years.

To make matters potentially worse, Colombia also anticipates signing a trade agreement with the European Union that will also allow for pork access to Colombia. The failure to implement our FTA in advance of these agreements has prevented our industry from getting a head-start on the EU and Canada, which are the second and third largest global pork exporters after the U.S., both in terms of reduced tariffs and the ability to lock in all-important marketing arrangements. U.S. pork producers need the United States to implement the FTA with Colombia.

U.S.-Panama Free Trade Agreement

The American Farm Bureau Federation's economic analysis group estimates that the U.S.-Panama FTA could mean increased U.S. agricultural exports to Panama of more than $195 million per year by full implementation. Once the FTA is in place, the tariff disparity in agricultural trade between the United States and Panama will immediately become more balanced. In the case of Panama, over 99 percent of its agricultural exports enter the U.S. market duty free. In contrast, Panama's average agricultural tariff rate is 15 percent, but many key U.S. export products face much higher rates.

U.S. pork exports to Panama are currently restricted by a very limited quota and out-of-quota duties as high as 80 percent. However, the FTA would provide immediate duty-free treatment for pork variety meats, expanded market access for U.S. pork through tariff rate quotas and a phase out of tariffs on certain processed pork items within five years. Only by implementation of the FTA will the disparity in these tariff levels be reduced and ultimately eliminated.

According to Iowa State University economist Dermot Hayes, the FTA will generate an additional $16 million in U.S. pork exports and will cause live hog prices to be 20 cents higher per animal, when fully implemented, than would be the case if we lost an export market of this size. In addition, the FTA will create 213 new jobs because of increased pork exports alone.

Panama concluded an FTA with Chile last August and also has concluded negotiations of an FTA with the EU and Canada. The failure to implement our FTA with Panama two years ago has prevented our exporters from getting a head start on those major agricultural exporting countries, both in terms of preferential tariff rates and the ability to lock in new marketing arrangements in Panama.

Canada's FTA with Panama would immediately eliminate import duties on 90 percent of Panama's pork tariff lines. As our closest competitor, Canada will have a distinct advantage in the Panamanian pork market, resulting in the loss of market share for the U.S. pork industry.

Trans-Pacific Partnership (TPP)

Equally important to U.S. pork producers is the earliest possible conclusion of negotiations on and implementation of the strategic TPP negotiations. These negotiations offer the opportunity to eliminate import tariffs in Vietnam and New Zealand, as well as address a variety of sanitary-phytosanitary issues in various countries participating in the TPP. The elimination of import duties in Vietnam would be particularly valuable to the U.S. pork industry; Vietnam has one of the highest per capita consumption rates for pork in the world.

The TPP would allow the United States to keep pace with the recent explosive growth in FTAs in the Asia-Pacific region. There are more than 152 agreements in force in the region, 21 more agreements are completed and awaiting implementation, 72 are being negotiated and 81 are in an exploratory phase. The TPP would be an important step in allowing the United States to keep pace in this increasingly competitive regional trade environment.

WTO Doha Round

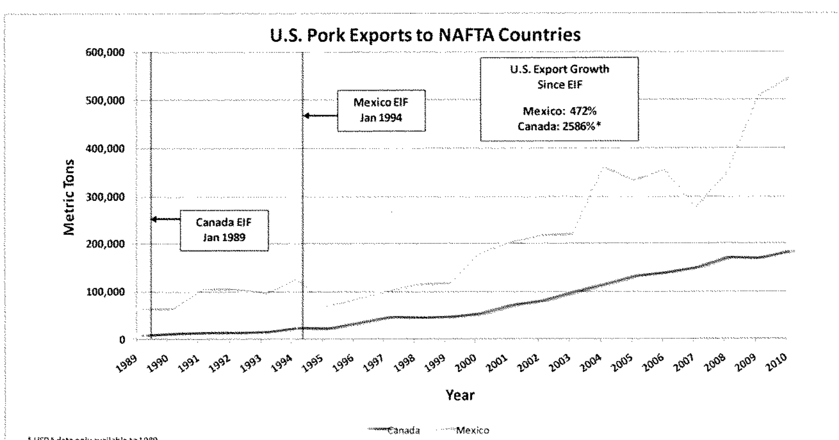
The WTO Doha Round is another negotiation of major strategic importance to U.S. pork. NPPC supports the Obama administration taking an active role in bringing these negotiations to a successful conclusion. We anticipate that a successful Doha Round would result in significant new market access opportunities in developed country markets, such as the European Union and Japan, through the reduction of tariffs and other market access barriers, as well as the elimination of agricultural export subsidies. In addition, the Doha Round has the potential to create new market access opportunities for U.S. pork in developing country markets around the world, as long as developing countries are not allowed to escape market access liberalization through safeguards and special product provisions that are overly lenient.

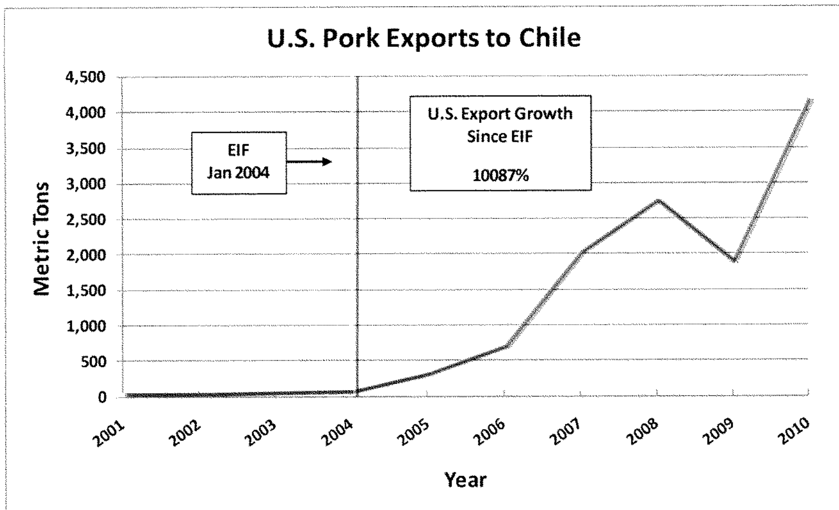
GIPSA

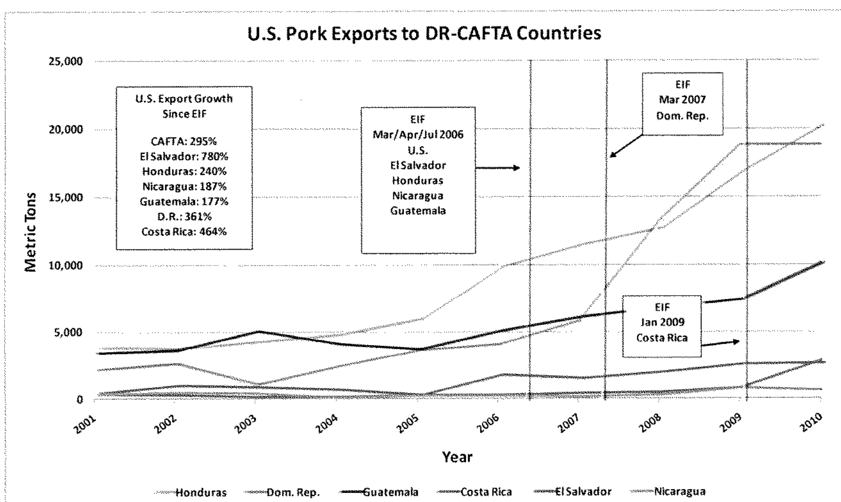
Before concluding, it must be noted that U.S. trade policy does not exist in a vacuum. It is not separate and apart from our business conducted inside the borders. So U.S. domestic policy can and does affect our exports. Currently, we are awaiting from USDA a final rule on the buying and selling of livestock and poultry, which, if implemented as currently drafted, would have a devastating impact on our producers. According to an analysis of the GIPSA rule conducted by Informa Economics, it would cost the U.S. pork industry nearly $400 million annually. Industry analysis of the regulation concludes that it likely will have a chilling effect on innovation and flexibility, leading to a race toward mediocrity. It will create legal uncertainty that will drive costs higher and cause an increase in vertical integration in the livestock sector, driving producers out of the business and possibly affecting supplies. None of that bodes well for our exports. Again, free trade agreements and our position as the world's lowest-cost producer have made U.S. pork exports extremely attractive around the globe. But if we no longer are the lowest-cost producer, our exports will become less competitive with other countries, and all the FTAs in the world won't help us much. NPPC continues to urge USDA to scrap the current GIPSA rule and to write a regulation that sticks to the five mandates it was given by Congress in the 2008 Farm Bill.

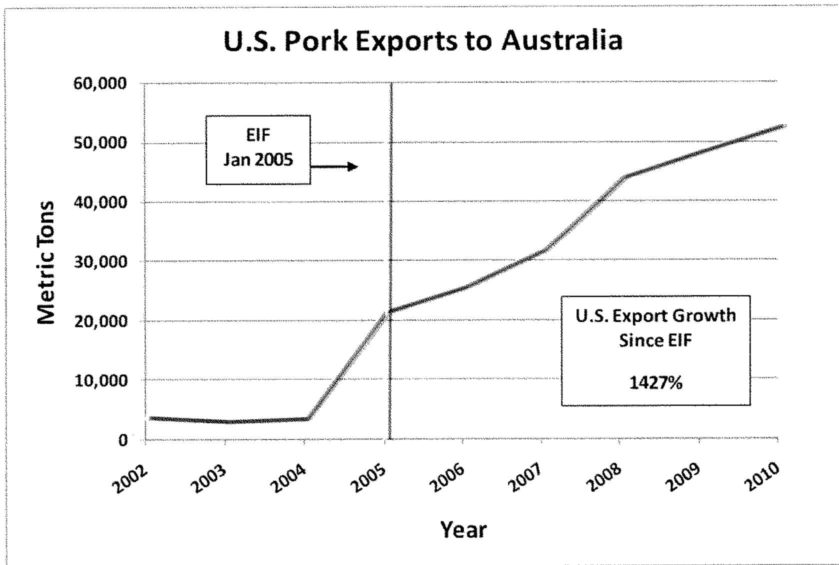
Pork Producers Benefit from Past Trade Agreements

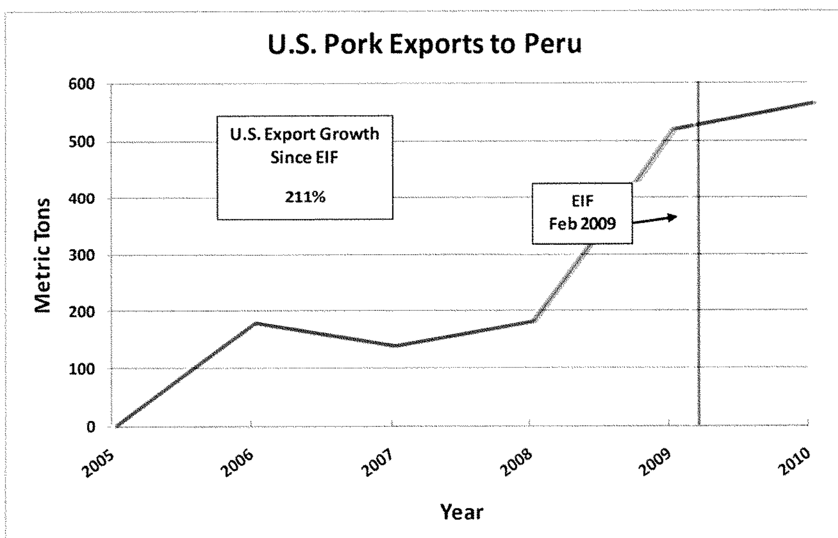
The following charts demonstrate the benefits to pork producers from trade agreements that were negotiated in the past and are currently in force.




U.S. Pork Exports to Chile
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
Metric Tons
EIF
Jan 2004
U.S. Export Growth
Since EIF
10087%
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year


U.S. Pork Exports to DR-CAFTA Countries
25,000
20,000
15,000
10,000
5,000
0
Metric Tons
U.S. Export Growth
Since EIF
CAFTA: 295%
El Salvador: 780%
Honduras: 240%
Nicaragua: 187%
Guatemala: 177%
D.R.: 361%
Costa Rica: 464%
EIF
Mar/Apr/Jul 2006
U.S.
El Salvador
Honduras
Nicaragua
Guatemala
EIF
Mar 2007
Dom. Rep.
EIF
Jan 2009
Costa Rica
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year
Honduras
Dom. Rep.
Guatemala
Costa Rica
El Salvador
Nicaragua


U.S. Pork Exports to Australia
60,000
50,000
40,000
30,000
20,000
10,000
0
Metric Tons
EIF
Jan 2005
U.S. Export Growth
Since EIF
1427%
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year


U.S. Pork Exports to Peru
600
500
400
300
200
100
0
Metric Tons
U.S. Export Growth
Since EIF
211%
EIF
Feb 2009
2005
2006
2007
2008
2009
2010
Year

Conclusion

At this time of very tight budgets, America's pork producers are not asking for U.S. tax dollars. Producers receive no subsidies and seek no subsidies. What the U.S. pork industry is asking for, quite simply, is that the U.S. government take the actions necessary to keep us competitive in global markets so that we can retain and expand those markets and so we can keep creating new U.S. jobs in supporting businesses. That means approving the pending FTAs as soon as the president submits the implementing bills and moving forward with new trade agreements as soon as possible.

Chairman GRAVES. Thanks, Mr. Wise.

Next we will turn to Mr. Peters to introduce the next witness.

Mr. PETERS. Thank you, Chairman Graves. I appreciate that.

I would like to introduce Trevor Myers, who is the CEO of Cloyes Gear and Products, an automotive parts and manufacturing company with operations in Arkansas and Illinois and in Rochester Hills, Michigan, which is not only my hometown but I also have the pleasure of representing here in Congress as well.

Cloyes opened a southeast Michigan local in the 1970s and they are a tier one supplier for General Motors, Ford Motor, and Chrysler, and a leader in the global market in manufacturing and supply of automotive timing drive systems and components. Mr. Myers has been with Cloyes since 1981 and he has served as CEO since 1997. He is testifying today on behalf of the Motor Equipment Manufacturers Association, which is representative and served manufacturers of motor vehicle components since 1904. I am happy Mr. Myers is here to join us to discuss how lowering trade barriers can help exports, create jobs, and also help provide insight into the perspective of manufacturers and auto suppliers on this most important issue. Welcome, Mr. Myers. Thank you.

STATEMENT OF TREVOR MYERS

Mr. MYERS. Thank you, Congressman. Good afternoon, Chairman Graves, Ranking Member Velázquez, and other members of the Committee. Thank you for the opportunity to testify this afternoon.

I am Trevor Myers, president and CEO of Cloyes Gear and Products. I am here on behalf of Cloyes and the Motor and Equipment Manufacturers Association (MEMA).

MEMA represents over 700 companies that manufacture and remanufacture motor vehicle parts for the use in light vehicles and heavy duty original equipment and aftermarket industries. MEMA and Cloyes support the ratification of the pending free trade agreements with South Korea, Panama, and Colombia. My company is an example of how free trade can assist a small manufacturer, allowing it to grow and employ more American workers.

Cloyes began as a small business in Cleveland, Ohio, manufacturing replacement engine timing gears in the 1920s. We moved to Arkansas in the early 1960s, beginning with approximately 25 people. In the 1970s, we began selling products to General Motors. In 1985, we made the decision to go global. Our senior management went on a trade mission to Japan sponsored by the U.S. Department of Commerce, visiting Japanese vehicle manufacturers. Five years after this trip we began to do business with Nissan and today Nissan is our third largest customer.

In late 2010, excuse me, in 2005–2006, KPS Capital Partners, LLC, took a direct majority investment in Cloyes. KPS kept the existing management and growth plan in place because both were sound. The KPS strategy is to invest in manufacturing businesses that need financial or operational turnarounds. In late 2010, our shareholders agreed to merge with HHI, another automotive parts manufacturing portfolio company of KPS Capital Partners because of the changes the company faced after the financial crisis and automotive restricting were better served as part of a larger corporation. Today we still operate in an entrepreneurial style as an independent division.

With approximately 750 employees, the Small Business Administration defines Cloyes as a small manufacturer in its product code. My company is truly a small manufacturer in the world of motor vehicle manufacturing. Workers United, an affiliate of the SEIU, represents the vast majority of our hourly U.S.-based employees. We are primarily a rural-based manufacturing business with two plants in Paris and Subiaco, Arkansas. These two locations employ approximately 600 people. Additional employees are located in Arkansas, Illinois, and Michigan, with a small number of international employees. Our employees know that they are competing in a highly competitive global marketplace. We are constantly training in new techniques, such as continuous improvement and six sigma black belt activities. The state of Arkansas and the University of Arkansas at Fort Smith have greatly aided this effort with their incumbent worker training program.

Export business is growing rapidly. Currently, we export to the following countries and regions: France, Germany, Italy, Austria, Sweden, the United Kingdom, Colombia, and the Middle East. According to the National Association of Manufacturers, exports are now 22 percent of U.S. manufacturing production. We are a living example of this statistic. In three years, our non-NAFTA business will grow to approximately 25 percent of sales. In addition, we have benefited greatly from NAFTA, which has allowed us to freely sell original equipment and aftermarket goods to Mexico.

Because of our superior value-added manufacturing capabilities, technology, and well trained workforce, sales of goods to Mexico produced by our U.S. workforce has grown approximately 25 percent per year.

Trade with South Korea is particularly important to a company such as Cloyes. We began selling advanced engine components to Korea in October of 2010, a new system that employs approximately 30 U.S. hourly employees. Engines utilizing our components made in Korea are shipped to China, Thailand, Australia, and South America. Good trade relations are essential to the future growth of additional new programs. Moreover, new business opportunities are created in the U.S. with Korean transplant business—I mean transplant auto manufacturers, as they build U.S. manufacturing locations. We will begin producing an advanced engine component in the summer of 2011 as another example for sale to General Motors—India. This system will employ approximately 10 hourly employees in our U.S. plants.

On behalf of MEMA and Cloyes, I urge Congress to quickly consider and ratify all three pending free trade agreements. These agreements will increase trade and promote and increase U.S.-based jobs. Furthermore, the pursuit of the Trans-Pacific Partnership Agreement will open new market opportunities for us and other manufacturers.

In closing, Cloyes and our employees have greatly benefited from free trade agreements and the free trade of goods to our international customers. Again, thank you for the opportunity to testify today and I welcome your questions when appropriate. Thank you.

[The information follows:]

Testimony of the

Motor & Equipment Manufacturers Association

Before the

United States House of Representatives

Committee on Small Business

"Help Wanted: How Passing Free Trade Agreements Will Help Small Businesses Create New Jobs"

6 April 2011

The Motor & Equipment Manufacturers Association (MEMA) represents over 700 companies that manufacture and remanufacture motor vehicle parts for use in the light vehicle and heavy-duty original equipment and aftermarket industries. MEMA represents its members through four affiliate associations: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); Motor & Equipment Remanufacturers Association (MERA); and, Original Equipment Suppliers Association (OESA). Today, MEMA is represented at this hearing by Cloyes Gear and Products.

MEMA and Cloyes support the ratification of the pending free trade agreements with South Korea, Panama and Colombia. Cloyes is an example of how free trade can assist a small manufacturer – allowing it to grow and employ more American workers.

Cloyes began as a small business in Cleveland, Ohio manufacturing replacement engine timing gears in the 1920s. The company moved to Arkansas in the early 1960s beginning with approximately 25 people. In the 1970s, Cloyes began selling products to General Motors.

In 1995, Cloyes made the decision to go "global." The company's senior management went on a trade mission to Japan sponsored by the U.S. Department of Commerce, visiting Japanese vehicle manufacturers. Five years after this trip, they began to do business with Nissan. Today, Nissan is Cloyes's third largest customer.

In 2005/2006, KPS Capital Partners, LLC took a direct majority investment in Cloyes. KPS kept the existing management and growth plan in place because both were sound. The KPS strategy is to invest in manufacturing businesses that need financial or operational turnarounds. In late 2010, Cloyes shareholders agreed to merge with HHI – another automotive parts manufacturing portfolio company of KPS Capital Partners, LLC – because the changes the company faced after the financial crisis and automotive restructuring were better served as part of a larger corporation. Cloyes still operates in an entrepreneurial style as an independent division.

With approximately 750 employees, the Small Business Administration defines Cloyes as a small manufacturer in its product code. This company is truly a small manufacturer in the world of motor vehicle manufacturing. Workers United, an affiliate of the Service Employees International Union (SEIU), represents the vast majority of its hourly U.S.-based employees. Cloyes is primarily a rural-based manufacturing business with two plants in Paris and Subiaco, Arkansas. These two manufacturing locations employ approximately 600 people. Additional employees are located in Arkansas, Illinois, and Michigan with a small number of international employees.

Cloyes employees know they are competing in a highly competitive global marketplace. The company and its workers are constantly training in new techniques, such as continuous improvement and Six Sigma Black Belt activities. The State of Arkansas and the University of Arkansas at Fort Smith have greatly aided this effort with their Incumbent Worker Training Program.

Export business for Cloyes is growing rapidly. Currently, they export to the following countries and regions: France; Germany; Italy; Austria; Sweden; United Kingdom; Japan; China; Korea; India; Australia; Venezuela; Columbia; and, the Middle East.

According to the National Association of Manufacturers, exports are now 22 percent of U.S. manufacturing production. Cloyes is a living example of this statistic. In three years, their non-NAFTA business will grow to approximately 25 percent of sales. In addition, the company has benefitted greatly from NAFTA, which has allowed us to freely sell original equipment and aftermarket goods to Mexico. Because of the company's superior value-added manufacturing capabilities and technology, sales of goods to Mexico produced by its U.S. workforce have grown approximately 25 percent per year.

Trade with South Korea is particularly important to a company such as Cloyes. They began selling advanced engine components to Korea in October 2010 – a new system for the company that employs approximately 30 U.S. hourly employees. Engines utilizing Cloyes's components are shipped to China, Thailand, Australia and South America. Good trade relations are essential to future growth of additional new programs.

Moreover, new business opportunities are created in the U.S. with Korean transplant business as they build U.S. manufacturing locations. Cloyes will begin producing an advanced engine component system in the summer of 2011 for sale to General Motors India. This system will employ approximately 10 hourly employees in its U.S. plants.

MEMA and Cloyes urge Congress to quickly consider and ratify all three pending free trade agreements. The ratification of these agreements will not only increase trade, it will also promote and increase U.S.-based jobs. Furthermore, the pursuit of the Trans-Pacific Partnership agreement will open new market opportunities for Cloyes and other manufacturers.

Cloyes and its employees have greatly benefitted from free trade agreements and the free trade of goods to its international customers.

# # #

Chairman GRAVES. Thank you very much. Next we will turn to Mr. Walsh. Please introduce the next witness.

Mr. WALSH. Thank you, Mr. Chairman, and Ranking Member Velázquez.

It is my pleasure to introduce a constituent, Jason Speer. Jason is the vice president and general manager of Quality Float Works, Inc. in Schaumburg, Illinois. They manufacture a wide variety of metal floatation equipment that is used to control the level of liquids and they have 25 employees. Their parts go into automobile tanks, water heaters, aircraft, and other equipment. Jason is a member of the National Association of Manufacturers, the U.S. Chamber of Commerce Corporate Leadership Advisory Committee, as well as a member of the U.S. Department of Commerce Manufacturing Council. He is testifying today on behalf of the U.S. Chamber of Commerce.

Jason, thank you very much for joining us today.

STATEMENT OF JASON SPEER

Mr. SPEER. Thank you very much, Congressman Walsh. Thank you, Chairman Graves, Ranking Member Velázquez, and other distinguished members of the House Small Business Committee.

My name again is Jason Speer. I am happy to be here. I am sorry if I look a little tired. I just got back from Chile and Peru the other day, so please forgive me.

I live this. Trade is very much a part of what our company does. I travel around the world, constantly setting up distributors and working with our different distributors and helping our company grow.

We are based, as Congressman Walsh said, out of Schaumburg, Illinois. We are a 96-year-old, fourth generation manufacturer. We manufacture these right here so you can kind of see what we do. I brought along a little visual aid. And we have noticed that our growth has come from international.

Back in 2001, we put forth an international strategy, something which I had—since that time we had about three percent of our sales were from exporting, mostly to Canada and Mexico. Since that time, at that point we had about 13 employees. Since that time in 2010, our total annual sales, about 30 percent were actually from exporting. We export from China, Indonesia, all the way through Europe, Australia, and all across the world. And we are currently at around just under 30 employees. So we have definitely seen a significant growth in not only sales but our employees because of trade. We are currently setting up an office and warehouse in Dubai to service our customers in the Middle East and in Asia because of the demand that we are seeing.

We strongly encourage these FTAs because we have noticed tremendous growth and advantage in our company being able to compete, especially in markets, simple markets like Oman or Chile where you would not think there would be a market. We noticed we have been able to compete and we have been able to get strong business relationships out of those countries that we have these FTAs with.

I especially believe the President's National Export Initiative cannot be achieved without the passage of these FTAs. It will certainly eliminate a significant amount of barriers and help us as manufacturers be able to export to meet the President's goals for that program.

All of our products are made right here in the United States and we are proudly, as Mr. Patterson said, "Made in the USA", it does carry weight and we have inquiries from all over the world based on what we do. We are known as one of the premier manufacturers of this and we are proud to say we are made in the United States and we employ our workers. If it was not for trade and exporting, back in 2009 we had a slump in our sales due to the economy. If it was not for exporting I do not think we would be standing right here. I do not think we would have made it to our 96th year. We might have gone out of business. Export has kept us alive and that is where we see the growth of our company. And that is where, to my wife's dismay, I spend most of my time. I try to get on the road and build up our exporting business.

Some of the best stimulus package would be to get these free trade agreements not help small businesses that do not have the resources like big businesses have to be able to give them a little bit of an advantage to get in. We lost a huge contract to a South Korean firm to a German company and I cannot imagine that part of it has to do with it. I mean, the eight percent tariff that we are going to face where the German company as of July will have a zero percent tariff for the same exact product.

We have worked with the Department of Commerce in their export assistance programs and they have been a tremendous resource. And the manufacturing incentive programs. Nothing but great help in helping us export.

You know, I believe that we can certainly compete with any company in the world as long as we are playing by the same rules. You know, I am convinced of the benefits, like free trade agreements, because I have seen a reduction in tariffs and government relations have proven and open sales in new markets that I never would have thought possible without these agreements.

My company firmly believes that international trade is a critical role in fostering the economic growth for America's workers and businesses of all sizes but especially for small businesses where we do not have the access of the resources like the big boys do. In working with the U.S. Chamber of Commerce which I am here on behalf of, they have been a great advocate in opening up new markets and helping small businesses reach out across the world. And again, we need the government to help small businesses like ours and to encourage us to do this. And again, these free trade agreements are just another way of helping us get these things done. You know, simply put, more opportunities on a level playing field means more jobs. You know, more jobs is what we all want and every little bit helps.

Once again, I truly appreciate the opportunity to share my story. This is our product all made in the United States. It is what we do here and it has been a joy to be here and I welcome any questions or comments anyone has. Thank you very much.

[The information follows:]

Statement of the U.S. Chamber of Commerce

ON: Hearing: "Help Wanted: How Passing Free Trade Agreements Will Help Small Businesses Create New Jobs"

TO: U.S. House of Representatives Committee on Small Business

BY: Jason Speer, Vice President, Quality Float Works, Inc., Schaumburg, IL

DATE: April 06, 2011

The U.S. Chamber of Commerce is 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.

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 Graves, Ranking Member Velázquez, and distinguished members of the House Small Business Committee. My name is Jason Speer, and I am the Vice President of Quality Float Works Incorporated, based in Schaumburg, 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. Thank you for the opportunity to share Quality Float Works' strong support for the pending Free Trade Agreements with South Korea, Panama, and Colombia, and to discuss how passing these agreements will help small businesses like mine create new jobs.

Quality Float Works, Inc. is the premier manufacturer of hollow float metal balls and float valves in the nation. Our floats are used to level liquid controls in a wide variety of industries including gas, plumbing, oil and agricultural applications. Many products you see and use every day, from gas pumps to air conditioners, could not be operated without float balls. We currently have 23 employees between our primary facility in the suburbs of Chicago and a branch office in Dubai, UAE.

Quality Float Works, Inc. is a family-owned small business that has experienced record growth in recent years due to overseas exports. In 2001, exported goods accounted for only 3% of our total sales. Since that time, we have seen foreign sales rise steadily as a result of proactive engagement with progressive markets. Last year, international trade accounted for a third of our total sales. The passage of additional free trade agreements would further expand the opportunity for my business to enter untapped markets that could benefit from our products.

While our domestic sales felt the effects of the recession, international sales have continued to flourish. In developing countries with lacking infrastructure, our products have proven invaluable in purifying water and our foreign partners are eager to do business with an American business. These foreign customers have found that it is often more cost-effective to purchase Quality Float Works' products and ship them overseas than to buy from local competitors. In this vein, the benefits of free trade have been fundamental to the growth of our company and our ability to provide quality jobs to American workers. However, tariff and market access barriers in overseas markets continue to present challenges to us and other American exporters. Despite this fact, the United States has not implemented a bilateral trade agreement since Congress approved the U.S.-Peru FTA in December 2007.

As the pending trade agreements with South Korea, Colombia, and Panama have languished, our trading partners have moved forward rapidly to negotiate their own market opening agreements. For example, on July 1st of this year, a free trade agreement between South Korea and the European Union will enter into effect. Implementation of this agreement without the U.S.-South Korea trade agreement in place will immediately place U.S. businesses and farmers at a competitive disadvantage as South Korean consumers turn towards more price-competitive EU member country goods and services. This is a standard illustration of the crisis facing American companies while we delay action on such agreements.

The three pending trade agreements with South Korea, Colombia, and Panama will reduce barriers to U.S. exports to these countries far more than any concessions on incoming goods made by the United States. U.S. tariff rates are considerably lower than those of almost any other nation, and we are open to foreign investment, so any free trade agreement we sign benefits American exporters to a far greater degree than those that export to the United States. The U.S. International Trade Commission estimates these three completed agreements would increase U.S. exports by at least $13 billion. This growth will drive U.S. employment and economic growth, just as past agreements have demonstrated the ability of new market access and reduction of market barriers to transform U.S. export revenues.

Curbing Restrictions to Success in International Markets

In 2003, Quality Float Works expanded into the dynamic Asian market. Since then, our company's international sales have grown eightfold. Quality Float Works, through various distributors, has sold equipment to numerous South Korean-based industries. However, our products face on 8% tariff when entering the South Korean market. Passage of the U.S.-South Korea FTA would eliminate these tariffs and give our company an edge over foreign competitors in the growing South Korean market. It would also offer new opportunities for Quality Float Works to connect with Korea's shipbuilding and repair industries, along with various agricultural uses. Expansion of the company's business in Korea would support opportunities for our company as well as our suppliers to create new jobs here at home.

South Korea is now a $1 trillion economy, the fifteenth largest in the world. It is the seventh largest U.S. trading partner and seventh largest U.S. export market, with $38 billion in U.S. goods exported in 2010. South Korea is also the fifth largest market for U.S. farm goods, exports of which totaled nearly $5 billion last year. U.S. small and medium enterprises play an important role in exporting these goods and services to South Korea, and accounted for 89% of all U.S. companies exporting there in 2008.

The U.S.-South Korea FTA will eliminate tariffs on almost 95% of the products these companies export within five years, with almost all remaining tariffs on goods eliminated within ten years. In agriculture, the agreement will immediately eliminate Korean tariffs on nearly two-thirds of U.S. agricultural exports to Korea. It will phase out over 90% of all Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, and oranges, over 15 years. Removing these tariffs will make U.S. products more price-competitive in the South Korean market, creating important new growth opportunities for U.S. businesses at home. As the South Korean market continues to grow, an even playing field will increase opportunities for export and sale of American goods, benefiting our own economy as well.

In addition to high tariffs, a complex range of non-tariff barriers in South Korea have also limited opportunities for U.S. small and medium sized manufacturers to compete there because they add to the fixed costs of doing business. The U.S. - South Korea FTA removes many of these barriers. It includes provisions that guarantee transparent and predictable regulatory and rulemaking procedures in Korea, and strong intellectual property rights and investment protections, among others, that will level the playing field for U.S. businesses in South Korea.

Along with the pending U.S.-South Korea FTA, thousands of companies, including ours, eagerly await passage of the Trade Promotion Agreements (TPA) with Panama and Colombia. The U.S. had more than $34 billion in two-way trade with Colombia and Panama in 2010. Next month, I plan to visit Panama in order to identify areas in which we can provide value to the Panamanian market. While we do not currently export to Panama, implementation of the TPA figures to change this. Such newfound market access would facilitate many first time sales from small and medium-sized enterprises who could not afford the stiff tariffs previously attached to their products. The agreement with Panama is an important step in the U.S. strategy to promote trade liberalization and economic integration with the region. As well as being a gateway from the Pacific to the Atlantic, Panama is a literal and figurative bridge between the Americas. This region represents a significant and growing market that has largely avoided the worst of the current economic crisis. Further, the $5.25 billion expansion of the Panama Canal is moving ahead and presents significant opportunities for U.S. companies to provide goods and services to the region.

Similarly, we plan to examine the Colombian market for opportunities once the U.S.-Colombia TPA removes applied tariffs currently averaging 15% for manufactured goods. Congress has repeatedly voted tariff preferences for Colombia that permit it to export duty-free to the U.S. as part of the Andean Trade Preference Act. The U.S.-Colombia TPA would provide U.S. exporters the same market access that Colombian businesses already enjoy and therefore create a reciprocal trade relationship between the two countries. Immediately upon implementation, four-fifths of U.S. consumer and industrial products will enter Colombia duty-free with remaining tariffs phased out in within three years.

The U.S.-Colombia TPA will increase U.S. exports and strengthen our partnership with a steadfast ally. As you know, the provisions of this agreement are interchangeable with those of the U.S.-Peru FTA, which was passed by an overwhelming bipartisan majority. According to the International Monetary Fund, Colombia's Gross Domestic Product grew at a rate of nearly 4.4% in 2010. In the coming year, Colombia is projected to continue to grow their market size at an average rate of 5%. This represents a great opportunity for U.S. manufacturers to increase exports in a growing market.

The best stimulus package we can receive in this struggling economy would be the elimination of foreign trade barriers. Businesses of all shapes and sizes need the opportunity to enter into new markets in a fair way and free trade agreements represent another opportunity for small businesses to maintain our global competitiveness. With the passage of the three pending trade agreements, our company and more than 250,000 small and medium-sized companies like ours will have the opportunity to gain market share and provide more jobs. Simply put, removing trade barriers with South Korea, Panama, and Colombia will level the playing field for American workers, businesses, farmers, and services providers.

Prosperity and Free Enterprise Go Hand in Hand

The most important step in revitalizing the American economy is putting Americans back to work. Nearly 10% of the U.S. workforce is unemployed — a figure that soars beyond 17% when part-time workers and those capable individuals who have given up the job search are accounted for. It is imperative that we work to create the 20 million jobs needed in this decade to replace the jobs lost in the recession and to meet the needs of America's growing workforce. In Illinois, more than 298,000 jobs are supported by goods exports, which is 5.7% of the state's private industry. With the understanding that 95% of the world's consumers live overseas, we expect to see the capacity for U.S. businesses to reach a larger part of the world's consumers increase after implementation of the three pending FTAs.

Trade deals like those with South Korea, Panama, and Colombia are job engines for U.S. small and medium-sized enterprises, a fact that President Obama has stated on numerous occasions. Last year, the President announced his plan to double U.S. exports in five years to spur job growth. He has also stated that the U.S.-South Korea FTA alone would support 70,000 American jobs.

Just as important, delaying approval of these agreements means that American workers and farmers will continue to face steep tariffs in these important markets. A study by the U.S. Chamber entitled ***Trade Action — Or Inaction: The Cost for American Workers and Companies*** found the United States could suffer a net loss of more than 380,000 jobs and $40 billion in lost export sales if it fails to implement its pending trade agreements with Colombia and Korea while the European Union and Canada move ahead with their own agreements with the two countries.

I believe Quality Float Works can compete with any company, anywhere in the world, as long as we are playing by the same rules. I am convinced of the benefits brought by Free Trade Agreements because I have seen the reduction in tariffs and government regulations improve my sales and open new markets in other countries in the past. These agreements are a win for the U.S. economy, as well as the 57 million American workers who are already employed by firms that benefit from exports. Congress needs to pass these agreements for the sake of economic vitality, both at the national level and for that of my company.

A Time for Action

My company firmly believes that international trade has a critical role in fostering economic growth for America's workers, and businesses of all sizes. The pending free trade agreements with South Korea, Colombia, and Panama will promote sustainable economic growth both here at home and in the economies of our trading partners. I can tell you with certainty that these agreements will enhance Quality Float Works' ability to grow in new markets and consequently increase our U.S. workforce. Simply put, more opportunities and a level playing field means more jobs. That is why I urge Congress to support the pending trade agreements. America cannot afford to have her businesses and her workers sitting on the sidelines while our competitors are increasing their competitive advantage in these explosive markets.

Once again, I greatly appreciate the opportunity to testify today on behalf of the U.S. Chamber of Commerce.

Thank you very much.

Chairman GRAVES. Thank you, Mr. Speer. We will move into questions now. I am going to pass on mine. I have questions but we have a series of votes coming up so I want to try to get as many members as we can to ask. I know I will be back and I know they have a busy schedule. So I am going to turn to Mr. West.

Mr. WEST. Thank you, Mr. Chairman, and Ranking Member Velázquez.

Mr. Patterson, one of the things that you talked about, and I also, when you talk about free trade there is also fair trade. We have to make sure that we have that level playing field and I think that we see some advantages out there with a country like China that we need to help to try to eradicate. But when you talk about a couple things here, you said reduce restrictions and regulations and also uncertainty, can you give me some examples of what you mean as far as some of the uncertainty out there that maybe Congress can help to alleviate?

Mr. PATTERSON. Well, from an uncertainty standpoint, what often happens is that, and I hate to use the words kind of like a bait and switch, you basically enter into an agreement and then you find out that, oh, by the way, you forgot—back there, I mean, in terms of a contract. And when we talk about how to make it so it is a level playing field it is more along the lines of knowing that if you produce a product, by the time you get it to the marketplace, that whatever terms you have been working on, those will remain. That it will not be, after you have the product and you have everything ready to go and now the terms are maybe not even revised but restated and it creates a difficulty in terms of being able to market that product. And we have run into this several times. It is more on the technical end than it is on the financial end.

Mr. WEST. The other question I had for anyone from the panel, when you talk about protection of intellectual property, do you see any problems out on the international court systems where maybe there is a disadvantage to you where some of these foreign countries can, you know, take your patents away and reproduce you and undercut you out there in the market?

Mr. MYERS. Well, I would say we have experienced some copyright infringements. We are generally able to combat those through the use of the courts and so on in the United States. We do file patents in the countries that we do business with so we try to go internationally but I think as one of the panel members this is expensive. And I think ultimately it is up to the countries you do business with to enforce those laws. And at least with an agreement, if they are strong in intellectual property, there is an agreement that we can try to enforce. If there is no agreement and no agreement with intellectual property, then we really do not have any protection at all. But it is important and it is something we do need in the agreements.

Mr. WEST. And Mr. Wise, I do want to say being from the south, keep those pork ribs coming. But I would also like to ask you, we have seen the second and third order effects, especially with the beef industry with the rise in food prices. And I am wondering do you see that also affecting your business in the pork industry?

Mr. WISE. I am sorry. Can you restate that?

Mr. WEST. I know. I am speaking southern. Just kidding.

Mr. WISE. I mean, I missed it.

Mr. WEST. No, the thing is we have seen second and third order effects on the beef industry from the rise in food prices and so I am asking do you see the same thing happening as well in the pork industry?

Mr. WISE. If I understand your question, for instance, these FTAs would add about $11.00 to the price of a hog. That is maybe four percent in the total value of the pig. And I see that as not a significant increase or cost to the consumer, you know, as an inflationary cost.

Mr. WEST. I yield back, sir.

Chairman GRAVES. I believe Mr. Critz is next.

Mr. CRITZ. Thank you, Mr. Chairman. Just a couple of quick questions.

For each person on the panel, how did you discover the foreign markets to which you could sell your products?

Mr. SPEER. Sure, I can start. We worked with the Department of Commerce in a variety of programs and we have done matchmaking programs through them. Also, we see ourself as a premium manufacturer and people have sought us out in the niche market. And also just, you know, sometimes someone finds you over the internet, then that leads one path to another.

Mr. PATTERSON. Yeah, I would chime in that it was a concerted effort. You have to decide that you are going to do this and then you have to, if you will, gather the resources in terms of help that you get. For us it was a caller in the State International Trade Office and they were able to help us by marketing, especially in Venezuela and Colombia at the time. And so you end up, you know, you have really got to make an effort. You have got to think I am going to do this and then you have to apply yourself and make it happen. It just—you cannot just fall off the log. You really have to push on it.

Mr. MYERS. I would echo Mr. Patterson, Cloyes being in the automotive business, it continues to be global business. In the mid-90s, as I said in my testimony, we began to look globally. For me it was a conversation that I had with another manufacturer who was selling overseas. I asked him how he did it and he said basically you go there. So we started going there and we got with the U.S. Department of Commerce, who put on a trade mission, went to Japan, and then we had the success after a number of years. And then we continued to go and visit the countries and actually find the opportunities. But it does take an effort and it is expensive. We are maybe a little bigger than some of the people at the table here so we had to commit the dollars. But it does take support, I think. It would be important for smaller manufacturers to have some kind of support to get overseas.

Mr. WISE. I am not directly involved in negotiating trade, etcetera, but it does very directly affect how we raise our animals, how we feed them, even how we breed, the types of animals, etcetera. I mean, it has a very direct effect on how we do things.

Mr. CRITZ. Well, the reason I asked that is that in my district, we have small business development centers, called Centers for Global Competitiveness, and they help companies get into that market. You went to Commerce and asked how you get into this market. Is that a good analysis of your answers?

Mr. PATTERSON. From our standpoint, yes. I mean, we wanted to expand and you have a market. We are in a niche market and it is so big. In order to expand that market we needed to export and go as worldwide as we could. But you have very limited access or limited resources in terms of small business. So it is vital to have these aid offices and these support structures out there that can help you.

Mr. CRITZ. Thank you. Free trade agreements have had a different impact. I am from the rust belt, and when NAFTA occurred, we had a Volkswagen plant that shut down in my area and moved to Mexico because it was more cost effective. I don't want to say I have heartburn, but I have a more antagonistic view of it. Certainly and especially when you are talking about foreign products that the United States produces, such as food products that we can export. I agree with Mr. Speer that we must level the playing field. I think Mr. West mentioned it as well, that there is a difference between free trade and fair trade, and it seems that our country frequently uses trade agreements for State Department purposes. It is wonderful that you folks are here, and I am glad to hear you are expanding into other markets because that is the future of our economy.

Thank you, and I yield back.

Chairman GRAVES. Mr. Walsh.

Mr. WALSH. Thank you, Mr. Chairman.

Much of the testimony, obviously, has been focused on the benefits of exports and how they will impact positively each one of your businesses and small business in general. Let me try to get your thoughts on the inverse of that.

The potential positive impact on imports from the free trade agreements, we know that cheaper imports allow consumers to save money through cheaper, final products. They are also good for American businesses as well, which often use foreign raw materials and capital equipment. Just a quick thought from each one of you as to the positive impacts on each of your businesses through these trade—free trade agreements as related to imports as well.

Mr. PATTERSON. Yeah, we work directly with foreign companies. In other words, we market the Beretta machines in the United States and we also market the Eurogrill which is a German product in the United States. And they market our products in Europe. And that is one of the ways that we got into Europe. And we are right now working with a Swedish company to market our products through the Swedish company. And that was how we were envisioning being able to, if you will, capture the Asian market because we are not large enough to really expand that market. But by teaming with other companies, in this case we are teaming with a Swedish company who are actually owned by a direct competitor to us, and you have to remember in our shop we have a sign here that says "Bring it on." I mean, we are not afraid of foreign competition. But you have to have that "We can do it" attitude and not be afraid of foreign competition.

Mr. WALSH. Other thoughts, gentlemen, on how cheaper and more reliable imports may impact your business as well?

Mr. MYERS. Well, in our business the components are very highly engineered. They go through vigorous testing. So there is a barrier in the fact that just to bring anything in does not work because it is critical to the automobile's function. So maybe we have a little unique situation in the automotive industry. Certainly there have been knock-offs and so on but we see it as an opportunity because often our goods may go out as a single component and then come back as a complete transmission, for instance. And we are just beginning a new program with a foreign large company that is putting it together into a transmission. So we get the benefit of it coming back in its finished assembly.

But it is, so we again, like Mr. Patterson, we are trying not to be afraid of it. We try to make sure we put the training in place for our workforce so they are highly productive. I think our workforce is one of the most productive. I think our U.S. workforce is highly—maybe the highest productivity in the world and we try to make sure they know that they are a part of this as well. They have to work with us and produce a very highly technical product and stay competitive because they are up against cheaper labor.

Mr. WALSH. Mr. Speer.

Mr. SPEER. We face a problem where we have had customers that have gone overseas or have got imports. And in one particular case they all failed so they came back at us desperately to rectify it. We do compete with foreign, say Chinese made imports. We cater to a higher standard and we—when I was just in Singapore they were saying that the Chinese imports would fail after a few months. And I said, well, we have a five-year guarantee so we are able to sell to that and able to work. Ours are quality made. But, yeah, there always, unfortunately, will be that end but we have been doing it for 96 years. We know what we are doing. We are kind of, you know, we bank on what we have done and on our name and it lends credibility. And it is something that we are always aware of but we are able to look at the other market that we can be in. We can add value by lasting longer.

Mr. WALSH. Okay. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Mr. Richmond.

Mr. RICHMOND. Thank you. Thank you, Mr. Chairman. Thank you, Ranking Member Velázquez.

Just a quick question for each of you if you can answer this pretty quickly. What is your major mode of transporting your goods over to your trading partners? And we will start with Mr. Speer.

Mr. SPEER. Sure. Ours are small enough. A lot of times we will ship like UPS, FedEx. We do ship via container for larger orders. And so that is why we are establishing a branch in Dubai to help with smaller orders that we can ship locally at reduced prices.

Mr. MYERS. Simply, ours go ocean freight.

Mr. WISE. My product would be primarily truck and ocean freight.

Mr. PATTERSON. We handle a lot of—the parts go typically in some type of either FedEx or UPS or DHL is no longer there but we do containers for the larger units. But the transportation costs from our standpoint is very critical because we are at the end. We are in western Colorado. We are not in the harbor so we have to be very careful on our transportation costs.

Mr. RICHMOND. Well, and I was asking that question because I represent the Port of New Orleans and after redistricting it appears that I am a representative of the Port of New Orleans, the Port of South Louisiana, and the Port of Baton Rouge. So when you talk about ports and you lump those together you probably have the largest port complex in the country. This gets us to a dredging issue, when you are talking about containers and the reliability of knowing that you are going to have the right depth for ships. How does that affect your planning when ordering containers, knowing that you have navigable waterways? And that could be for anyone.

Mr. MYERS. I am aware that we are looking at transport up the Arkansas River through the port of, I think, New Orleans or one of the others you mentioned. So it may have an advantage in that regard that we can load straight onto containers into a modified river barge situation. And that just came up locally in a meeting we had, in a community meeting. So it could have an effect in our exports on how we go about the transportation, not having to truck it all the way to the port. And so I know that specific possibility is being developed.

Mr. RICHMOND. When I talked to my port director about our largest export from the Port of New Orleans, he said our largest export is empty containers going back to other countries after they come here. How do we as a Small Business Committee or Congress, help fill those containers with American products as they are going back overseas, especially if we enact these trade agreements?

Mr. PATTERSON. I would have to say that enacting trade agreements is the first step because if you are, I mean, it can be, I can remember one time I was working. I probably was trying to ship fresh fruit from California to the east coast on air freight. And the problem was that there was no product made in the east coast that California needed. So your deadhead going back is your major cost. Likewise, if we can set up and make the free trade agreement work and get the product flowing from the United States so that they are not deadheading, we reduce our transportation costs tremendously. And we always look at which port we can send this so I would like to know more about your port because we typically use Houston.

Mr. SPEER. I would add, too, that, you know, educating small business through especially the Department of Commerce is educating the importance of exporting and how to is certainly vital to getting small business to get in there. And the programs that they do is vital to encouraging them and educating them how to do it because a lot of small businesses just do not know where to go.

Mr. RICHMOND. Thank you, Mr. Chairman. And I yield back.

Chairman GRAVES. Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman. I appreciate again all of you for being here.

One question we really have not talked a lot about today is when you export you have to fill out forms. Have you had any experience? Can you give any advice maybe to this Committee in terms of some of the regulatory requirements that you face that are encumbering your ability to be able to do your business and how we can do it better?

Mr. Patterson, would you like to start?

Mr. PATTERSON. Well, it gets back to the uncertainty. I mean, quite often what we have had is I remember we were shipping into Chile and the problem really was more of a local. It was not at the, if you will, the state to state level. It was trying to get through this one port. And, I mean, you have these small, local problems. Well, for a small business it is a killer. I mean, we could not get our product through that port. And I am not sure exactly how the trade agreement is going to help that but somehow or other we need to stand together and work to make it so that they cannot exclude our products in any particular location. You know, just from a paperwork standpoint. That is entirely what it was. The paperwork is never right and it was used as a way, a trade barrier. But, I mean, you are fighting with your hands tied behind your back.

Mr. TIPTON. Do any others care to comment on that? You know, I think that, and I go back to Mr. Patterson's testimony, eight million dollars, I believe if I wrote it down correctly, in sales. Forty percent of that is going to be reliant on exports and spending about half a million dollars when it comes to capital investment to create one good manufacturing job. And I do have curiosity that is a little bit off because it will affect your ability to be able to create those jobs to be able to export. A lot of our current tax code, is that a consideration you have in some of those decisions that you are making? And even the health care legislation that was passed by the last Congress.

Mr. PATTERSON. Well, the biggest problem that we have or that I notice is the complexity of the tax code. I do not—I mean, we all need to pay taxes. I mean, somebody has got to pay for everything that is going on. And I do not—how can I put it? I do not like to pay taxes any better than anybody else but I do not mind paying taxes. I feel that it does good in this country. But at the same time, I mean, you have to hire a tax expert to work out the tax forms. It just, you know, the problem is not the amount; the problem is all the exclusions and everything that you need to know. It costs you more to keep track of how to pay the taxes than it does to pay the taxes. And we need to focus on simplicity.

Mr. TIPTON. So complexity is drawing dollars away that you could be investing, create exports, and drive American jobs?

Mr. PATTERSON. Absolutely. Yeah. That is the way I feel.

Mr. TIPTON. Any other comments on it?

Mr. SPEER. One of the things that as small businesses, a lot of them are family-owned and operated, such as ours, and the state tax is a big burden on us having to pay insurance premiums. And rather than reinvesting back in our company we have to invest in that and prepare for that. And so that is one burden that small businesses do face.

Mr. TIPTON. I did have one question. This got me curious. What is that particular float used for?

Mr. SPEER. This is used in plumbing and also kennel waters, farm water. It just goes up and down and levels it. It is just a more standard variety that we have. We sell it all over the world.

Mr. TIPTON. Great. And you are handing out samples?

Chairman GRAVES. You know, Mr. Wise, I did want to give you a chance really to let you explain just how important the pork industry and its exports are. When you come from a town of 105 people, how important is that industry to your community?

Mr. WISE. In my small community, I do not know the exact number. I know there are approximately 3,500 people that are locally involved directly in the pork industry, either in the slaughter plants or on the farms. I, myself, employ about five people throughout the year, just as a farm/grower.

If we did not—I left the community in the mid-80s. I might as well have turned out the lights when I left. I mean, there was nothing there. This was before the hog industry came into our community, just as it was beginning.

Mr. TIPTON. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Thank you. We can start with Ranking Member Velázquez and then we will come back to you, too.

Ms. VELÁZQUEZ. Thank you.

Mr. Speer, the Korean Trade Agreement contains nothing to address the fact that South Korea has a history of currency manipulation. Does it make sense to ratify an agreement with no safeguards against currency manipulation? And how will that put at a disadvantage our American businesses?

Mr. SPEER. Unfortunately, I cannot speak to the exact currency manipulation. I am just a business owner. I am not a policymaker. I do not know. Where I follow some of the trade agreements, I do not know it inside and out. But I just know from our end, as a company trying to export, it makes a difference. It does make a difference. That extra eight percent can make a difference between getting a sale or not.

Ms. VELÁZQUEZ. Thank you.

Mr. Myers, there have been numerous reports of businesses in Colombia using violence and intimidation against labor unions and disregarding workers' rights to the point that today the President announced an agreement with the president of Colombia for them to take steps to address those issues. So when companies like yours deal aboveboard with an organized labor force, does this type of disparity place U.S. companies at a disadvantage?

Mr. MYERS. Well, first of all, I think it is a serious concern that we treat our workforce, well, and you are right. We do treat our people—while we work as a team, we consider them family. So in terms of safety and the welfare of our workforce, we work as a team. So if it is going on in other countries that we do business with, it should be a concern. I guess the point is if there is no agreement, then we have no leverage with that country. If there is trade going both ways, to me there seems to be some leverage through the agreement and I think it is important to have an agreement so you can at least have some input and maybe in a way some control over this serious problem.

Ms. VELÁZQUEZ. We have cases like in Colombia and Panama where businesses pay lower taxes, face less regulation, and have a ready labor force that will work for low wages. And every one of the witnesses expressed the fact that it is important for American businesses to have a level playing field so that you are not put at a disadvantage. Would that not put American businesses at a disadvantage?

Mr. MYERS. Well, it is very difficult for a company to compete with what our workforce does. They are highly productive. The parts—the product that we make. I am not speaking for the other witnesses here. It takes a trained workforce and the capital and the company as a whole to produce a product that somebody wants and the companies want. And that is how we get to it. And if you just take a low paid worker with poor conditions, they cannot produce the kind of products that our workers do.

Ms. VELÁZQUEZ. Sure. Mr. Wise.

Mr. WISE. I guess my . . . I am damn good at what I do. Bring on the competition.

Ms. VELÁZQUEZ. Mr. Patterson.

Mr. PATTERSON. I agree. It is the productivity. I mean, we can—we have the capability of being able to compete in a world market. But in order to do that we have to do it with increased productivity and better quality. And that has to be the focus. And we really do not run into this too much because the very workers that you are talking about as Mr. Myers talked, they really cannot produce the product that we produce. And so they are not really that much competition. I mean, they will produce a product but that product will not have the value that we can get for our products.

Ms. VELÁZQUEZ. Thank you.

Chairman GRAVES. We will recess. We have three votes. We will recess for a short period of time and then we will be back.

[Recess.]

Chairman GRAVES. We will call the meeting back to order and I will turn to Ranking Member Velázquez.

Ms. VELÁZQUEZ. I have no more further questions.

Chairman GRAVES. And I have got a few.

Out of—as much as anything else, when you see countries like, and this question is for all of the panelists—we will start with Mr. Patterson. When you see countries like Canada and the EU, which all are aggressively going after these free trade agreements, my question to you is how does that impact your ability to compete? Because obviously, you know, and I worried about losing those markets for a long, long time. And so that is the biggest thing. You know, what that does in terms of your long-term planning. You talked about uncertainty out there. You know, does that worry you considerably when you see these countries that are grabbing those units up? Mr. Patterson.

Mr. PATTERSON. Yeah, we deal a lot with the European Union. And I have to say that right now we have an advantage over them mainly because of the currency exchange. But that can change overnight. And what the European Union has been doing has been primarily setting up technical standards. And the U.S. is well advised in my opinion to look at how these are structured and make sure that it is used to our advantage as well as theirs. It is molded around the IFO standards in terms of looking at quality. In other words, the IFO is really just there so that you can ensure that the vendors, the people you are buying from are providing a quality product and you can trace it back. So it is a bookkeeping scheme. It is definitely more costly to do it that way but in the long run I think that that is what the U.S. is also going to end up having—any successful U.S. manufacturer is going to have to address the quality requirements in IFO. And in any trade agreement we need to look at to make sure that, you know, they have the same requirements selling here as we do selling there.

And I would say the only other thing we have run into has been on the safety issues. Especially in the European market they have a lot of unique safety requirements for moving machinery that we have had to address. But at the same time we have been able to, I mean, how do I put this? Especially in the English market, we have come up with a solution to some of the safety requirements that they had for their drills. And I will have to admit, it was much to the dismay of the British and German producers that were selling in that country because they were not able to do that.

So it can work. We need to be very careful of how we do this for that level playing field, but spell it out and tie it to an international standard, if you will, so that everybody has to follow that same technique, if you will, or process. Whether it goes to Germany or, you know, as an export or as an import. That is the way I would address it.

Chairman GRAVES. Mr. Wise. I know for pork producers it is a little bit different and you obviously are not directly involved——

Mr. WISE. No, but——

Chairman GRAVES [continuing]. In export agreements but you have got to be worried about the aggressiveness.

Mr. WISE. As Dr. Hayes has stated, particularly with the EU and Korea and Colombia, the Colombia FTA, we will be out of those markets within 10 years. Specifically in today's Korea, our current market share in the last two years has reduced itself by about 15 percent and we are continuing to lose competitive edge there as we speak today.

Chairman GRAVES. In fact, you might even address, too, and you just did, the amount of market share that you have lost. Mr. Patterson.

Mr. PATTERSON. We operate in a very technical, very niche-type market. And our focus is to dominate that niche worldwide, if we can. And so from that standpoint we focus more on making sure that our product is superior in any ways that we can. And of course, that is what the competition tries to do. We just try to be smarter about it.

And I hate to use the term but we do not operate in a rope, dope, and soap market. I mean, we do not sell by the pound, we sell by the unit and we sell productivity. And it is entirely different from a marketing standpoint. So we can command and get higher margins than, if you will, if you are selling a product that is really based on a commodity basis where you have so many different producers, so many different people all producing the same thing. So then it gets down to kind of a relationship and, you know, it is a much tighter market than what we are dealing with. It is a lot different.

Chairman GRAVES. Mr. Myers.

Mr. MYERS. Mr. Chairman, if I understand your question, you are asking if we feel competition can get ahead of us if a trade agreement is signed by another country or area like the EU or some other country.

Chairman GRAVES. Yes. And then also as a dovetail to that, the fact that Congress and the administration have not acted on these, how much market share?

Mr. MYERS. Well, the automotive business, maybe somewhat like Mr. Patterson's business, is very technical. And our strongest competitors are in the EU and in Japan. So if they are ahead of us, their companies that we compete with can be ahead of us, if they are ahead of us in line to trade with the partners that we trade with, our customers. So it is a concern of ours that we get something moving so we do not get behind our strongest, most technical competitors. Our most technical competitors, much like you have heard others say, is not necessarily out of China but it is out of the EU, Japan. Those are developed countries that have the technology to compete with us.

Chairman GRAVES. Mr. Speer.

Mr. SPEER. As I stated during my testimony, we lost a major contract to a German company recently in South Korea and so it has caused us to reevaluate going into that marketplace at this time and sit back and look at other areas where we can compete better. But again, we are competing with a high quality—in the EU and that is our biggest competition.

Chairman GRAVES. I appreciate all of you participating today very much. Again, I know some of you traveled a long ways to be here but we are going to continue to, you know, it is important, I think, to continue to look at these free trade agreements and we are going to try to get these passed just as quickly as possible and move forward. I very much believe that particularly in the agriculture field, which I am intimately familiar with. But I appreciate your testimony today on this very important issue and I would ask unanimous consent that members have final legislative—make statements and supporting materials for the record. Without objection, so ordered.

And with that, this hearing is adjourned.

[Whereupon, at 2.48 p.m., the hearing was adjourned.]

Statement of
Chairman Scott Tipton
Subcommittee on Agriculture, Energy and Trade
On Wednesday, April 6, 2011
Before the House Small Business Committee hearing on:
How Passing Free Trade Agreements Will Help Small Businesses Create Jobs

Thank you Chairman Graves and Ranking Member Velázquez for convening today's hearing. I would like to join my colleagues in welcoming our panelists as we examine how passing free trade agreements will help small businesses create jobs. I would especially like to welcome Mr. Patterson, who is a constituent of mine from Montrose, Colorado.

The U.S. is running a $668 billion trade deficit. With our country's abundant resources, ingenuity and entrepreneurial spirit, there is no reason why we should not be at parity or ahead of the game when it comes to trade. Small businesses are the heart of U.S. trade, accounting for 97% of our exports. By embracing free-trade policies that encourage foreign markets to import our goods and services, we would go a long way to provide a shot in the arm for domestic job creation. An example of this can be found in Colorado's third district, where small potato growers in Hooper, and cattle ranchers in Cortez, are standing ready to expand and offer their goods to new markets—where there exists a real demand. We have an opportunity to make the U.S. more competitive and have a direct impact on the creation of new jobs. It is critical that Congress pass the pending free trade agreements with Panama, Colombia and Korea. By lowering our tariff barriers we will be creating promising opportunities for small businesses to grow, shrink the trade deficit, and get people back to work.

Again, Chairman Graves, thank you for holding today's hearing. I do have a few subsequent questions at this time.