

APEC 2011: BREAKING DOWN BARRIERS, CREATING ECONOMIC GROWTH

HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE ONE HUNDRED TWELFTH CONGRESS FIRST SESSION

MARCH 31, 2011



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

74-796—PDF

WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
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CONTENTS

OPENING STATEMENTS

	Page
Baucus, Hon. Max, a U.S. Senator from Montana, chairman, Committee on Finance	1
Hatch, Hon. Orrin G., a U.S. Senator from Utah	3

WITNESSES

Veroneau, Ambassador John, partner, Covington and Burling, Washington, DC	5
Scher, Ambassador Peter, executive vice president for global government relations and public policy, JPMorgan Chase, Washington, DC	8
Robins, Bert, vice president and co-founder, SeaCast, Inc., Butte, MT	10
Hartvigsen, Richard M., vice president, global government affairs, Nu Skin International, Inc., Provo, UT	12

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Baucus, Hon. Max:	
Opening statement	1
Prepared statement	31
Hartvigsen, Richard M.:	
Testimony	12
Prepared statement	33
Hatch, Hon. Orrin G.:	
Opening statement	3
Prepared statement	38
Robins, Bert:	
Testimony	10
Prepared statement	40
Scher, Ambassador Peter:	
Testimony	8
Prepared statement	46
Veroneau, Ambassador John:	
Testimony	5
Prepared statement	52

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THURSDAY, MARCH 31, 2011

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:07 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Wyden, Hatch, and Thune.

Also present: Democratic Staff: Russ Sullivan, Staff Director; Amber Cottle, Chief International Trade Counsel; Ayesha Khanna, International Trade Counsel; Danielle Fidler, Detailee; and Rory Murphy, International Trade Analyst. Republican Staff: Everett Eissenstat, Chief International Trade Counsel; Paul DeLaney, International Trade Counsel; Maureen McLaughlin, Detailee; and Ryika Hooshangi, Detailee.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The hearing will come to order.

President Bill Clinton once said, “A world without walls is the only sustainable world.”

Throughout history, countries have erected walls to create barriers and safeguard themselves. From fortress walls to city walls to the Great Wall of China, physical barriers were essential to ensuring the security of the nation.

But in today’s world, we seek not to build, but to tear down the economic walls that divide us. American companies frequently face barriers when they seek to export their products abroad. Rather than bricks and mortar, these are tariff and non-tariff barriers.

Today we are here to discuss the Asia-Pacific Economic Cooperation forum, or APEC, which is dedicated to breaking through these economic walls.

APEC is a group of 21 Asia-Pacific member economies. These economies have joined together to facilitate economic growth, cooperation, trade, and investment in the Asia-Pacific region.

Together, these APEC members represent nearly 55 percent of the world economy—55 percent—and nearly 45 percent of world trade. In 2009 alone, trade with the APEC region pumped approximately \$1 trillion into the U.S. economy.

This May, Montana will host the APEC Trade Ministers and Small and Medium-Sized Enterprises meetings so we can discuss how to eliminate the economic barriers that divide us.

I am so proud to bring cabinet-level officials from the 21 APEC economies to my great State. Montana is rolling out the Big Sky welcome mat. From our ranchers and farmers to our manufacturers and innovators, we are preparing to showcase all that Montana has to offer, and we invite you, Senator, to come up to Montana, if you can join us at APEC. That would be a Big Sky Montana welcome.

Senator HATCH. That would be great.

The CHAIRMAN. We would love to have you.

As we do so, we will also work to ensure that APEC stays meaningful and relevant in the years to come.

There are two things we need to do to succeed. We need to ensure that APEC tears down the barriers that lurk behind our trading partners' borders; that is, we need to ensure that APEC makes trade work for all American exporters, not just big business.

First, we must ensure that APEC eradicates the hidden barriers that often stymie exports. APEC has been extremely successful in reducing tariff barriers. In fact, the average APEC tariff fell to a remarkably low 5 percent in 2010.

As tariffs decreased, exports increased. The United States nearly doubled our goods exports to the APEC region in the last 15 years from \$400 billion in 1994 to almost \$800 billion in 2010.

But onerous non-tariff barriers remain. Taiwan continues to impose a web of restrictions, for example, that effectively block U.S. beef exports. And China uses subsidies and local content requirements to stymie U.S. green technology and other exports.

American businesses are often unable to scale these walls, which costs tens of millions of dollars a year in lost exports. APEC must find ways to tear down these non-tariff barriers.

Second, we must ensure that APEC creates opportunities for our small and medium-sized businesses, in addition to our large businesses. This year, my staff and I have met with dozens of small Montana companies that are exporting or would like to export to APEC economies. These companies raise a litany of concerns concerning rules and regulations that are difficult to identify and understand, an inability to find local companies to partner with in export countries, and a lack of information on the most basic nuts-and-bolts of how to export their products.

These are not huge barriers. But for a small company seeking to understand a new market, they can seem insurmountable.

That is why I support APEC's goal of making it 25 percent cheaper, faster, and easier to do business in the region by 2015. But we must identify specific benchmarks along the path to ensure we are making progress toward that goal. For a small business, 25 percent can be the difference between success and mere survival.

The Trans-Pacific Partnership free trade agreement, or TPP, is a step in the right direction. I have long advocated for the United States to resume these negotiations, and I support the speedy conclusion of a high standard TPP agreement.

But while the TPP will create a dent in barriers our companies face in the APEC region, it will not cause the walls to tumble. Some of the most onerous barriers we face are those imposed by APEC economies that are not part of the TPP framework, and we must aggressively address those barriers as well.

APEC already has a track record of success in breaking down walls and bringing the region together. I urge the United States to focus this year on making sure APEC continues this track record of success. Montana depends on it, Utah depends on it, the country depends on it, our exporters clearly depend on it, and our country's economy will be all the better when we succeed.

[The prepared statement of Chairman Baucus appears in the appendix.]

The CHAIRMAN. Senator Hatch?

**OPENING STATEMENT OF HON. ORRIN G. HATCH,
A U.S. SENATOR FROM UTAH**

Senator HATCH. Well, thank you, Mr. Chairman, for holding today's hearing on APEC. Harnessing the potential of Asian-Pacific trade is critical to our economic future.

APEC can be a critical tool to open new markets in the region, but a tool is only as effective as the person using it. A hammer in the hands of an unskilled builder will yield limited benefits. But put that hammer in the hands of the master craftsman and you can create a sound and sturdy structure that endures a lifetime.

During the U.S. host year, we must use the APEC tool well and create real enduring economic benefits for America's workers and exporters. To make APEC more meaningful and relevant, we need to focus on concrete outcomes and meaningful goals.

No one is better equipped to help us define those goals than the U.S. private sector, and that is why I am pleased to welcome Rich Hartvigsen and the other witnesses here to testify today.

Rich is from Nu Skin Enterprises, and Nu Skin operates in over 50 markets around the world and has significant experience doing business in the Asia-Pacific region.

I am also grateful that Rich took the time to travel from Provo, UT to share his company's experience with us, and it is a company that has a great deal of practical experience.

Nu Skin is one of many companies in Utah that benefit from trade in the APEC region. Of Utah's \$10.3 billion in goods exports in 2009, \$4.0 billion, or 39 percent, went to markets in the Asia-Pacific region. These exports include computers and electronic products, manufactured chemicals, processed foods, transportation equipment, and high quality Nu Skin products, among others.

And our exports are growing. In fact, Utah is the only State in the country to double exports in the last 5 years. As the administration reaches out to stakeholders across the country to help ensure that our host year is a success, I will work hard to make sure that our Utah trade community is well-represented throughout this process.

I also want to recognize the significant work of our chairman, Chairman Baucus, whose home State of Montana will host the APEC trade ministerial this year in Big Sky in May.

As Chairman Baucus knows, a great deal of work needs to take place for our host year to be a success. Working together, we can seize this historic opportunity, take on meaningful work, and address new and innovative challenges.

If we use APEC effectively, we can steer the direction of world trade well into the future. The administration's commitment to

tackling next generation trade and investment issues within APEC is laudable.

Among the issues I hope will be at the top of the agenda are protecting intellectual property rights, harnessing the power of global and regional supply chains, enhancing trade facilitation, and responding to the rise of state-owned and state-assisted enterprises.

APEC economies are among the most innovative in the world. To further foster that innovation, APEC economies should adopt strong and effective intellectual property rights protections.

One way we might be able to seek development and establishment of best practices to better protect intellectual property rights is to have APEC really get serious about these type of intellectual property rights.

The development of elaborate global and regional supply chains has changed how business reaches new consumers, but man-made and natural disasters disrupt these supply chains, as we have seen from the tragedy unfolding in Japan. And our heart goes out to the Japanese.

Such disruptions can impact manufacturing here in the United States, as parts and components no longer reach our factories and exports cannot reach their destination. Global and APEC regional supply chains provide enormous benefits to American businesses and consumers, while presenting new challenges.

To ensure the strength, stability, and safety of these supply chains, APEC economies will need to work together. Enhancing trade facilitation and the movement of goods and services across the APEC region should be one of our top priorities, and one of theirs.

APEC can also serve as an incubator for new ideas. For example, some of the cutting-edge issues being negotiated in the Trans-Pacific Partnership negotiations first originated in APEC. An area that merits considerable work is developing disciplines on state-owned and state-assisted enterprises to ensure that they do not compete unfairly with private industry.

I am alarmed that too many governments provide regulatory favoritism, leverage government procurement, require the use of indigenous innovation, and provide cheap financing to the benefit of their state-owned or -assisted enterprises, but to the detriment of American businesses and farmers trying to compete.

I hope the administration will accept this challenge to set the rules of trade to address this increasingly complex and growing problem. Our host year provides an exceptional opportunity for leadership. What better way to demonstrate U.S. leadership on trade during our APEC year than to pass all three free trade agreements? Action, not words, is the true test as to whether the President truly supports opening markets, growing exports, and creating new opportunities for American businesses around the world.

If we cannot implement agreements we negotiated 5 years ago, how can we expect our trading partners in APEC to take us seriously when we talk about liberalizing trade and tackling 21st-century trade issues?

Finally, a word of advice to the President about the TPP negotiations. I strongly support the administration's efforts to negotiate a

high-standard, 21st-century, regional trade agreement that will create jobs here at home and increase American competitiveness.

But we also should not lose sight of the basics. To me, a high standard agreement is one that truly opens foreign markets to U.S. competition, promotes high standards of protection for all types of intellectual property rights and investment, and that does not sacrifice the overwhelming economic benefits of the commercial agreement to the vagaries and never-ending demands of a labor and social agenda.

I want to thank you, Mr. Chairman, for this important hearing, and I am grateful to have your leadership on it.

The CHAIRMAN. Thank you very much, Senator. We appreciate your interest. You bring an awful lot of experience, which is very helpful.

[The prepared statement of Senator Hatch appears in the appendix.]

The CHAIRMAN. I would like to introduce our witnesses now. First, Ambassador John Veroneau, who was a deputy USTR under President Bush, now a partner with the law firm of Covington and Burling. Welcome, Mr. Ambassador.

Next, Peter Scher. Peter is the executive vice president for global government relations and public policy at JPMorgan. But I must say, before that, he served as my Chief of Staff, very ably; later, Chief of Staff to the USTR, then Chief of Staff of Commerce. And I tease him because he specialized in agriculture, and this kid from Long Island knew more, when all was said and done, about agriculture than anybody else in the country. He did a super job.

Senator HATCH. That alone is going to get you in a lot of trouble.

The CHAIRMAN. And today he is here in his capacity as advisor to the APEC Business Advisory Council. Thank you, Mr. Scher.

Next, Bert Robins. I have come to know Bert Robins better in the last couple, 3 years. I have known his family for a long, long time. Bert is the vice president and co-founder of SeaCast. It is a cast mill and manufacturing company in Butte. And I might say, Senator, that I have visited SeaCast and their operations. They built a big, new facility in Butte, MT. They are moving much of their operation from Seattle. And I have never seen so much energy, positive dynamism in any company as I have seen in SeaCast. These guys, I swear they have it. They are really terrific.

I would also like to welcome Richard Hartvigsen, who is vice president, global government affairs at, as you mentioned, Mr. Hatch, Utah-based Nu Skin International. We are happy to have you here, Mr. Hartvigsen. I enjoyed talking to you about your products in the anteroom just a few minutes ago. Thank you for joining us.

Thank you all very much. And we will begin with you, Ambassador Veroneau.

**STATEMENT OF AMBASSADOR JOHN VERONEAU, PARTNER,
COVINGTON AND BURLING, WASHINGTON, DC**

Ambassador VERONEAU. Thank you, Mr. Chairman.

The CHAIRMAN. And say what you want to say. Do not pull punches. Here is the opportunity to say what is on your mind. And

as you all know, your statements will be in the record. So speak about 5 or 6 minutes.

Ambassador VERONEAU. Thank you, Mr. Chairman. I want to thank you and Senator Hatch. Your undying support for open trade and fair trade is well-known in this town. And the politics of trade are never easy, so your efforts over the years are greatly appreciated by me and everyone in the trading community.

The United States wins when we open foreign markets. That is clear. And I think there has been great success using global agreements, the GATT, regional agreements like NAFTA, and bilateral agreements, to open those markets and address traditional trade barriers.

There is more work to be done. As you mentioned, there are three pending trade agreements that hopefully will be acted upon this year. And as, Senator Hatch, you said, actions speak louder than words. So hopefully that will happen this year.

We should continue to look for opportunities to lower traditional border measures like tariffs, but tariffs are no longer the most pernicious trade barriers faced by American exporters.

Today, our exporters are more likely to be blocked by internal regulatory measures. When a foreign country uses a high tariff to protect a domestic producer, at least it is transparent. It is a transparent form of protectionism and can be addressed through traditional trade negotiations.

But when a country uses—or should I say misuses—its food safety laws to exclude U.S. beef or other products, it is more difficult to respond. The increasing use of internal regulations to protect local producers from foreign competition is a serious and growing problem.

Compounding this problem is the fact that we do not have in place right now the right institutions and rules to combat these trade barriers in effective and efficient ways. This is where I believe APEC can play a critical and leading role.

There is a large and growing gap between the breadth and scope of the global economy and the breadth and scope of global trade rules or, to put it more broadly, global governance.

The gap accounts for much of the inefficiency in cross-border flows of goods and services. There is significant waste when countries impose redundant regulatory processes.

For instance, if a medical product or device is approved in one country with rigorous and credible review processes, other countries should give some recognition of this approval process rather than requiring expensive and redundant processes that unnecessarily drive up consumer costs.

Worse than this inefficiency, the lack of proper global governance accounts for much of the lawlessness that remains in global commerce. This lawlessness has consequences at both ends of the spectrum. At one end, unsafe products too easily enter the global stream of commerce; at the other end, this lawlessness makes it too easy to block good and safe products. The current system too easily tolerates protectionist measures masquerading as safety measures.

We have seen a large gap between the scope of the economy and the scope of its governance before. In the last century, as the U.S. economy grew from one that was primarily local in character to one

that is primarily national in character, problems regarding product safety, competition, or other matters were no longer best handled through local law.

In response, we developed—Congress developed—institutions and legal structures to better align our economy with our governance. We must find ways to better coordinate our regulatory regimes globally so that common and legitimate interests in protecting health and welfare in each country can be pursued in ways that do not frustrate global trade and competitiveness.

We can do this through greater use of mutual recognition agreements, through greater recognition of standard-setting bodies and initiatives, and through binding agreements that require regulators to operate with high degrees of transparency and due process.

I want to emphasize that the goal of better global governance is not a call for more government. The goal is to have less government standing in the way of private parties who wish to contract globally in terms of exchanging goods and services. The best way to reduce government involvement in these private exchanges is to define more clearly what governments can do and what governments ought not to do.

Achieving greater coordination and cooperation among countries on internal regulatory matters will not be easy. This is where APEC has its work cut out for it. Because APEC lacks authority to impose rules on its members, it is a less threatening forum for discussing these matters and, therefore, is best suited to develop consensus.

In the 1990s, APEC was instrumental in developing consensus that eventually led to the information technology agreement that was part of the Uruguay Round. Because APEC was able to develop a consensus for eliminating those tariffs, it was then able to hand that consensus off to the WTO negotiators.

More recently, APEC's long-term goal of a free trade area of the Asia-Pacific has helped to advance the TPP. The TPP agreement offers great potential in lowering trade barriers and addressing internal regulatory barriers and in strengthening intellectual property protection.

Expanding access to a growing global economy is critical for U.S. competitiveness. Traditional trade agreements, rules, and institutions can be effective in overcoming barriers posed by tariffs and import quotas. But overcoming access barriers posed by internal measures will require new rules, new agreements, and new institutions.

Collaborative organizations like APEC can serve critical roles in developing consensus on how best to address 21st-century barriers.

I believe and hope the U.S. hosting of the APEC meetings this year, including the meetings in Big Sky, can advance these objectives, because they are critical to U.S. competitiveness and the global economy generally.

I appreciate the committee's time.

[The prepared statement of Ambassador Veroneau appears in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Ambassador. That was quite interesting.

Ambassador Scher?

**STATEMENT OF AMBASSADOR PETER SCHER, EXECUTIVE
VICE PRESIDENT FOR GLOBAL GOVERNMENT RELATIONS
AND PUBLIC POLICY, JPMORGAN CHASE, WASHINGTON, DC**

Ambassador SCHER. Mr. Chairman, Senator Hatch, thank you both. I appreciate the opportunity to be here as a representative of the APEC Business Advisory Council and, also, someone who believes strongly that APEC could provide the leadership we need more than ever to advance more open trade.

Senator Hatch, I want to join you, in particular, in praising Senator Baucus's leadership in this area. There is a lot of excitement about the Big Sky meetings that will take place in May, and I believe, having been a part of the trade negotiations for many years, that those meetings can provide, not only real progress on some of the issues we will talk about today, but an important focus on how small business is impacted by a lot of these barriers that we are talking about, because, in many ways, it is the smaller businesses that bear the greater burden of having to deal with some of these barriers.

You have my full statement, so I would like to just summarize a few key points. I believe that this year will be a clear crossroads for the U.S. trade agenda. It is the year that we have to take action on the three pending free trade agreements, which both of you talked about. It is the year we need to decide whether the WTO negotiations will move forward. And most importantly, for purposes of today's hearing, it is the year that the United States has an opportunity in the context of hosting APEC.

I can tell you, I believe our trading partners are watching how we handle these issues very closely. How we come together to capitalize on hosting this year's APEC meeting, the first time we will be hosting in 20 years, will be a real demonstration of U.S. credibility and leadership in the region.

As we all know, APEC creates very important opportunities for the United States to advance an export-driven, pro-growth agenda. It does not hurt to remind all of us that the 21 members you talked about, Senator Baucus, represent 2.5 billion, almost half of the world's consumers. Sixty percent of global income comes from these countries. And since 2000 alone, emerging Asia, which excludes Japan, has experienced growth of 7.8 percent, GDP growth of 7.8 percent—faster than any other region in the world—and this is at the time that we have been experiencing less than 2 percent growth. And so I think it is very hard to understate the importance of this region.

So how do we use APEC to help create growth in the United States, and what should our priorities be?

I want to start with one observation about our broader trade agenda. We have been negotiating the WTO Doha Round for the better part of a decade. Negotiations are clearly stalled, and I think it is fair to say that our trading partners are moving ahead with other priorities.

One clear example is the number of free trade agreements involving Asian countries which have been completed just since we first attempted to start negotiating the Doha negotiations. In 1999, there were 49 agreements with Asia. Today, there are well over 200, and we are a party to seven.

I do not think there are any other statistics that could speak louder about the need for us to move ahead on multiple fronts and not be caught up on any one part of our trade agenda.

The CHAIRMAN. Would you repeat those figures again, please?

Ambassador SCHER. In 1999, Senator Baucus, when we first tried to launch Doha in Seattle, there were 49 trade agreements involving Asian countries. Today, there are 233, and we are party to seven, less than 10. So the point is, these countries in Asia are not waiting for us. They are moving ahead, they are integrating, they are opening their markets, and they are relying less on trade with the United States for their own economies.

So I think it is imperative, particularly this year, that APEC—in this leadership year—APEC move beyond sort of lofty goals and ensure that the APEC is not just an Asia forum in which the United States is represented, but is really a forum where we can demonstrate real progress on issues.

So I will say briefly what I think it means for this year's agenda. First, I think we all have to start being practical about what we can accomplish. That may mean multilateral, bilateral, or sectoral agreements, but we need to start acting.

I think, as I travel around the world, too often the United States is seen as the team sitting in the locker room mapping out complicated plays while the game is going on and the other team is scoring points on the field. And, as those numbers I just mentioned demonstrate, our other trading partners are looking elsewhere for market opportunities and products, while American workers and American business bear the cost of this.

I think we need to really look at sectoral and regional trade agreements as very important stepping-stones to successful global trade negotiations. To belabor my football analogy even further, every play does not need to be a 20-yard pass. We need to start running the ball down the field sometimes as a way to score some goals.

One way—and, Senator Baucus, you talked about this in your statement—we need to ensure that the APEC meetings this year create real benchmarks for progress. One of those which you both talked about is, the Trans-Pacific Partnership should be a very important goal this year. Everyone shares the importance.

If we have an opportunity to complete the TPP this year with our leadership, we need to seize that. Second, I think we should increase focus on sectoral initiatives. Ambassador Veroneau talked about the very successful information technology agreement in the 1990s which resulted in lifting all tariffs on IT products, which started in APEC. This is an example and a model that I think should be replicated in other areas, and I think we should take the lead on that this year.

Finally, I believe the administration should put forward a very focused work plan with measurable objectives and specific timelines so that the leader meetings do not result in the lowest common denominator. We are operating in such a competitive environment today, and, since the U.S. is driving this year's agenda, we need to work hard to deliver real results.

So let me conclude just where I began. Twenty-eleven is going to be a crossroads year for APEC, for its member nations, and particularly for the United States' engagement in the region.

The one message I want to leave today is that Asia is not waiting for us, and we need to act.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Scher appears in the appendix.]

The CHAIRMAN. Thank you very much; very provocative and helpful.

Mr. Robins?

**STATEMENT OF BERT ROBINS, VICE PRESIDENT AND
CO-FOUNDER, SEACAST, INC., BUTTE, MT**

Mr. ROBINS. Chairman Baucus, Ranking Member Hatch, I am thrilled to be here. Thank you.

SeaCast has its roots in my hometown, Butte, MT. Butte was born a mining town, and it still is today. When I was in high school and then in college, I wrote letters to Senator Mike Mansfield about current affairs and how they affected my family and me.

Mike was Montana's U.S. senior Senator at the time and Senate Majority Leader through the Kennedy, the Johnson, and the Nixon administrations. He also worked in the Butte mines at age 19 and worked underground for 8 years. So we have a common heritage.

In 1971, I wrote to him about the disappointment and frustration about there being so few job opportunities in the State for young people graduating from college. He responded that mined copper, sawn lumber, and harvested crops were not Montana's greatest exports, but rather it was Montana's talented young people. That has resonated in me throughout my career.

Our father, Red Robins, got his start in the Butte mines as a welder and eventually established Butte Hard Surfacing and Welding Company. He and my mother, Mary, eventually had 12 children, four girls and eight boys. Dad had his workforce.

It was there that we learned the value of hard work, a good education, the importance of a cohesive family, and basic welding and metalworking skills. Pay was optional. Mom and dad would say, "It's for the family," and it was.

Dad passed away when he was just 52, and I took over the shop at age 16. My four younger brothers were able to work there and help fund their education. In time, two cousins came to live with us after their parents passed away.

Today, two of the girls are homemakers and businesswomen with their husbands. Of the boys, four went into the medical field: two are orthopedic surgeons, one is a psychoanalyst, and one is in nuclear medicine. One cousin is an educator. The other four brothers, one sister, and a cousin went into manufacturing and are all now part of our company. Many of our sons, nephews, and nieces have also joined the SeaCast team.

Returning to 1974, after receiving a poly-sci degree from the University of Washington, my pregnant wife and I moved to Ohio, where I began a welding engineering graduate degree at Ohio State. My wife worked as long as the pregnancy allowed, while I attended classes during the day and I worked graveyard shift in a

large sand foundry at night. That is where I fell in love with pouring metal and the casting processes.

Years later, brother Mike was mentored in our casting process by Dr. Ed Funk of Ohio State. In 1985, we started SeaCast on a shoestring budget. We moved World War II-vintage equipment from Ohio to Washington in a rental truck and shipped our first castings within a month.

Through great sales efforts, technical excellence, hard work, and supportive wives, families, and friends, the business prospered.

In 1993, we purchased our only competition in the State of Washington and we purchased another foundry in Providence, RI in 2005. Shortly thereafter, with the support of State and local officials and business leaders from Butte, MT, we committed to build a new state-of-the-art, energy-efficient foundry there.

In addition, encouraged personally by Senator Max Baucus and his Butte Economic Summit, GE has agreed to place aircraft engine component manufacturing into the Butte operation. This will give the Butte facility overall manufacturing capabilities found in no other investment casting foundry in the world.

With these capabilities, it would be a likely candidate to produce components for the F136 competitive engine program. This would add sustainable jobs and increase our exports to APEC economies.

Today, SeaCast employs over 300 employees in four facilities. Top tier customers from industries such as aerospace, defense, oil and gas, power generation, transportation, mining, and medical equipment, they are all drawn to our can-do capabilities and our entrepreneurial spirit.

We pour castings in steel, stainless, aluminum, copper, cobalt, nickel, and titanium alloys. We provide full engineering support for our customers and offer secondary manufacturing operations, such as welding, machining, nondestructive testing, and assembly.

We export directly to APEC member countries. We also export indirectly as silent exporters, where we supply to our domestic customers who assemble our parts into finished goods and they then export them to foreign geographies. This alone encompasses over one-third of our total sales.

A great example of one such silent export program involves the Japanese navy, where Mitsubishi is the prime contractor. Years ago, we developed intellectual property to produce highly complex steel castings. We will cast the components that will ultimately be assembled in Japan. This program will be the single-largest contributor to our overall sales this year.

There are major challenges confronting us as a supplier to APEC communities. Harmonization of business practices through intellectual property protection is critical. This will foster an environment encouraging investment in technology. Another challenge is attracting, hiring, and retaining a quality workforce. We have partnered with local universities and trade schools to develop these employees.

In closing, I am sure Senator Mansfield would be pleased with our current direction. We appreciate this opportunity to tell our story and to thank you for continuing to steer our great country through waters where success stories like ours happen every day.

We have all been blessed. Thank you.

[The prepared statement of Mr. Robins appears in the appendix.]
The CHAIRMAN. Thank you very much, Mr. Robins. That is inspiring.

Mr. Hartvigsen?

**STATEMENT OF RICHARD M. HARTVIGSEN, VICE PRESIDENT,
GLOBAL GOVERNMENT AFFAIRS, NU SKIN INTERNATIONAL,
INC., PROVO, UT**

Mr. HARTVIGSEN. Chairman Baucus, Ranking Member Senator Hatch, I am greatly honored for this opportunity to speak to the committee today about the impact of APEC on the business of Nu Skin Enterprises.

Nu Skin is a direct selling company. I have been with them for 22 years. We sell a wide variety of personal care and nutritional supplement products through a network of 800,000 independent salespeople located around the world. We are operational now in 51 countries in the world.

From the beginning, our work in APEC was cut out for us. It has always been a central part of our international expansion. And by 1996, we were operational in most of the major APEC economies. We currently have operations in 17 of the 21 APEC economies.

The broader direct selling industry reported global sales of \$117 billion in 2009 through a network of 74 million independent salespeople. Seventy percent of the sales achieved by the direct selling industry are in the APEC region.

The markets of APEC are critical to the growth and stability of Nu Skin Enterprises and to the direct selling industry. Like APEC, Nu Skin's operations in the region are not purely business-oriented. The people in these markets are our friends. They are our allies. We are committed to improving the general quality of life in the countries of the APEC region.

Nu Skin's founders and employees and distributors, through our charitable foundation, the Force For Good Foundation, and other initiatives, have contributed over \$134 million in charitable donations. Many of those have gone to the APEC region.

Those include multimillion-dollar relief donations for the recent natural disasters in Japan, in China, and in South Asia, for the tsunami that occurred there.

Through our Nourish the Children initiative, we have donated more than 220 million meals across the world to undernourished children, and many of those, again, are in the APEC region.

We believe, as we consider APEC, that there have been many successes and some failures associated with APEC achieving its goals. A great success of APEC is demonstrated by the fact that, in 2010, over 90 percent of Nu Skin Enterprises sales took place in the markets of APEC. Eighty percent of our exports from the United States were to APEC economies, and that represents 80 percent of our \$1.5 billion in global sales in 2010.

While the duties have been significantly reduced across the region under the APEC agenda, trade barriers remain high between many member economies and APEC. Numerous free trade agreements referenced by others on the panel have sprung up all around us, such as the ASEAN agreements and many others. It is imperative that companies in the United States are able to participate in

those free trade agreements that are springing up in the shadow of APEC.

As Senator Grassley stated on the TPP, if we want to have an influence over that process, we need to get involved. We cannot advance our economic interests if we are not at the table.

We view the U.S.-Korea free trade agreement and the TPP not as failures of APEC, but as agreements that are made possible through the cooperation encouraged by APEC.

We urge the swift congressional ratification of the three pending free trade agreements with Korea, Colombia, and Panama. We also strongly support a rapid fulfillment of the United States' expressed interest in becoming members of the TPP and, more importantly, the East Asia Summit.

Our trade with Japan, as a company, is another example of the success and the failure within APEC. APEC has helped us to establish a very large export market with our friends in Japan. Last year, we exported over \$450 million in products to Japan.

At the same time, lack of transparency in Japan's evaluation of our customs and import duties into the country has cost us tens of millions of dollars. We believe that these are discrepancies and problems that can be cured by the further implementation of free trade among the APEC economies.

As a businessman, I have to ask, "What is the bottom line on APEC?" To Nu Skin, the pressure created by other economies within the APEC region having lower import duties, having lower corporate income tax rates, exerts tremendous pressure upon us to move more of our operations overseas.

We would like to resist that pressure. We have found very strong demand in the APEC region for products that are produced in the United States. We are hopeful that the leadership of the United States in this year's APEC meetings will help the organization reassess its successes and failures.

We are indebted to the committee for any help they can provide in helping guide APEC and the U.S. involvement in other free trade agreements to create free trade within the Asia-Pacific region.

Thank you for your time.

[The prepared statement of Mr. Hartvigsen appears in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Hartvigsen.

I would like to explore a very interesting point that you mentioned, Ambassador Veroneau. Peter Scher touched on it. That is, back when the telecommunications agreement was reached as a consensus agreement, and that helped provide provisions in the Uruguay Round, would you give us some other areas where that might work here, where APEC might find a consensus someplace that might help either the round or its multilateral TPP or other agreements?

One that comes to mind to me immediately is intellectual property. We have had a devil of a time in getting better intellectual property protection in the world, especially in Asia. And there are protections already written in WTO, but we do not seem to be getting anywhere, and it is not being enforced.

Is that a potential candidate for consensus, or what other candidates are there for consensus that might lead to actual enforcement either of the Uruguay Round or TPP or other agreements?

Ambassador VERONEAU. Mr. Chairman, I think the reason Peter and I both cited the ITA is because I think it is probably the best existing example of the real value of APEC in an environment where there is more consensus. It is just less threatening. And ultimately, you need these agreements to be enforceable and, at some point, you want them to be turned over to an organization like WTO.

But the real value is their ability to do a lot of the spade work. And I would agree with you that intellectual property is clearly one of those areas. We have—TRIPS is a good agreement. Enforcement is the issue. And it is difficult to enforce it from several continents away, frankly, and you really need the countries themselves to take greater ownership of the values of strong intellectual property.

If you look at how countries—and Japan would be an example, where it did not have very strong intellectual property protection itself until there was a material number of innovators in Japan who organically realized they need, for their own interests, to have stronger intellectual property. And I think most countries will go through that process, including China.

The question is, on what time frame, and, if it is a very slow process, in the meantime, U.S. interests are severely injured.

So I think, to the extent that APEC can be an organization that helps to convince countries that it is in their interest to have stronger intellectual property, I think I would agree with you, Mr. Chairman, that APEC is good for that.

The other two, very quickly, examples I would cite would be just the internal barriers that I know you are very focused on. The food safety is just one example of many where these are tough issues, and even U.S. regulators instinctively will resist, I think, expectations from other countries to change our processes here to adapt to some more common standard.

So we have our own work, I think, to do here in the U.S. But I think in many of these countries, they just do not have the history that we have of due process and transparency. And let us face it, a lot of countries use this licensing-certification process to protect local industries.

Russia certifies aircraft, the airworthiness of its aircraft, very seamlessly when it is not competing with a Russian-made aircraft; and, when there is a domestic competitor, the process seems to break down. That is a good example of the ways that I think countries use certification processes in an unfair way.

The CHAIRMAN. Ambassador Scher, you have given this question some thought, I am quite certain and, also, based upon your experience. Any other—

Ambassador SCHER. I think the one area I would throw in is—and, frankly, I think it is appropriate for the summit and to think about in Montana—is environmental technologies. And, frankly, that is something that I think there could be consensus on within the APEC countries about trying to replicate what we did in the 1990s with information technology for environmental technologies.

I know there are a number of small businesses in both of your States that have been very successful in this market, looking at what are not just the tariff barriers, but what are the real barriers—some of the issues that both Bert and Richard talked about—to the deployment and the market access for these technologies.

The other thing I actually think we should look at is, can we update the information technology agreement? We did that 20 years ago, and, as John said, it started in APEC. And, frankly, a lot of these IP issues underline some of the information technology challenges that are now faced, and that may be one way to come at this angle.

But I think we have to—there has been a resistance, Senator, to look at sectoral agreements, because I think there are a lot of countries and even a lot of people in this country who think it does not meet the sort of purity test of what global trade should be, and I think we have to get over that. And, if there are areas where there can be consensus, we can make some progress, I think we should seize those.

The CHAIRMAN. I have some more questions for you, Mr. Robins, but my time has expired.

Senator Hatch? I will get to go later. We will go back and forth.

Senator HATCH. Yes. We will go back and forth.

Let me go to Mr. Hartvigsen. We are delighted to have all of you here. This is an important hearing. All too often, when people think about companies engaged in international trade, they see it as a losing proposition both for America's workers and for the countries in which many of our companies operate.

Actually, I do not see it that way. I think we both win from trade.

Can you give us some of your personal observations about how Nu Skin's work impacts the countries in which it operates and how it also impacts your workers here in the United States?

Mr. HARTVIGSEN. Well, the stability that is offered to our business through our participation in the APEC economies has really been able to create a long, stable environment for the employees of Nu Skin who reside in the United States.

We have also been able to hire hundreds in the Asia-Pacific region and, as I mentioned in my testimony, we also have contributed a great deal to other types of initiatives in their countries, through our charitable donations, through the meals that we donate, through the disaster relief that we provide.

So we feel that this relationship with the Asia-Pacific economies creates a real opportunity to improve the situation of the people working for the companies on both sides of the water.

We export 80 percent of our products to the APEC region. And so those exports are able to create jobs and opportunities for people working in the United States.

Senator HATCH. Can you share with us your experiences expanding your sales to countries across the APEC region?

Mr. HARTVIGSEN. Well, we began in 1990.

Senator HATCH. Actually, you were a total U.S. company at that point, were you not?

Mr. HARTVIGSEN. We were. When I joined the company, we had only operations in the United States. Since then, we have added the 50 other markets that we currently operate in.

It was a dauntingly complex proposition at the time to negotiate all of the different regulations and things that were challenging to us as we opened these international markets.

Now, as you look at the spaghetti bowl of agreements that has risen up in the Asian-Pacific economy, it looks almost simple what we were able to accomplish in that time period. But it is challenging, and there are a lot of trade issues, a lot of restrictions on trade within the economy that we hope that APEC can better remove.

Senator HATCH. What are some of the barriers that prevent you from selling your goods in countries in the Asia-Pacific area, and what are some of the barriers or regulatory practices that make it difficult for you to succeed in these APEC markets?

Mr. HARTVIGSEN. One of the ones that I mentioned briefly is the relationship with Japan. We have great difficulty in understanding their valuation of our product values as we export them into Japan.

We feel that if they were more transparent, according to the goals of APEC, as they perform these valuations of our products, we would be able to understand that system and save tens of millions of dollars each year.

China is another example. They have very complex and difficult regulations related to direct selling. We find that a great challenge to understand what they really want us to do in those markets without the transparency that is assured to us under APEC.

Senator HATCH. What changes or reforms would make the most difference in your company to help you? Not just you, but your workers, as well, to compete in the dynamic economies here in the APEC region.

Mr. HARTVIGSEN. I think, without question, it would be the United States' participation in the additional free trade agreements that are being negotiated within the region. We have a great pressure on our company right now to move more of our manufacturing, more of our management offshore because we would be able to realize great savings in tax rates and duty rates if we were able to do more of our operations in some of the countries that are participants in ASEAN and the other iterations of ASEAN.

We are hopeful that we will be able to join some of those free trade agreements and improve the ability of the United States companies to keep the jobs and to keep the business here in the United States rather than exporting it overseas.

Senator HATCH. My time is up, Mr. Chairman. I do have some questions for the other witnesses.

The CHAIRMAN. That is very interesting, Mr. Hartvigsen, the pressures you have to go overseas. You say partly it is lower tax rates, I assume, in some other countries.

Mr. HARTVIGSEN. Yes.

The CHAIRMAN. Then you mentioned duties that your overseas operations do not have to pay. Would you expand on that a little bit, please?

Mr. HARTVIGSEN. Well, for example, if we were to move more of our manufacturing to Singapore, for example, which is part of the

ASEAN group of countries, we would be able to export from Singapore to the other markets in Asia without having to pay the high duties that we pay currently as a U.S. company exporting to those countries that are in the ASEAN grouping of trade protection.

The CHAIRMAN. How much of a reduction would that be?

Mr. HARTVIGSEN. It would reduce our duties costs by about 3 percent. It would reduce our corporate income tax rates by about 75 percent if we were able to move into the Singapore region.

The CHAIRMAN. Mr. Robins, trade agreements are not popular at home. Yet, here you are in Butte, you have a successful company. What do you say to folks in Butte when the United States is contemplating a free trade agreement with a country? What do you tell them? Because, as you know, they are not very popular in Butte, either.

So what do you say, and what can we do as a country to show people that, done right, free trade agreements actually create jobs?

Mr. ROBINS. Senator Baucus, I think one of the most important things to point out is that a significant portion of our business, either through direct or silent exporting, is with the APEC countries, and they are among the fastest-growing economies in the world. And, if we want to continue to grow our business, we grow our business there.

And even though—

The CHAIRMAN. That is, more there than, say, in the U.S. Is that correct or not correct?

Mr. ROBINS. I would say that that is probably our fastest-growing sector of our business. Yes, it is. A lot of the products that we produce go into transportation and especially into infrastructure in developing economies, and that is where it is happening in the world right now.

The CHAIRMAN. Can you identify a barrier today? You mentioned intellectual property is a bit of a problem for you when you want to sell in APEC economies, and you mentioned, as I recall, lack of harmonization.

Could you give us an example of some of the challenges you face when you want to sell more products to APEC economies?

Mr. ROBINS. We run a foundry in Asia, and we are licensed to produce castings for certain of our customers. We are the only people in the world licensed to do it. And, in one of the foreign companies' foundries, we see the exact same parts being pirated, and that is very difficult. So they are being produced and marketed.

The CHAIRMAN. Do you find that frequently?

Mr. ROBINS. We do not see that extremely frequently, but we are aware of it happening. And consequently, we have customers that do not allow products to be sold there because it would potentially open them up for illegal copying.

The CHAIRMAN. So what you are basically saying is, because your product is not protected—first of all, it is not protected, so you do not get the same value. But second, some of your purchasers are saying, "Well, we do not know if we want to buy your product, SeaCast, because it might be copied."

I do not understand. Why is that a detriment?

Mr. ROBINS. We have a lot of proprietary technology in our business, and we have developed some of our proprietary processes in

conjunction with our customers, and they are very protective about keeping it in the U.S. And if some of that starts to go into other countries, then they will start doing it, and we have lost our edge, and our customer has lost their edge.

The CHAIRMAN. I see. My time has expired.

Senator Hatch?

Senator HATCH. Senator Thune.

The CHAIRMAN. I am sorry. I did not see you, John. Go ahead.

Senator Thune? You are a long way down there.

Senator THUNE. I am down here at the children's table. But thank you very much for holding this hearing, and thank you all for providing your insights.

The Asia-Pacific region is critical to our future economic growth if you look at the fact that it accounts for, I think, 60 percent of global GDP and roughly half of global trade. And yet, while America's market is open to these nations and we have low tariffs and few barriers, many of these nations continue to protect their producers with high tariffs, as well as with non-tariff barriers, such as regulations on agricultural products that are not based on sound science.

In South Dakota, we produce a number of commodities that are in great demand in the Asia-Pacific region. China, for example, is the largest importer in the world of soybeans, which is South Dakota's top agricultural export.

So I am interested in new export opportunities that could arise for America's farmers, ranchers, and manufacturers as a result of commitments that are taken by the APEC member nations, as well as opportunities resulting from a successful conclusion of the Trans-Pacific Partnership agreement.

While the focus today is on APEC, which is a very important topic, I would like to ask maybe a more general question perhaps of our former ambassadors regarding the consequences of not moving Korea, Colombia, and Panama.

I do not think a lot of times some Americans realize, while our Nation runs a large trade deficit with those nations with which we do not have an FTA in place, if you look at the nations with which we do have an FTA in place, we actually have a trade surplus. And I think South Dakota is probably a great example of this phenomenon.

In the first 7 years of the U.S.-Chile FTA, from 2004 to 2010, South Dakota's exports to Chile increased by 512 percent. Since the U.S.-Australia FTA entered into force in 2005, our exports to Australia have grown by 292 percent.

So I am confident that if the Korea, Colombia, and Panama agreements—I am confident they hold similar promise, and I think the key, of course, right now is getting the administration to send them up here so that we can consider them.

But I would ask you, as former high-ranking trade officials, to comment, if you could, on the high opportunity costs facing American companies if the administration delays in submitting these trade agreements.

Ambassador VERONEAU. Thank you, Senator.

I had the pleasure of being the U.S. signatory to the Colombia agreement and feel personally and intensely the comments that

you reflect, and I know I am preaching to the choir here, Mr. Chairman and Senator Hatch, in terms of your support for these agreements.

I think the trade case is quite simple and straightforward and compelling. There are many barriers that we face, companies face overseas, that we have a difficult time addressing. These pending trade agreements are simple and easy ways to increase access for U.S. producers.

I think if you stopped the average American on the street and said—let us take Colombia as an example—and said, “Right now, 90-plus percent of goods from Colombia come into the U.S. duty-free; would you support an opportunity for the U.S. to have reciprocal access to Colombia?” I would be shocked if all 10 or certainly 9 out of 10 would not say “yes.”

So I could not agree more with you that these are easy opportunities to directly and immediately help U.S. exporters.

Senator THUNE. Thanks.

Ambassador Scher?

Ambassador SCHER. Senator, thank you. I will just comment on the agricultural portion of this. As Senator Baucus taught me many years ago, no trade discussion is complete without a focus on agriculture.

But I think as you talk about these issues, there is no sector in our economy that these issues are more important to than agriculture. As you pointed out, almost half the world’s population is in this region, and our farmers and ranchers need access to it.

Before you came in, one of the points we were talking about is, today there are over 230 trade agreements involving the Asia-Pacific region. We are party to seven of them.

Essentially, we are forfeiting the game, and I think that getting the three trade agreements you talked about passed this year is critically important. I think making real progress on the TPP and, if there is an opportunity to complete it, completing it this year is important, frankly, not just for the seven, eight or nine countries that will be part of it, but the message that sends to the other countries in the region that we are back in the game and we are going to play a leadership role.

The other thing I would say about APEC is that, as we have talked about, a lot of the tariff barriers for American agriculture have come down. The challenge now is a lot of these issues we talk about in the context of APEC—and Senator Hatch talked about some of them earlier in terms of the supply chain issue, in terms of customs and in terms of harmonization—these are the issues. It is fine if a South Dakota cattle rancher or Montana cattle rancher can get their beef to a country in Asia, but, if it sits on the dock because some customs agent decides not to let it in, the lower tariff does not mean anything.

So I think, as we look at these issues in APEC and the practical supply chain issues, I think they are critically important to the producers in your State and to the country.

Senator THUNE. Is APEC an effective forum to advance these interests, or should we be focusing U.S. trade policy instead on more formal trade relationships like the TPP?

Ambassador SCHER. I think it is both. I think what we have seen—and I think this has been a handicap for U.S. trade policy for a long time—is we focus just on the WTO negotiations. We have to focus on all of these.

I think there are going to be bilateral negotiations, as we have seen. You talk about some of the benefits from, for example, the U.S.-Singapore agreement. Our exports have gone up over 30 percent just since we have had that agreement.

So I think we have to run a variety of plays here, and we have to be working bilaterally. I think we have to work regionally. I think we should be working sectorally.

One of the things we have discussed in the Business Advisory Council of APEC is food security. I think that is an opportunity to address some of the barriers that American producers face, as well.

The CHAIRMAN. You might just explain to Senator Thune—I do not think he was here—about the consensus that was reached years ago in APEC with the information technology agreement, how consensus was able to then be transferred to trade agreements.

Ambassador SCHER. That is what both Ambassador Veroneau and I were pointing out. Back in the 1990s, in APEC—and the United States was a big player in this—we reached an agreement for eliminating tariffs on all information technology.

That agreement was then taken to the WTO and adopted worldwide, which became binding, because APEC is not binding. It is a consensus.

I think that is the type of model that we have to look at, whether it is a global agreement on food security or global agreement on environmental technologies or updating some of the earlier agreements.

I think there has been a resistance in the past, both within the U.S. and from other countries, to pursuing those types of agreements, but I think those need to be more prominently in the mix.

Senator THUNE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hatch?

Senator HATCH. Thank you, Mr. Chairman.

Mr. Scher, as stated in the President's 2011 trade agenda, there are now more than 180 preferential trade agreements in force that include Asia-Pacific countries. Yet, the United States is only a party to a handful, as you folks have mentioned. And I do not see strong prospects for any meaningful trade negotiations in the near future beyond TPP.

I do not think we can afford to have the United States do nothing in the face of these dramatic trends and shifts in trade. The Doha Round does seem to be in jeopardy, and there do not seem to be any big trade negotiations on the horizon beyond TPP.

Assuming that is all true, how can we better use existing trade policy tools to knock down significant trade barriers in the absence of an FTA?

Ambassador SCHER. Senator, I think this is an excellent point that you are making. I think we have to be a lot more practical than we have in the past. The fact that we have spent close to a dozen years working on Doha while our trading partners have been

off negotiating these 225 agreements without us, I think, is a clear indication.

I think this is why getting TPP done this year is incredibly important. I think this is why getting these free trade agreements passed Congress this year is also incredibly important.

I think it is hard to underestimate the signal that that will send—the positive signal it could send by getting it done, but, also, the negative signal it will send by not. If we fail to do this, I think these other Asian countries—I think a lot of Asian countries are going to count us out and assume that they just should move forward with their trading partners or work, as Richard said, through ASEAN and other avenues. That is why APEC really is the one Asian forum that gives us an opportunity to show the leadership.

Senator HATCH. I was just telling Chairman Baucus that we really need to put the pressure on whatever administration is in office. It seems stupid to me.

Now, Mr. Veroneau, I would like to ask you this. The United States has FTAs in place with Canada, Mexico, Peru, and Chile, all of whom are also APEC members. Now, all too often, when people talk about APEC, they forget about our friends in the Americas who are members along with the United States.

Now, as former deputy USTR who handled the Americas portfolio, how can APEC best benefit us and our neighbors and, also, in what ways can we and our FTA partners in the hemisphere work together to ensure that APEC addresses the new challenges facing our companies in the Asia-Pacific region?

Ambassador VERONEAU. Thank you, Senator Hatch. Before answering that, I just wanted to tag onto some of Peter's comments about Doha and use his metaphor, fewer 20-yard passes and long bombs and just more 3-yard runs up the middle.

I just think we need to move away from the round focus of these trade negotiations in the WTO and have a much more regular process where, every day, people are going to work and trying to figure out, where can there be agreement to lower barriers. And to do it in a much less politicized, less dramatic way, I think would be a better approach.

As far as, Senator Hatch, using APEC and our interests in Latin America, whenever we talk about APEC, most of the focus is on Asia, but Latin America is very important, and it is actually a faster-growing market for many of our ag products.

I think as the Latin American countries themselves grow and become much bigger global players themselves, I think their interest in using APEC as a forum for advancing the same goals that we have with them, I think, will bear out.

Chile was one of the leaders among countries of its size with just a proliferation of free trade agreements round the world. This, I am sure, needs to be updated, but when I was at USTR, the number was 57 agreements that Chile had around the world, and growing.

I think the ability of the Latin countries to play an expanding role in APEC is there because they see it as in their interest to use that forum themselves.

Senator HATCH. Why can't we do the same thing? Why can't we get the same type of agreements that they do?

Ambassador VERONEAU. Well, we could. It is a choice.

Senator HATCH. Do you think it is this body up here that is the hindrance on all this?

Ambassador VERONEAU. Well, it is——

Senator HATCH. I do, by the way.

Ambassador VERONEAU. I would agree with your answer. Trade is difficult, but I would remind you—I hear the phrase often about, we need to rebuild the bipartisan support for trade before we can move ahead.

When Congress passed the Peru agreement, I do not recall a march on Washington. I think the anti-trade rhetoric that is so often cast about here in Washington is somewhat a creation of Washington, and there are lots of companies out there, such as my co-witness, Mr. Robins, today who understand that their business relies upon expanding global markets, and we need to be practical when we talk about trade policy, and less ideological.

Senator HATCH. My time is up, Mr. Chairman.

The CHAIRMAN. I would like to just follow up on that. Ambassador Scher, you mentioned the football metaphor, locker room design and fancy plays, while the other team is out on the field scoring.

Could you expand on that a little bit? Ambassador Veroneau has already spoken a bit on this point. What is the problem? Why don't we have more trade agreements with—let us take APEC economies, for example?

That is a startling statistic you gave to us and begs the question. What has been going on? Where have we been? Why are we not putting deals together?

Senator HATCH. Yes. If these other countries can do it, why can't we?

The CHAIRMAN. They are doing it. What has been happening?

Ambassador SCHER. I actually think, Senator, I think the political—I think there are two things hurting us. I think, one, we often in the United States get caught up over theoretical discussion about what trade should be as opposed to what trade is, and we do not deal with the real problems on the ground.

Look, I think we have had Presidents Clinton and Bush and Obama who have been supporters of trade. I think the calculation every White House has to make on every trade agreement we have seen in the last 20 years is, can we get it through the Congress?

I think, Senator Hatch, this is the point you were making, and I think this is—and can we convince our trading partners to sit down and negotiate in good faith if they do not believe that we can get these things through the Congress?

Senator HATCH. Can we convince our trade unions that it is in their best interest to have free trade agreements?

Ambassador SCHER. I think there will always be—there will always be groups and interests who do not see trade as valuable to them and I think—look, the fact is, Senator, both of you—this is not an easy issue at home to explain. There are people who see globalization as helping some, but not the masses.

I think these are tough political calls, and I think they often just require strong political leadership, and I think they require more—the business community needs to do a more effective job, frankly,

educating its employees and its suppliers and the people who rely on it about how important trade is.

The example Bert gave: a lot of the products they produce are not necessarily destined directly for Asia, but they are selling to suppliers who provide Asia. Trade is a critical thing to his employees, and we have to—I do not think we can stop.

I think Ambassador Veroneau is right. That is the tendency: let us stop, let us get everyone to agree before we move forward. And I think that is a very foolish—would be a very foolish path. But I think we have to continually try to educate the American people.

The CHAIRMAN. The reason we have not negotiated more agreements is primarily the political difficulty in the country? Do you think that is the main reason?

Ambassador SCHER. I think that is one of the big challenges. I think there are—and in fairness, sir, I think there are other countries—I think if you look in the Doha context, I think there are countries within the WTO who have their own political reasons, domestic political reasons for not wanting to negotiate those agreements.

But I do not think there has been a president in the last 20 years who would not want to do more trade agreements. I think one of the challenges that they all face is, how much capital do they have to spend to try to get it through Congress?

As both of you know, these are often very close, difficult fights. I mean, even getting—when did trade negotiating authority elapse? Right now, the President does not even have much trade negotiating authority.

A lot of countries look at that and say, “Well, if they cannot get trade negotiating authority passed, why am I going to sort of open my market and make these offers if I am not convinced that these agreements can pass Congress?”

The CHAIRMAN. Should this subject be on the table, on the agenda at APEC? One can say that the trade ministers and the small and medium-sized enterprise negotiators are going to talk about trade and sort of the theoretical and the actual benefits of trade, but not pay much attention to the local politics in various countries and how difficult it sometimes is to reach an agreement.

Should that subject be on the agenda?

Ambassador SCHER. I think absolutely. And we talk about it within the business group, because it is something that, obviously, is very relevant.

But the fact is, this dynamic is not unique to the United States. Obviously, it is pretty relevant here, but, if you look in Europe and you look even in China and other parts of Asia, there is a similar—we often think we are the only one who has the politics, but the fact is a lot of these countries, they have their own politics, too.

They have their own industries which are powerful, and they march on their capitals, including Europe as an example of this. And, when they are facing tough economic times, like a lot of countries are, it is easier to say, well, if we just did not have these trade agreements, then everything would be fine.

So I do think it is a relevant discussion to have.

The CHAIRMAN. Senator Wyden, do you want to jump in here?

Senator WYDEN. Thank you very much, Mr. Chairman, for your courtesy. I know it has been a long morning. And I just had a couple of questions for Mr. Veroneau and Mr. Scher.

With respect to China and our relationship with China, what would be your assessment about the impact of APEC as the institution to be a force that would put at least some pressure and some leverage on China to adhere to international norms and WTO commitments?

Obviously, APEC is going to be a force in that part of the world, and I think even beyond. But there are a whole host of questions, currency, obviously, and a variety of others that it seems to me APEC can affect.

And I just had a couple of questions, starting with China and the opportunities that you all would envision APEC having in terms of being able to put pressure on China. Start with currency, but other areas, as well. I continue to be very troubled by China's positions on procurement, for example, where we have seen them doing everything imaginable to stall and to drag it out.

So let us hear your thoughts with respect to the organization's ability to put some pressure on China on some of these key questions.

Ambassador SCHER. Senator, these are extremely important issues, and I think what I would say is that APEC could be successful in—more successful in some than others.

I think APEC is a forum where all of these issues need to be on the table. I do not think you can have an entity like APEC with 21 of the leading trading nations of the world and not discuss a variety of these issues, whether they be IP or monetary policy.

I think that it would be more successful—things like procurement and some of the behind-the-border issues, I think APEC has been more successful at. I know, for example, you talk about currency. I think in many ways, the G-20 may be a better forum, in part, because there is a big focus on trade imbalances in the G-20.

You talked about WTO. I think we have to use it to speak to some of it. But I think we have to be talking about these issues and using the processes there and even things like TPP, which grow out of APEC, as an opportunity to press our views on these issues.

Ambassador VERONEAU. Senator, I would agree. I think it is important that, as much as the U.S. uses our own leverage bilaterally with China, I think on every occasion available, we need to have leverage as a group on China. You mentioned the currency issue. Recently, Brazil has certainly taken a louder voice in raising that issue with China, and I think the more often that there is a coalition of countries raising issues like currency or subsidies or indigenous innovation, I think it will be more effective, because a lot of the problems that we are having with China, other countries are having and some of their neighbors are having, frankly, even more severely than we are.

If you look at the great increase in U.S. imports from China, a lot of those came from other Asian countries. So they have their concerns, and we should leverage those concerns to address China as a group.

Senator WYDEN. I appreciate you mentioning indigenous innovation, as well. Senator Hatch and I, a number of months ago, organized a bipartisan letter with a whole host of Senators expressing our concern about this. So we are going to follow up with you on that, because we continue to find, as it relates to China, every manner of foot-dragging in some of these key areas that are so important to the growth of high-skill, high-wage jobs in our country. So I thank you for that.

One last question, if I might, Mr. Chairman. I know my time is almost up.

And that involves a point you made, Mr. Scher, with respect to the Internet. I have come to feel that the Internet is a shipping lane of the 21st century, and that increasingly it will be the way in which not only societies are organized, but essentially the way we manage goods. We order that way. It is going to have enormous implications on global trade.

Yet, many APEC countries discriminate against one form of Internet content over another. So my question on this point, Mr. Scher, is, do you think that the question of promoting digital goods ought to be on the table at this year's APEC meeting?

Ambassador SCHER. Senator, let me say—and I have seen your recent letter to Secretary Clinton on this. I think if you look back at the last 15 or 20 years, probably one of the most important pro-growth economic policies that we adopted was keeping our hands off the Internet in the 1990s and the fact that even State taxes were considered, and I know it was controversial.

But the fact is, we let the Internet grow and flourish and the—

Senator WYDEN. Under the chairman's lead. The chairman, a couple of times, when there was a real question of going out and putting in all these discriminatory taxes, Chairman Baucus really led our push on it.

Ambassador SCHER. And, if you look at the result now, I think it has given the productivity gains and the competitive advantage to the United States. I think that is a policy we need to be promoting everywhere.

One of the things I would like to do—I am here, in part, in the capacity as a member of the APEC Business Advisory Council. I would like to share your letter with them and talk about it, because the businesses that are represented in this group are ones that rely heavily now and will clearly rely heavily in the years to come on electronic commerce and want, frankly, to keep the government out of the way of that.

So, I think it is absolutely something that we need to focus on.

Senator WYDEN. I think the fact that you are going to put that letter in front of them would be very helpful, because clearly this is an opportunity for us to raise the visibility with respect to digital trade.

You are right: nobody even had a thought about this a few years ago, but it is going to have an enormous impact on our ability to create more good-paying jobs.

Thank you, Mr. Chairman.

I thank Senator Hatch for working with me over the years on this question of indigenous innovation.

Senator HATCH. Mr. Chairman?

The CHAIRMAN. We all care about indigenous innovation, believe me.

Senator Hatch?

Senator HATCH. Mr. Chairman, I appreciate your letting me go forward.

I am happy to submit further questions for you folks to answer, but there is something that I just want to ask. And that is, why has the President not requested this type of trade negotiating authority? President Bush did. That is how we got the three trade agreements that are currently being held in abeyance.

If I can make a point. I happen to like the President. I liked him when he was a Senator here. But in all honesty, he comes in late on everything. He came in late on health care, and it was basically put together up here on Capitol Hill by Senator Reid and Congresswoman Pelosi.

He was late on Libya. He is late on immigration. He is late on—in fact, he said he is not going to do anything on entitlements.

But this is so glaringly apparent, something that he ought to be doing in the best interest of our country, our jobs, our industries, our manufacturing, direct sales.

Can you tell me why the President has not asked Congress for this type of trade negotiating authority? Not that he has to.

The CHAIRMAN. Even I would ask the same question a little bit differently.

Senator HATCH. Yes. Maybe I have been inarticulate.

The CHAIRMAN. No, no. You are always extremely articulate.

The question is, how important is TPA today? That is, would other countries think the United States is more credible if we were enacting TPA? Would that help us reach these agreements? Would that help APEC? Would that help TPP? Would that help us advance the ball here? Would other countries say, “Hey, the United States is serious. They are resurrecting their Trade Promotion Authority.”

How important is that, or do we have to wait until something else happens?

Ambassador VERONEAU. Well, I think having—I cannot answer your question, Senator Hatch. I do not know why the President has not, but I wish he would, and I take your points on that.

Ultimately, on difficult political issues, leadership is required, and leadership is often difficult. But I would submit that fast-track, permanent Trade Promotion Authority, would serve the U.S. interests.

I imagine that, instinctively, there would be great reluctance as an institutional matter to give any president permanent authority, but I would counter that, because we know that it is so difficult politically to have that vote to extend authority, it is best to give the President standing authority and not have to force everyone to go through a very difficult political process.

I was involved at the beginning of the Bush administration in getting TPA. It narrowly passed by one vote. It was a lot of work to get that authority. And I think the long-term interests of the country are clearly best served if any president, whatever party, has that standing authority.

There would still be tremendous consultation with the Senate, with the House, notwithstanding a permanent TPA, and I really think it is something that is well overdue and would give us more credibility with our trading partners who would have confidence that the executive branch, because it is consulting with the Congress, can deliver.

And that credibility, frankly, was greatly hampered when TPA privileges were not respected for Colombia. I mean, our trading partners took note of that. So there is nothing we can—we cannot turn the clock back, but I think we could give our trading partners more confidence in our ability to deliver if there was permanent TPA.

The CHAIRMAN. Ambassador Scher?

Ambassador SCHER. The only thing I would add is, I think the most important thing that Congress can do this year is get these three trade agreements passed. I think that is sending the signal even more than the process on—I am not underestimating the importance of TPA, but I think that is going to send the biggest signal this year to see these three free trade agreements—

Senator HATCH. Again, you are making my point, and that is, for the life of me, I do not understand why our President does not just take on the powers that be and push those three agreements through. And, if he would, he would have a lot of support up here on Capitol Hill, it seems to me.

I acknowledge that there are large interest groups that would raise concerns about it, but sometimes you just have to lead and say, “Hey, this is extremely important to our country, and we are not going to let politics stand in the way of it.”

Well, I appreciate your testimony very much today, all four of you, and each of you has brought a different view on trade to us, and it has been very beneficial, as far as I am concerned.

I thank you, Mr. Chairman.

The CHAIRMAN. It has been very helpful. I very much agree with you, Ambassador Scher, get these agreements passed, because it is deeds, not words. If we can just get things done, that sends a very, very strong signal.

Mr. Robins, what more can we do to help small companies, medium-size companies like yours? There has been a lot of talk about the trade meeting here taking place. But what about small and medium-sized businesses?

If you could just give us a few more unique, specific, and helpful thoughts on kind of what needs to be done.

Mr. ROBINS. We have all talked about IP protection. That is right up there. One of the things that would help for a smaller business is some assistance in identifying specific markets in the APEC communities.

Just to give you an example, in the State of Washington, the State actually has a booth of aerospace manufacturers at the international air show every year, and they invite small manufacturers, large manufacturers to participate in that, and it is a great forum for us to show the aerospace community what we can do, and we make a lot of great business contacts there.

If there was anything like that more globally, especially in some of the markets where we do not have penetration, that would be terrific.

The CHAIRMAN. Who would do that? Ambassador Scher, you have a lot of experience in USTR and Commerce. That is a real problem that small business faces. What are the markets? What is the potential? Big companies could figure that out, hire all kinds of people to answer that question.

But take a small or medium-sized business, who could help small and medium-sized businesses, like SeaCast, know where other markets might be?

Ambassador SCHER. Well, I think, frankly, what you are doing in Montana is one way, bringing small and medium-sized enterprises from around the world.

I think, frankly, the APEC ministerial in Hawaii in November is an opportunity. You get business people from all over the world. You get these country representatives. It is a great opportunity.

I know the Commerce Department has a lot of that. Some of the State commerce departments do that through their trade missions.

So I actually think this is an opportunity this year with APEC, and I know there is a real focus, obviously, not just in Montana, but throughout the whole year on the small and medium-sized enterprises and using those summits to really bring together people as an opportunity to network.

The CHAIRMAN. So here we are, a week or so at Big Sky, with small and medium-sized businesses. What would help the most? We are already trying to put together companies with companies as best we can, but maybe, Bert, you have an idea here, too.

Mr. ROBINS. Well, you have done a great job connecting us with the right people within General Electric, and we thank you for that.

We are hoping that the Big Sky activities coming up will—number one, we will be able to show some of the community, APEC community members what we do; hopefully, be able to make some personal contacts.

And in our business, the face-to-face communication is absolutely critical. We do not deal in commodities. These are generally highly engineered products, and it is imperative that people have a mutual trust.

That means meeting each other face-to-face, showing them what we do, going and seeing what they do and seeing how we can work together.

The CHAIRMAN. All right.

Senator HATCH. Can I just add? Rich, how do we help Utah businesses to do better in this same context?

I am talking about the Congress or the President or both.

Mr. HARTVIGSEN. I echo the sentiments of the other witnesses today. I think for us, the passage of the free trade agreements that are already on the table, their ratification, is really critical to all of the businesses in Utah that are trying to export products into the region.

I think that a more comprehensive view of establishing additional free trade agreements would also be greatly beneficial.

Somehow, I think we have to cut through the haze of the perception that international trade is harmful to the businesses in the United States. In our opinion, international trade is extremely beneficial to the local companies in Utah.

It enables us to keep jobs in Utah. It enables us to keep business in Utah, because we are able to move more of the products offshore and keep the manufacturing and do those things here in the United States and in our own State.

Senator HATCH. Thank you.

Ambassador SCHER. Senator, could I just add one point, just to go back to both of your questions? One of the things I think that the administration gets some credit for is actually beefing up some of the commercial officers they have in embassies around the world focused on small and medium-sized enterprises.

So I think one of the things it would be important to do is look at those in APEC countries to have them participate in the summit in Big Sky so they could actually—it is an opportunity to meet directly some of the businesses, because they are the ones who are on the ground in these countries, whose job is on behalf of U.S. companies to find opportunities and to help address barriers and help—

The CHAIRMAN. That is an excellent point, because, when I travel to various countries, taking Montana trade missions, we meet with the commercial sections there, and they are very good. They are very good. And it is a good idea to bring those people to Big Sky. That might be another way to get at this same problem.

This has been very helpful. So thank you all very, very, very much for taking your time and effort to travel great distances to come and help us out here to achieve our mutual goal to get more trade, more jobs.

What Mike Mansfield said is true. We have great commodities in our State, but we really have great people. It is the people that count.

You guys are great. Thanks a lot. I appreciate it.

Senator HATCH. Thanks so much.

The CHAIRMAN. Thank you. The hearing is adjourned.

[Whereupon, at 11:45 a.m., the committee was adjourned.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Opening Statement of Senator Max Baucus (D-Mont.) on Boosting America's Economy By Increasing Trade With Key Asia-Pacific Countries

Bill Clinton once said: "A world without walls is the only sustainable world."

Throughout history, countries have erected walls to create barriers and safeguard themselves. From fortress walls, to city walls, to the Great Wall of China, physical barriers were essential to ensuring the security of a nation.

But in today's world, we seek not to build, but to tear down the economic walls that divide us.

American companies frequently face barriers when they seek to export their products abroad. Rather than bricks and mortar, these are tariff and non-tariff barriers.

Today, we are here to discuss the Asia-Pacific Economic Cooperation forum, or APEC, which is dedicated to breaking through these economic walls.

APEC is a group of 21 Asia-Pacific member economies. These economies have joined together to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific region.

Together, these APEC members represent nearly 55 percent of the world economy and nearly 45 percent of world trade. In 2009 alone, trade with the APEC region pumped approximately one trillion dollars into the U.S. economy.

This May, Montana will host the APEC Trade Ministers and Small and Medium-Sized Enterprises meetings so we can discuss how to eliminate the economic barriers that divide us.

I am so proud to bring cabinet-level officials from the 21 APEC economies to my great state. Montana is rolling out the Big Sky welcome mat. From our ranchers and farmers to our manufacturers and innovators, we are preparing to showcase all that Montana has to offer.

As we do so, we also will work to ensure that APEC stays meaningful and relevant in the years to come.

There are two things we need to do to succeed. We need to ensure that APEC tears down the barriers that lurk behind our trading partners' borders. And, we need to ensure that APEC makes trade work for all American exporters, not just big businesses.

First, we must ensure that APEC eradicates the hidden barriers that often stymie our exports.

APEC has been extremely successful in reducing tariff barriers. In fact, the average APEC tariff fell to a remarkably low five percent in 2010.

And as tariffs decreased, exports increased. The United States nearly doubled our goods exports to the APEC region in the last 15 years, from \$400 billion in 1994 to almost \$800 billion in 2010.

But onerous non-tariff barriers remain. Taiwan continues to impose a web of restrictions that effectively block U.S. beef exports.

And China uses subsidies and local content requirements to stymie U.S. green technology and other exports.

American businesses are often unable to scale these walls, which cost tens of millions of dollars a year in lost exports. APEC must find ways to tear down these non-tariff barriers.

Second, we must ensure that APEC creates opportunities for our small and medium-sized businesses, in addition to our large businesses.

This year, my staff and I have met with dozens of small Montana companies that are exporting – or would like to export – to APEC economies.

These companies raise a litany of concerns including: rules and regulations that are difficult to identify and understand; an inability to find local companies to partner with in export countries; and a lack of information on the most basic nuts and bolts of how to export their products.

These are not huge barriers, but for a small company seeking to understand a new market, they can seem insurmountable.

That is why I support APEC's goal of making it 25 percent cheaper, faster, and easier to do business in the region by 2015.

But we must identify specific benchmarks along the path to ensure we are making progress toward that goal. For a small business, 25 percent can be the difference between success and mere survival.

The Trans-Pacific Partnership free trade agreement, or TPP, is a step in the right direction.

I have long advocated for the United States to resume these negotiations. And I support the speedy conclusion of a high-standard TPP agreement.

But while the TPP will create a dent in the barriers our companies face in the APEC region, it will not cause the walls to tumble.

Some of the most onerous barriers we face are those imposed by APEC economies that are not part of the TPP framework. And we must aggressively address those barriers, as well.

APEC has a track record of success in breaking down walls and bringing the region together.

I urge the United States to focus this year on making sure APEC continues this track record of success.

Montana depends on it. America's exporters depend on it. And our country's economy depends on it.

Testimony of

Richard M. Hartvigsen
Vice President, Global Government and Industry Affairs
Nu Skin Enterprises, Inc.

Before the U.S. Senate Committee on Finance

Hearing on APEC 2011: Breaking Down Barriers, Creating Economic
Growth

March 31, 2011

Chairman Baucus, Ranking Member Hatch and members of the Committee, thank you for the great honor of inviting me here to speak to you about the impact of the Asia Pacific Economic Cooperation on the international business operations of Nu Skin Enterprises and the broader direct selling industry.

Background Information on Nu Skin and Direct Selling and APEC markets:

My name is Rich Hartvigsen and I am Vice President of Global Government and Industry Affairs for Nu Skin Enterprises. Nu Skin Enterprises is a direct selling company, marketing a broad range of personal care and nutritional supplement products through a network of independent distributors numbering nearly 800,000 individuals in fifty-one countries around the world. Nu Skin was founded in 1984 and launched an initial public offering for its Asia Pacific markets on the New York Stock Exchange in 1996. Nu Skin's full, global operations are now represented on the New York Stock Exchange and are traded under the symbol NUS. Nu Skin Enterprises reported global sales of over US \$1.5 billion in 2010. The global revenues of Nu Skin have continued to grow significantly over the years of global economic recession.

I have been in the legal group of Nu Skin for twenty two years and have served in various roles including General Counsel and General Counsel of International Operations. I have been involved in the establishment of most of Nu Skin's international markets and particularly active in the establishment of the company's operations in seventeen of the twenty one member economies of APEC. In addition to the United States, Nu Skin's APEC markets include Australia, Brunei, Canada, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Chinese Taipei, Hong Kong, The People's Republic of China, Mexico and Russia.

I joined the company in 1989, fortuitously, the year of the founding of APEC. At the time, our company name, Nu Skin International, was more accurately a goal statement since we were only operational in the United States. However, we quickly developed ambitious plans to expand our business internationally and have since opened fifty additional international markets.

The economies of APEC figured prominently in our international diversification strategy from the outset and we began opening those markets in 1990 with our initial expansion into Canada. Our expansion into Australia, New Zealand, Hong Kong, Taiwan and Japan soon followed and by 1996 we had added operations in most of the APEC economies. This growth into the market economies of APEC was critical to the stability and growth of our company. It has sustained us in times of economic and business turmoil in other world markets. We have found that there is a very high demand in the economies represented in APEC for products produced in the United States.

From a broader direct selling industry perspective, according to the latest data available from the World Federation of Direct Selling Associations (WFDSA) collated from the collective WFDSA member companies and countries, 2009 global estimated retail sales were US \$117

Billion. These sales were facilitated by over seventy-four million individuals affiliated with the direct selling companies as independent sales representatives. 83% of these direct sellers are women and over 90% of them are working part time. These numbers of people and income earned are material in light of the global recession as they have allowed these tens of millions of individuals around the world and over sixteen million in the United States alone to supplement their family income through the direct selling opportunities they represent. Also of note, over 70% of those global direct sales took place in the APEC economies.

Nu Skin's International Expansion and partnership with the APEC Region:

Nu Skin had not engaged in international business prior to 1990. The path to opening many diverse markets around the globe at times appeared dauntingly difficult and complex. Because the opening of our international markets in the Asia Pacific Region took place at the same time APEC was moving forward with its agenda, it is impossible to precisely contrast the benefits to our international expansion in the region by comparing our business with and without the existence of APEC linking those economies. But the concept of cooperation espoused by APEC and articulated in the Bogor pillars of trade and investment liberalization; business facilitation; and economic and technical cooperation cannot be ignored when considering the amount of trade we currently accomplish in the APEC region as opposed to our trade outside the region. The existence of APEC clearly prevented hurdles to international trade within the region that might otherwise have hampered the international expansion of our business. It is not coincidental that in 2010 over 90% of Nu Skin's global sales were made within the member economies of APEC. Our exports from U.S. operations to other APEC economies represent more than 80% of our total exports.

Similar to the broader principles of cooperation articulated by APEC, Nu Skin's expansion into the economies represented in APEC is not purely of a business nature. We view the people of these markets as our friends. We view their countries as our allies. Our interaction with these individuals both inside and outside the bounds of our business reflects this feeling. In addition to paying back over 40% of our gross revenues generated in each market to the citizens of those countries who are our sales representatives, we have engaged in programs of significant charitable enterprise in our dealings with each of our partner economies in APEC.

To date, through the generosity of its founders, employees and distributors, Nu Skin's Force For Good Charitable Foundation and other charitable endeavors have contributed more than US \$134 million through cash and food donations toward life improving projects around the world. These funds and supplies provide a conduit to partnerships with charitable enterprises in the APEC economies. A high percentage of those funds donated each year go to charities in the APEC markets. In 2010 alone nearly US \$2 Million (excluding projects in the United States) was contributed to charities and humanitarian projects in the APEC region.

A few examples of Nu Skin's Force For Good Foundation's charitable activities in the APEC region include:

- A pledge to raise more than US \$1 Million for the relief funds in stricken areas affected by the recent Japan earthquake and tsunami (ongoing).
- The provision of hundreds of open heart surgeries for children in South East Asian countries and China.
- Building of rural schools in areas of need in China.
- US \$4.8 million in disaster relief to areas devastated by the Sichuan earthquake in China in 2008.
- US \$1 Million in food and cash donated to Tsunami relief efforts in South Asia in 2004.

Nu Skin also promotes an initiative called Nourish the Children. Through the generosity of many thousands of Nu Skin distributors, customers and employees worldwide, this initiative has provided more than 220 million meals to undernourished children around the world. Many of these meals are provided to children in need in the APEC economies and are donated as needed to assist disaster victims. We note these programs not to boast but merely to demonstrate that a spirit of deeper cooperation across borders is fundamental to achieving success with international partners.

Our Perception: Successes and Failures of APEC

We believe there have been many successes and some failures associated with the goals of APEC. APEC articulated a goal for the removal of customs duties between developed member economies by 2010. While duties have been significantly reduced across the region under the auspices of APEC, we understand that because of the voluntary nature of participation of economies in APEC, the goal of free trade between APEC members has not been fully achieved.

While some would view the necessity of a U.S. Korea free trade agreement as a failure of the goal of APEC to remove customs duties between these two partners, we view it instead as an agreement made possible through the spirit of cooperation encouraged by APEC. The ratification of this agreement by the United States Congress is of paramount importance to our business and at current duty rates, would eliminate nearly four million dollars of expense in our company's trade with our friends in the Republic of Korea. We also fully support and ask for swift ratification of the other pending free trade agreements in Colombia and Panama.

The cooperative agenda of APEC has allowed Nu Skin to establish a very large export market with our friends in Japan. In 2010 we reported product sales to Japan of over \$US 450 Million. At the same time, our company continues to struggle with a lack of transparency in Japan's assessment of imported product values where we believe valuations are not always assessed consistent with generally accepted GATT principles but are rather changed periodically without clear justification. These misunderstandings would ideally be minimized through the achievement of transparency goals sought among APEC partner economies. The removal of these misunderstanding with Japan alone would have resulted in savings of tens of millions of dollars to Nu Skin.

Other forms of cooperation greatly beneficial to the global direct selling industry and the entrepreneurs and consumers it serves have been achieved under the auspices of APEC. The best example is the close cooperation of the WFDSA (World Federation of Direct Selling Associations) the Direct Selling Education Foundation (DSEF) and the APEC CEPI (Consumer Education and Protection Initiative). This program represents a public, private partnership between government and private enterprise. The WFDSA and DSEF have teamed with APEC CEPI to fund and cooperate in this initiative endorsed by the APEC Small and Medium Enterprise (SME) Ministerial Conference in 1999 in Christchurch, New Zealand. The program helps entrepreneurs develop and sustain new businesses and micro-enterprises. At the same time APEC CEPI and the direct selling coalition work cooperatively with consumer protection groups to promote ethical business practices and promote consumer rights and protections in the marketplace. These programs are held periodically in APEC economies and are tailored to meet the specific requirements of entrepreneurs and consumers in that economy.

The combination of Nu Skin's high dollar volume of sales in the Asia Pacific Region combined with the elimination of duties achieved by other trade agreements such as those achieved under ASEAN puts tremendous pressure on our company to move much of our manufacturing and administration to markets who are partners in ASEAN. This phenomenon is not endemic to Nu Skin but applies across the broader spectrum of U.S. and other APEC economy based direct selling companies. It also applies to other businesses within the region. If APEC could fully achieve its stated goals to eliminate the high cost of doing business among its member economies, much of this pressure would be eliminated. If these barriers to trade in both regulation and duties are not eventually minimized or eliminated among APEC economies, many of the jobs and much of the business capitalization will, by force of fundamental economic principles, flow to those countries who are members of more favorable trade organizations within the region.

The schedule of APEC meetings to be held within the United States this year provides a tremendous opportunity for the United States to lead in the consideration and assessment of APEC's successes and failures. This creates a real opportunity for the United States to move a positive agenda forward that will help APEC reassess its successes and failures and move forward to achieve its goals in the future.

Conclusion:

In conclusion, the experience of Nu Skin and the direct selling industry in general indicates that there is a high demand among the countries of the APEC region for products manufactured in the United States. APEC has paved the way for tremendous expansion of international trade and other cooperation among its member economies and government and private partnership interests within the region. If the United States is to protect the ability of U.S. companies to retain jobs and manufacturing in the United States, it must move forward decisively to help APEC fulfill its agenda.

**STATEMENT OF HON. ORRIN G. HATCH, RANKING MEMBER
U.S. SENATE COMMITTEE ON FINANCE HEARING OF MARCH 31, 2011
APEC 2011: BREAKING DOWN BARRIERS, CREATING ECONOMIC GROWTH**

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining economic opportunities with trading partners in the Asia-Pacific Economic Cooperation (APEC) forum:

APEC can be a critical tool to open new markets in the region. But, a tool is only as effective as the person using it. A hammer in the hands of an unskilled builder will yield limited benefits. But, put that hammer in the hands of a master craftsman and you can create a sound and sturdy structure that endures a lifetime.

During the U.S. host year, we must use the APEC tool well and create real enduring economic benefits for America's workers and exporters.

To make APEC more meaningful and relevant we need to focus on concrete outcomes and meaningful goals. No one is better equipped to help us define those goals than the U.S. private sector. That is why I am pleased to welcome Rich Hartvigsen from Nu Skin Enterprises to the Committee today. Nu Skin operates in over fifty markets around the world and has significant experience doing business in the Asia-Pacific region. I am grateful that Rich took the time to travel from Provo, Utah to share his company's practical experience with us.

Nu Skin is one of many companies in Utah that benefit from trade in the APEC region. Of Utah's \$10.3 billion in goods exports in 2009, \$4.0 billion — or 39 percent — went to markets in the Asia-Pacific region. These exports include computers and electronic products, manufactured chemicals, processed foods, transportation equipment, and high quality Nu Skin products, among others. And our exports are growing. In fact, Utah is the only State in the country to double exports in the last five years.

As the Administration reaches out to stakeholders across the country to help ensure that our host year is a success, I will work hard to make sure that our Utah trade community is well represented throughout this process. I also want to recognize the significant work of Chairman Baucus whose home state of Montana will host the APEC trade ministerial this year in Big Sky in May.

As Chairman Baucus knows, a great deal of work needs to take place for our host year to be a success. Working together we can seize this historic opportunity, take on meaningful work, and address new and innovative challenges. If we use APEC effectively, we can steer the direction of world trade well into the future.

The Administration's commitment to tackling next generation trade and investment issues within APEC is laudable. Among the issues I hope will be at the top of the agenda are protecting intellectual property rights, harnessing the power of global and regional supply chains, enhancing trade facilitation, and responding to the rise of state-owned and state-assisted enterprises.

APEC economies are among the most innovative in the world. To further foster that innovation, APEC economies should adopt strong and effective intellectual property rights protections. One way might be to seek development and establishment of best practices to better protect intellectual property rights.

The development of elaborate global and regional supply chains has changed how business reaches new consumers. But man-made and natural disasters disrupt these supply chains, as we have seen from the tragedy unfolding in Japan. Such disruptions can impact manufacturing here in the United States as parts and components no longer reach our factories and exports cannot reach their destination. Global and APEC regional supply chains provide enormous benefits to American businesses and consumers while presenting new challenges. To ensure the strength, stability, and safety of these supply chains – APEC economies will need to work together. Enhancing trade facilitation and the movement of goods and services across the APEC region should be a top priority.

APEC can also serve as an incubator for new ideas. For example, some of the cutting edge issues being negotiated in the Trans-Pacific Partnership negotiations first originated in APEC.

An area that merits considerable work is developing disciplines on State-Owned and Assisted-Enterprises to ensure they do not compete unfairly with private industry. I am alarmed that too many governments provide regulatory favoritism, leverage government procurement, require the use of indigenous innovation, and provide cheap financing to the benefit of their State-Owned or Assisted enterprises, but to the detriment of American businesses and farmers trying to compete. I hope the Administration will accept this challenge to set the rules of trade to address this increasingly complex and growing problem.

Our host year provides an exceptional opportunity for leadership. What better way to demonstrate U.S. leadership on trade during our APEC year than to pass all three Free Trade Agreements. Action, not words, is the true test as to whether the President truly supports opening markets, growing exports, and creating new opportunities for American businesses around the world. If we can't implement agreements we negotiated five years ago, how can we expect our trading partners in APEC to take us seriously when we talk about liberalizing trade and tackling 21st century trade issues?

Finally, a word of advice to the President about the TPP negotiations. I strongly support the Administration's efforts to negotiate a high-standard 21st Century regional trade agreement that will create jobs here at home and increase American competitiveness. But we also should not lose sight of the basics. To me a high-standard agreement is one that truly opens foreign markets to U.S. competition, promotes high standards of protection for all types of intellectual property rights and investment, and does not sacrifice the overwhelming economic benefits of a commercial agreement to the vagaries and never-ending demands of a labor and social agenda.

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**STATEMENT OF
BERT ROBINS
CO-FOUNDER & VICE PRESIDENT, SEACAST, INC.
BEFORE THE
SENATE FINANCE COMMITTEE**

APEC 2011: Breaking Down Barriers, Creating Economic Growth

March 31, 2011, 10:00 am

Thank you Chairman Baucus, Ranking Member Hatch, and members of the Committee for inviting me to testify here today. I am thrilled to share my experience in the Asian Pacific region as an entrepreneur and small business owner.

My home town Butte MT was born a mining town and still is today. When I was in high school and college, I wrote letters to Senator Mike Mansfield describing current affairs, lack of job opportunities in the state, and how they affected my family and me. As Montana's Senior Senator, Mansfield was keenly aware of this problem. He started working the Butte mines at age 19 and worked 8 years underground. His path led him from the Butte copper mines to academia. As Majority Leader of the Senate, he heard about the lack of job opportunities frequently from constituents back home. Mansfield replied to my letter and told me Montana's top export was not mined copper, sawn lumber or harvested crops, but rather it was its talented and educated young people. The response still resonates with me today.

Since 1985, SeaCast has grown from three employees in Seattle to over 300 employees spread throughout four facilities in Washington, Rhode Island and Montana. We have grown from a small domestic supplier, to a top tier, full service casting company competing in the global marketplace. Because of exports and other opportunities, SeaCast continues to grow and provide high quality jobs in Montana, Washington, Rhode Island and elsewhere.

The History of SeaCast

Our father, Red Robins got his start in the Butte mines as a welder. He mastered his trade and established Butte Hard Surfacing, a small welding and fabrication company. The mines went from my father's employer to his primary customer. Our father and mother, Mary, eventually had 12 children, 4 girls and 8 boys. One could say that Dad had his steady flow of workers for the "shop". It was there that we learned the value of hard work, a good education, the importance of a cohesive family and basic welding and metalworking skills. Growing up, we'd work after school and on Saturdays. Pay was optional -- Mom and Dad would say "It's for the family". And it was.

Dad passed away when he was just 52 and I took over the shop at 16 years old. My four younger brothers funded their education working for the family business. One of the girls is a Human Resources Manager for one of our plants. Another is a homemaker and businesswoman with her husband. Another operates a publishing company with her husband. Of the boys, four went into the medical field with two orthopedic surgeons, a psychoanalyst and one in nuclear medicine. One cousin is a special education high school teacher. The other four brothers and one of the cousins went into manufacturing and are all now part of our company, SeaCast. We now see the next generation of sons, nephews and nieces experiencing the same excitement in engineering and manufacturing that we did at SeaCast.

After receiving a Political Science degree from the University of Washington, my pregnant wife and I moved to Ohio and I began working on a Master of Science degree in welding engineering at Ohio State University. My wife worked as long as the pregnancy allowed and I worked graveyard shift in a large sand casting foundry. That is where I fell in love with pouring metal and the casting process. Through one of my department professors, I was introduced to the investment casting process. Investment casting involves injecting molten wax into a die to make a wax replica of the intended metal casting. The wax replica is coated with several successive layers of ceramic. It is then placed into an autoclave and the steam introduced penetrates the ceramic shell melting the wax which drains out. This process is also called the "lost wax" process. This hollow ceramic shell is fired at around 2000 degrees Fahrenheit. Next, molten metal, at temperatures between, 1300 degrees and 3100 degrees Fahrenheit, are poured into the shell. After the metal has solidified and cooled, the ceramic is broken away, exposing the metal casting with the precise shape of the original wax pattern. This manufacturing process was very intriguing and ultimately it would become my profession.

After graduating from Ohio State, I eventually came to work at General Electric's Aircraft Engine Special Component Manufacturing Center in Seattle. I was fortunate to live alongside two uncles and an older brother who were Boeing engineers in one of the world's great aerospace hubs. During this time, my brother Mike and I decided to start an investment casting foundry and enlisted the help of Dr. Ed Funk, the professor who introduced me to the investment casting process. He mentored my brother Mike in each step of the process. In 1985, we started SeaCast, Inc. with three full time employees and me. Starting on a shoestring budget, we moved World War II vintage equipment from Ohio to Washington in a rental truck. Within one month, we had setup all of the equipment, had manufactured, and shipped our first castings. This was quite an achievement considering the complexities involved in our manufacturing process.

The Growth of Seacast

Our first purchase order was from GE for copper heat sinks used in refurbishing CFM56 airfoils. We had not planned on it at the time, but our Washington location provided easy access into the Pacific Rim's rapidly growing industries such as computer hardware, lumber, material handling

and trucking. Through great sales efforts, technical excellence, hard work and supportive wives and families, the business prospered.

About 7 years later, we purchased our only competitor in Washington state and moved our headquarters from Seattle to Marysville. In that plant, we expanded into the turbopump, mining and construction, biomedical and the aerospace industries. In 2002, we were honored to be chosen by the International Olympic Committee to cast 16,500 aluminum torches used in the Olympic Global Torch Relay.

In 1995, we purchased Nutrifaster, a commercial juicing equipment manufacturer and five years later, we purchased Intercontinental Truck Body, a manufacturer of enclosed truck bodies and military tow vehicles.

In 2005, backed by a strong economy and facing manufacturing capacity challenges, we purchased another investment casting foundry in Providence, RI.

Shortly thereafter, with the support of state and local officials and business leaders in Butte MT, we committed to build a new state-of-the-art, energy efficient facility. In this environmentally responsible facility, we pour stainless steels, aluminum, copper, nickel, cobalt and titanium alloys. Titanium has been declared a strategic metal by the US Department of Defense and is used prominently in military programs. This Butte facility has been in production since July 2010 and is among the most environmentally friendly investment casting foundries.

The Montana foundry was a great chance to throttle back the export of young and talented Montanans that senator Mike Mansfield described 40 years earlier. In addition, encouraged personally by Senator Max Baucus and his Economic Summit held in Butte last summer, GE Aviation has agreed to place aircraft engine configuration hardware fabrication into the Butte facility. This will give the Butte facility overall manufacturing capabilities found in no other investment casting foundry in the world.

Today, SeaCast employs over 300 employees in four facilities. Top tier aerospace, defense, oil & gas, power generation, transportation, mining and medical equipment customers are drawn to our 'can-do' capabilities and entrepreneurial spirit. SeaCast's active customer list includes Fortune 100 global manufacturers to Military Research Laboratories to innovative R&D small businesses. Our metal components are frequently launched into orbit and beyond or imbedded miles beneath the Earth's surface. With such a broad customer base comes a wide variety of alloy, geometric, dimensional, chemical and mechanical requirements. Some of these require tolerances defined to .0001 of an inch, and others are designed to last only several days, and tolerances are considerably more liberal.

To facilitate this wide range of requirements, each foundry is specialized to optimize resources. SeaCast pours as wide a range of alloys as any domestic foundry. In air melt, we routinely pour up to 40" 1200 lb steel castings. This is large by industry standards and only a handful of

domestic foundries can investment cast a part of this size. In vacuum melt, we pour up to 350 lb in nickel based super alloys and 150 lb in titanium alloys.

SeaCast also offers a wide array of in-house support services which complement our investment casting capabilities. These include CNC lathes and mills, vacuum or endothermic heat treatment and assembly. Nondestructive testing services include x-ray, magnetic particle inspection, liquid penetrant inspection and dimensional inspection. Destructive testing ensures that the mechanical properties of our castings conform to customer requirements. Full metallographic laboratory services are also offered in-house.

SeaCast is proud to have achieved and maintained demanding certifications required by our customers. These include AS9100 (aerospace) and ISO9001:2000 (commercial). We also maintain the NADCAP certifications (aerospace special processes) for Heat Treatment, Welding and Nondestructive testing. In addition to these certifications, SeaCast also holds many customer-specific certifications.

Growth through the APEC Region

For a small or medium sized entity in a competitive industry such as ours, growth is a constant concern. SeaCast's success is determined by growth in technical ability, growth in production efficiencies and growth in aggregate sales. One of the places we've historically looked for these opportunities is the APEC community. Often this takes the form of a direct supplier-customer relationship. However, the most significant relationship we have with the APEC community is the role of "silent exporter". Over one third of SeaCast's total annual sales are components sold to OEMs who then export the finished goods into foreign countries.

SeaCast currently exports a large number of highly engineered products to APEC economies, including critical infrastructure components being shipped into mainland China. One example of a strong APEC relationship for SeaCast involves a current Japanese Navy production program in which Mitsubishi serves as the prime contractor. Decades ago, SeaCast developed the intellectual property to manufacture a large, highly specialized steel investment casting for the US Navy. When this technology was transferred to the Japanese Navy several years ago, SeaCast was commissioned to manufacture the castings for ultimate assembly in Japan. In 2011, this program will be SeaCast's largest contract by revenue and will account for over 5 percent of SeaCast's annual sales.

In addition to having direct supplier and customer relationships to APEC economies, SeaCast serves as a silent exporter in significant scale. We manufacture precision components that are utilized in commercial aircraft, in nuclear power plants, on industrial machinery, in mining equipment and in military applications. Most of these programs are structured through global US-based tier 1 manufacturers. As such, supply chain or trade issues experienced by the world's largest manufacturers quickly cascade to us.

The above examples illustrate positive results of effort and cooperation between SeaCast's domestic partners and our APEC counterparts. Countless opportunities for improvement do remain. These include the protection of intellectual property, employee preparation and investment in technology.

One area where immediate improvements can be made is the harmonization of business practices in general and more specifically the protection of intellectual property. APEC economies could become a much broader and higher value-added participant if IP rights were recognized and adhered to according to worldwide standards. We're aware of cases where an Asian source could be an excellent supplier to a specific program, and our customers request no offshoring only because they fear IP leaks. We have personally seen examples this problem. Parts that we have manufactured under license are being reverse engineered, improperly manufactured and illegally marketed overseas. The enforcement of intellectual property laws is essential to protect both SeaCast and our customers.

SeaCast Looking Forward

Perhaps the single most important issue facing our business today is attracting, hiring and retaining quality employees. Employee preparation is a key area where our supply chain could benefit from improved direction and programs. We use the term employee preparation to include many types of workforce development, from education to apprenticeships to training. We are a niche manufacturing operation where many of the roles are investment casting or foundry specific. This creates a rather small pool of candidates that, when hired, can hit the ground running. With limited geographic access to this select number of workers, a company needs to build the capability to train new workers. One way that we're proactively addressing the need for qualified workers is by collaborating with local academic programs. Our Seattle and Marysville facilities have utilized interns from the University of Washington and annually support Industrial Design students from Western Washington University. These students experience all phases of our process from design through finishing. In our Butte facility, we've engaged our customer, GE Aviation, and Montana Tech of the University of Montana to train aerospace welders. While the program is still in its early stages, we have already met many development milestones and believe this to be a great model for long-term success. We have also hired several of the graduating engineers from Montana Tech and Eastern Washington University.

With the Butte facility's casting and fabrication capabilities, it is a likely candidate to produce components and assemblies for the F136 competitive engine program. This would further broaden our manufacturing, create additional sustainable jobs and increase our exports to APEC economies.

Another key requirement for our growth is investment in technology. We need for all of our employees to be as productive as possible and we need enhanced technologies which allow us to

compete with lower labor rate communities. Often, technologies which reduce human labor requirements actually expand the opportunity for job creation. We also find that many of the advanced technologies that we evaluate and employ tend to be more material efficient, energy saving and environmentally friendly. Through rapid prototyping and engineering support, we are tightly integrated with customers who are shaping the manufacturing world.

The journey for SeaCast has been an enjoyable, educational, thrilling adventure and there are innumerable opportunities ahead. We believe that improvements in the areas of IP protection, workforce training, technology and investment will greatly accelerate the growth of our business. We also believe that virtually anything is possible with the help of our customers, suppliers, legislators, friends and family.

I greatly appreciate the opportunity to tell our story. And I sincerely thank you for your efforts to continually improve our business environment and our lives. Thank you.

**Testimony to the Senate Finance Committee
Ambassador Peter Scher
Executive Vice President, Global Government Relations, JPMorgan Chase
U.S. Representative to the APEC Business Advisory Council
March 31, 2011**

Introduction

Thank you, Chairman Baucus and Senator Hatch for holding this important hearing on APEC.

My name is Peter Scher, and I am Executive Vice President of Global Government Relations and Public Policy at JPMorgan Chase. Before I start, I want to first express that our thoughts and prayers are with the people of Japan following the recent events there. I was just in Yokohama last year for the APEC meetings that Japan hosted. Japan is an important partner in so many ways, and in this interconnected world, I think everyone understands that what happens there matters here.

I appreciate the opportunity to appear before your committee today as one of the three U.S. representatives of the APEC Business Advisory Council (ABAC), but also as someone who believes that APEC has the potential to provide needed leadership and momentum on advancing more open trade and economic integration in the Asia-Pacific.

Chairman Baucus, I want to thank you in particular for your leadership on APEC and Asia-Pacific economic issues. There is tremendous excitement about the APEC meetings that will take place later this year in Montana, and a firm belief that those meetings will provide real progress on trade issues generally, as well as a focus on how small businesses can benefit from our relationship with Asia. It is particularly appropriate to have small business representation at this hearing, as small business may stand to benefit the most from APEC and harmonized trade rules.

As this committee knows well, 2011 is really a crossroads for the U.S. international economic agenda. It is the year that we need to see action on our three pending free trade agreements. It is the year to decide whether the WTO negotiations will move forward. And most importantly for purposes of today's hearing, it is also the year that the United States is hosting APEC.

This presents serious questions about the future of APEC, and how the U.S. engages economically in the region. Will the U.S. continue to make APEC a priority? Will we advance a strong agenda that drives us toward regional economic integration? Will we make concrete

progress on trade issues that really matter to businesses – both big and small, and that help grow the global economy?

Our trading partners are watching closely. How we come together to capitalize on hosting this year's APEC meetings will be important not only to our domestic growth, but also U.S. leadership in Asia.

APEC Then and Now

The United States last hosted APEC in 1993. The world of business and trade has changed dramatically since then:

- In 1993, the internet was just getting started. Today, it is estimated that 2 billion people use the internet – and have the ability to access more than 110 million websites.
- In 1993, the first PDA mobile phone was released, costing \$900 dollars, weighing almost a pound and a half, and including a “fax” function. The blackberry was still a decade away.
- In 1993, NAFTA was not yet in place. China had not yet joined the WTO. And the United States was the leading trading partner for most regional economies. Today, it is China that is the leading trading partner for most regional economies, and it is China that is moving aggressively to negotiate – and implement – free trade agreements in the region, and around the world.

So what does all of this mean? Everyone appreciates that technology and business are changing at a breathtaking pace. What is concerning, though, is that while other countries seem to be rapidly changing their policies to keep up with this fast-changing environment, U.S. policies often seem a step behind. Nowhere is this more evident than with respect to international trade policy and attitudes toward global competitiveness.

The U.S. in Asia and APEC

It is in this context that the United States is hosting APEC. We must use this year to demonstrate credibility and leadership in the region.

APEC's 21 members together represent approximately 2.5 billion consumers and around 60% of global income. Since 2000, “Emerging Asia,” which excludes Japan, experienced average GDP growth of 7.8%, faster than any other region in the world, and well above the 1.9% pace at which the US economy expanded. Asia is where the world's growth is, and it will be a critical growth market for the United States in years and decades to come.

Enhanced engagement in Asia offers significant opportunities to stimulate U.S. economic growth and job creation. But too often, APEC's core mission of advancing regional economic

integration gets diverted to dealing with the crisis of the day. Of course, when twenty-one leaders from the world's strongest economies gather, they are going to discuss the issues that are grabbing headlines. But it is important that APEC not get distracted from its core economic mission. And the United States must ensure that we are driving an agenda in APEC that keeps us competitive in Asia – or simply risk becoming less relevant.

One concern is the decline of America's share of merchandise trade. Since 2000, Emerging Asia trade with the US has declined from 16 percent of total trade to 12 percent. In 2000, Asia imported 11 percent of its goods from the United States. Today, it imports 7 percent. Instead, the dynamic, high-growth countries of Emerging Asia are increasingly trading with each other. Since 2000, intraregional trade has risen from 30 percent of total trade to 33 percent. Intraregional exports have risen from 31 percent to 34 percent, while intraregional imports have risen from 29 percent to 33 percent.

APEC is the best opportunity to seize on these challenges

Of course, this is not a zero sum game, but these trends make clear the fact that Asia is moving ahead on economic integration whether the U.S. is in the game or not. Our competitors, both inside and outside the region, have recognized the benefits of economic integration.

We cannot sit on the sidelines. So the question is: Is APEC is the best forum to reinvigorate U.S. economic leadership in Asia? Based on my experience – both in government and now in the private sector – APEC is one of the few forums where the United States has consistently made progress.

We know that when it comes to U.S. economic growth, no region is more important than the Asia Pacific. We need a forum like APEC where the U.S. can focus on this critical region without distractions.

At the same time, we need a negotiating structure that does not get bogged down. While nearly everyone supports the ongoing work in the World Trade Organization, progress there is incredibly slow, and success far from assured. Creating consensus among the WTO's 150 member countries is, to state the obvious, excruciatingly difficult. And many of our trading partners are simply dragging their feet, calculating that they benefit more from the status quo.

APEC, in many respects, is almost the opposite of the WTO. It is a group of the most vibrant economies that has the ability to focus on the most important issues. Because APEC involves only 21 economies, it is simply a more manageable group. Just as important, not all 21 economies have to participate in any given negotiation. If a group of countries agrees to move forward on a particular initiative, they can.

APEC has found success in the past by focusing on sector-by-sector goals, and making progress on priority issues, without being hamstrung by issues where there is political gridlock. This year, for example, there is a focus on non-tariff barriers and clean energy – two areas of vital importance to the United States.

How does this work in practice? I would argue that the results are clear. By just about any measure, APEC has set a tone of integration and cooperation in the region. One clear example: in 1993 there were 15 FTAs involving Asian countries, today there are roughly 233.

APEC certainly helped set the stage for the United States and Korea to negotiate a free trade agreement – our most commercially significant free trade agreement since NAFTA. And APEC was the launching pad for the current Trans-Pacific Partnership talks, a trade agreement that currently includes 8 of our 20 APEC partners, and may grow to include more.

At the same time, APEC has been an incubator for key sectoral initiatives, across a broad range of areas: customs harmonization, business travel, standards, and hundreds of other projects. The Information Technology Agreement, which eliminates tariffs on all IT products, was generated in APEC before being adopted by the WTO.

Part of the reason APEC has been so successful is the partnership with the private sector, focused on specific barriers to trade and economic growth. In fact, the vast majority of projects and initiatives undertaken by APEC over the years have been driven by U.S. business and government cooperation.

APEC has a unique commitment to incorporating private sector input in its policy process. The APEC Business Advisory Council (ABAC) allows the government to seek business input and expertise and to coordinate with government policymakers to produce outcomes that are directly meaningful and relevant to the real needs of companies seeking to trade in the region.

The close interaction with the private sector is increasingly important as our trade negotiations become more and more complex. In 1993, our negotiations focused almost exclusively on tariffs. Tariff reduction is an issue that is fairly transparent, and ultimately controlled by governments. Today, the focus is completely different. Most tariffs have been negotiated down. The real challenge is non-tariff, or so-called “behind the border” barriers. These are the real, everyday issues that American businesses of all sizes face on the ground – and where companies need a strong partnership with the U.S. government to find solutions. This is vitally important to small and medium sized businesses if they want to successfully export. They rely on certainty and rules that are harmonized across many borders.

Goals for 2011

So, as we look at the trade and economic landscape in 2011 – and our own ability to shape the APEC agenda – what should our priorities be?

Let me start with an observation. We have been negotiating the WTO Doha round for the better part of a decade. Negotiations are stalled, and our trading partners are moving ahead with other priorities. We cannot fall into the trap of putting all of our eggs in one negotiating basket. We must move ahead on multiple fronts, and APEC should be a key part of our trade arsenal.

Within APEC, our leaders should aspire to more than promoting lofty goals about free trade throughout the region, and our government should ensure that APEC is not simply an Asian forum in which the United States is represented. APEC needs to demonstrate that it can deliver progress on the issues that matter most – and for our purposes today, and the U.S. in particular – stimulating economic growth and job creation.

What does that mean for this year's agenda? First, the government and the private sector need to start being practical about what we can accomplish. We should pursue first class trade agreements. But whether that means multilateral, bilateral, or sectoral agreements, we need to start acting. Too often, we seem like a team mapping out complicated plays in the locker room, while our competitors are already out on the field. We are now seeing our Asian trading partners looking elsewhere for the markets and products they need, while American workers and employers bear the cost of inaction. We should not look at incremental progress as a failure, but rather as a necessary stepping stone to successful trade negotiations for this century.

We should ensure that the APEC Ministerial meetings in May and September – and the Leaders meeting in November – create internal benchmarks for progress and action. Completing work on the Trans Pacific Partnership is one goal that we all share.

Second, we should increase the focus on sectoral initiatives. The Information Technology Agreement, which resulted in the lifting of tariffs on all IT products, started in APEC before it was part of the WTO. This is an example that should be replicated in other areas. We should update previous successful sectoral initiatives, and prioritize new efforts that show the most promise.

One area of focus that has strong support is sustainable growth and energy security. The United States should do all that it can to advance an agenda on environmental goods and services, an area where we are leading in technology, but face a number of challenges in foreign markets.

Finally – I would encourage the Administration to put forward a focused workplan with measurable objectives and specific timelines. Leaders meetings – whether in APEC or in any other forum – too often result in a negotiated document that is the “lowest common denominator.” The “deliverable” is a lofty goal, a press announcement – and then limited follow through.

In today's competitive environment, that's no longer enough. And since the U.S. is driving this year's agenda, we should work hard to deliver concrete results.

Conclusion

Getting the most out of APEC will require the business community to demonstrate to U.S. political leaders, and to the American public, that job creation and economic recovery are closely linked to exports and that Asia is a primary opportunity for this kind of export-driven growth. We will need to make the case that if the U.S. does not participate in the Asian economic boom, we may simply miss the boat. Asia is not waiting for the United States, and the clock is ticking.

But let me conclude where I began: 2011 is going to be a true crossroads – for APEC and its member-nations, and particularly for U.S. engagement in the region.

We must collectively seize this chance, and use this year to demonstrate that APEC can be the preeminent forum in which the nations of the Asia-Pacific work together to restore global economic growth and international stability.

Given these stakes, it is critical that the U.S. engage APEC to move forward in the coming years with a sense of urgency and purpose. Working together, the leaders of APEC, national policymakers, and businesses around the region can help make APEC a leading driver of restored prosperity and growth in the region.

I again want to thank the Committee for your dedication to these critical issues. I look forward to your questions.

STATEMENT OF JOHN K. VERONEAU
Partner, Covington & Burling LLP

Committee on Finance
United States Senate
March 31, 2011

Thank you, Mr. Chairman. I am pleased to testify before the Committee today.

I am a partner in the Washington office of the law firm of Covington & Burling LLP and co-chair the firm's International Trade and Investment practice.

I spent much of my career in government, focusing on international trade and security matters. In the Bush Administration, I had the privilege of serving as General Counsel in the Office of the United States Trade Representative and subsequently as Deputy United States Trade Representative. In the Clinton Administration, I served as an Assistant Secretary of Defense under then Secretary of Defense Bill Cohen for whom I also worked in the U.S. Senate.

I appreciate this Committee's leadership in promoting fair and open terms of trade and welcome the opportunity to speak today on the role that the Asia-Pacific Economic Cooperation (APEC) forum has and can play in fostering global trade and investment.

The United States benefits greatly whenever foreign markets become more open to U.S. exports. Tremendous gains in market access have been achieved over the years through global agreements like the General Agreement on Tariffs and Trade (GATT), regional agreements like the North America Free Trade Agreement (NAFTA) and bilateral agreements like the U.S.-Chile

Free Trade Agreement. There is more work to be done to open foreign markets to U.S. goods and services, beginning with passage of trade agreements with Colombia, Panama and Korea. Our trading partners are moving ahead aggressively to lower barriers through bilateral trade agreements. If the United States sits on the sidelines, we will put ourselves at a severe competitive disadvantage. To take Colombia as just one example, in the four years since Congress refused to vote on this agreement, American workers, farmers and ranchers have lost significant market share to competitors from countries like Canada that moved forward with their own trade agreements with Colombia.

We should seize every opportunity to improve market access for U.S. goods and services by addressing traditional border measures like tariffs and import restrictions. But border measures are no longer the most pernicious trade barriers faced by American exporters. Today, our exports are more likely to be blocked by internal regulatory measures that are often more difficult to identify and overcome. When a foreign country uses a high tariff to protect a domestic producer, at least it is a transparent form of protectionism and can be addressed through direct and traditional trade negotiations. But when a country uses -- or should I say, misuses -- its food safety laws, for instance, to exclude U.S. beef or other products from its market, it is much more difficult to respond to these barriers. The increasing use of internal regulations to protect local producers from foreign competition is a serious and growing problem. Compounding this problem is the fact that we do not have in place the right institutions and rules to combat these trade barriers in effective and efficient ways. This is an area where I believe APEC can play a critical and leading role.

There is a large and growing gap between the breadth and scope of the global economy and the breadth and scope of global trade rules, or more broadly, global governance. This gap accounts for much of the inefficiency in the cross-border flow of goods and services. There is significant waste when each country imposes its own, often redundant regulatory process. For instance, if a medical device is approved in a country with a rigorous and credible review process, others countries should recognize this approval rather than requiring expensive and redundant certification processes that unnecessarily drive up costs for consumers.

Worse than this inefficiency, the lack of proper global governance accounts for much of the lawlessness that remains in global commerce. This lawlessness has consequences at both ends of the spectrum. At one end, unsafe products -- like melamine-tainted products from China -- too easily can enter the stream of global commerce. At the other end, this lawlessness makes it too easy to block safe products. The current system too easily tolerates protectionist measures masquerading as safety measures.

We have seen before a large gap between the scope of an economy and the scope of its governance. In the last century, as the U.S. economy grew from a one that was primarily local in character to one that was primarily national in character, problems regarding product safety, competition and other matters were no longer best handled through local law. In response, we developed institutions and legal structures to better align our governance with our economy.

We cannot and should not aspire to creating global regulatory regimes that would undermine sovereignty. Neither the United States nor other countries should surrender ultimate

authority and responsibility to protect the health and welfare of its citizens. But, we must find ways to better coordinate our regulatory regimes so that common and legitimate interests in protecting health and welfare can be pursued in ways that do not frustrate our interests in global trade and competitiveness. We can do this through greater use of mutual recognition agreements, through greater recognition of standards-setting initiatives and through binding agreements requiring regulators to operate with a high degree of transparency.

Countries have a common interest, for instance, in reasonable rules and procedures to promote food safety. Countries also have a common interest in preventing food safety claims from being advanced as pretexts for protectionism. Without better rules and institutions to address disputes, we will be left with endless fights over the safety of U.S. beef and other products. Without better and swifter ways to overcome illegitimate regulatory barriers, we will lose U.S. export opportunities and in the process undermine public support for global trade.

I want to emphasize that the goal of better global governance is not more government. It is to have less government standing in the way of private parties who wish to exchange goods and services globally. The best way to reduce government involvement in these private exchanges is to define more clearly what governments can and cannot do. Reducing the opportunity for governments to block US imports on the basis of unsubstantiated health claims would clearly help U.S. exporters. This is best achieved through clearer rules and stronger enforcement tools.

The World Trade Organization (WTO) is a remarkable and critical institution, but today it is not well placed to address technical regulatory issues like food safety disputes in a timely and effective manner. When I served as USTR's General Counsel, we initiated the case against Europe over its ban on genetically modified foods. We won the case, but regrettably U.S. products are still blocked from that market. WTO litigation is necessary and appropriate at times, but it is a blunt instrument. We need additional and more nimble ways to address market access problems in commercially meaningful time frames.

Achieving greater coordination and cooperation among countries on internal regulatory matters will not be easy. It will require tremendous patience, goodwill and give-and-take on the part of each country, including the United States. This is where APEC can play an important role. Because APEC lacks authority to impose rules on its members, it is a less threatening forum for discussing these matters and therefore is well suited to foster consensus.

APEC's 21 member economies account for 54 percent of world GDP and 44 percent of world trade. Since 1994, U.S. exports to APEC nations have increased by 137 percent. APEC member economies are the destination for 58% of U.S. exports of goods. The top four export markets for U.S. goods are all APEC member economies, as are seven of the top 15 U.S. trading partners. APEC thus presents a unique opportunity to collectively engage many of our most important and like-minded trading partners.

APEC member economies have long been committed to promoting free trade and improving market access. The 1994 Bogor Goals reflect APEC's commitment to free and open

trade and investment. APEC is committed to promoting high quality global, regional and bilateral free trade agreements. APEC has demonstrated its ability to advance trade initiatives to a point where countries are ready to enter into formal trade negotiations. In the 1990s, APEC was instrumental in developing consensus on the benefits of eliminating tariffs on a broad range of high-tech products that were being developed. This consensus led directly to negotiating the Information Technology Agreement (ITA) that, as part of the Uruguay Round, eliminated significant tariffs in the IT sector. More recently, APEC's long-term support for a Free Trade Area of the Asia-Pacific has fostered interest and support for the Trans-Pacific Partnership (TPP) agreement.

The TPP agreement is an important trade initiative that I know enjoys strong support in this committee. This agreement has the potential to make important gains in lowering traditional barriers to trade. It is important that bilateral market access that the United States currently enjoys by virtue of existing trade agreements with TPP partners not be diminished. The TPP should also provide significant market access gains among TPP countries as a whole. Importantly, the TPP presents a welcomed opportunity to address regulatory barriers, as well as a means of strengthening Intellectual Property protection.

President Bush embraced the TPP in 2008 after USTR Susan Schwab proposed it as an important way to expand access for U.S. exports. I had the opportunity to travel to Vietnam, Japan and other APEC countries at that time to urge their consideration of this important initiative. I am pleased that Vietnam has joined these discussions and hope that Japan, while contending with much more pressing matters right now, will eventually join these negotiations. I

applaud the Obama Administration's support for the TPP which I believe can serve as an important anchor for U.S. trade policy in Asia.

The eight countries negotiating the TPP are important trading partners of the United States. Taken collectively, TPP negotiating parties would comprise the United States' third largest export market for goods and its fourth largest export market for services. Given the importance of Pacific markets to U.S. trade, the TPP represents a valuable opportunity to establish a high-quality trade agreement. A primary goal of TPP negotiations is to address internal barriers created by differences in the regulatory systems of TPP countries and to try to improve the compatibility of these regulatory systems. These governance objectives are being pursued to improve market access for all businesses, with a particular focus on small- and medium-sized businesses that often have greater difficulty navigating complex and contradictory regulatory requirements in various markets. Improving market access for smaller businesses is a worthy goal, as it would allow more companies and more workers to engage in international trade and access the benefits of global economic integration. The TPP can eventually serve as a model for future agreements by creating transparent and fair regulatory regimes that improve market access by eliminating internal barriers to trade.

The importance of Pacific trade initiatives such as those undertaken by APEC and the TPP is often framed in terms of our relationships with our trade partners in Asia. While many of our most important trade partners are indeed Asian nations, and the growing markets of Asia are an important focus of our trade policy, I would also like to highlight the benefits of the participation of Latin American countries in Asia-Pacific trade regimes. Many Latin American

countries are important trade partners of the United States, and the importance of our trade relationships with the region is increasing. In 2008, total U.S. trade in goods and services with the Western Hemisphere was \$1.5 trillion. U.S. trade with Latin America increased by 82 percent between 1998 and 2009, a larger jump than the 64 percent increase in overall international trade and the 72 percent increase in trade with Asia. Exports to Chile and Peru, both parties to the TPP negotiations and APEC member economies, each grew by more than 130 percent between 1998 and 2009. Mexico, another APEC member economy, is the second largest export market for U.S. goods and our third largest trading partner.

Trade initiatives undertaken by APEC and regional agreements such as the TPP provide the United States the opportunity to engage with like-minded trading partners such as Chile, Mexico, and Peru. These initiative also have the potential to further expand market access in Latin America. The TPP contemplates that more countries will eventually join the agreement, and APEC seeks to establish a far-reaching Asia-Pacific trade agreement. Latin America is an increasingly important market for U.S. trade, and the participation of more Latin American countries in these initiatives would be beneficial to the United States. As the United States seeks to expand its market access in Latin America, it is important that it does so in a way that develops governance structures that reduce internal barriers to trade. APEC and the TPP are both important venues for establishing such structures.

In a recent speech opening the 2011 APEC meetings, Secretary of State Clinton called for the development of open, free, transparent, and fair trading platforms. Developing international governance structures that reduce internal barriers, improve regulatory compatibility, and ensure

that trade practices are conducted in a manner consistent with the rule of law is an essential step to creating such platforms. The development of such governance structures should be undertaken with the goal of achieving a meaningful net increase in market access for U.S. businesses. I hope that the 2011 APEC meetings hosted by the United States, including the important meetings to be held in Big Sky, Montana, will advance these issues.

Expanding access to a growing global economy is critical for U.S. competitiveness. Traditional trade agreements, rules and institutions can be effective in overcoming access barriers posed by traditional border measures like tariffs. Overcoming access barriers posed by internal measures will require new agreements, rules and institutions. Collaborative organizations like APEC can serve critical roles in developing consensus on how best to address these 21st century trade barriers.

I appreciate the opportunity to testify before the Committee today and would be pleased to answer any questions.

