NATIONAL FOREIGN TRADE COUNCIL, INC.

1625 K STREET, NW, WASHINGTON, DC 20006-1604

TEL: (202) 887-0278 FAX: (202) 452-8160

Testimony of William A. Reinsch

President, National Foreign Trade Council

Before the House Committee on Ways and Means Subcommittee on Trade

Hearing on the Operation, Impact and Future of U.S. Preference Programs

November 17, 2009

Mr. Chairman, Congressman Brady, Members of the Subcommittee, thank you for the opportunity to appear before you today to talk about the importance of U.S. trade preference programs and ways to improve them.

My name is Bill Reinsch and I am President of the National Foreign Trade Council, a trade association of some 300 U.S. companies engaged in international trade and investment. Our member companies represent a broad cross section of industries that drive the American economy, and we advocate trade, tax and human resource policies that support the ability of our members to compete successfully around the globe.

Trade Preferences Help U.S. Manufacturers and Consumers

So it is natural that we support trade preference programs that eliminate tariffs in order to provide cost-effective inputs to U.S. manufacturing, thereby enhancing U.S. jobs and competitiveness.

Studies by the GAO and private sector think tanks show that preference programs have a small effect on the overall U.S. economy and the tariff relief they provide benefits small and medium size companies as much as it benefits large corporations. This tariff elimination also reduces costs to the U.S. consumer. In the historic economic downturn we are now experiencing, these multiple domestic benefits are significant.

Based on ITC data compiled by Ed Gresser at the Democratic Leadership Council, here are just a few examples of how trade preference tariff reductions benefit U.S. manufacturers and consumers:

- U.S. appliance makers imported $70 million worth of air-conditioning machinery parts duty free last year that were used in making appliances here in the United States. Those same parts not covered under GSP would have a 1.4% tariff, so these U.S. manufacturers realized a $1 million savings on these components, which came mostly from Thailand.

- $430 million worth of ferrosilicon was imported last year under GSP without the normal 3.9 percent tariff, mostly from South Africa and Georgia, at a $17 million savings, increasing the competitiveness of domestic steel exports and reducing the cost of U.S. made steel sold here.

- The U.S. imported $80 million worth of marble sawn into slabs for the construction industry, mainly from Turkey, India and Egypt, where GSP removes a 5 percent tariff, resulting in a $4 million benefit to this industry devastated by the economic downturn.

- AGOA, The Andean Preferences and GSP all cover energy products. About $10 billion worth of oil, mainly from Iraq, enters the U.S. under GSP. AGOA waives tariffs on about $50 billion worth of oil from Nigeria, Angola and Equatorial Guinea, and $13 billion worth of Colombian oil enters the U.S. under ATPA. These are very low-tariff products Americans would buy anyway, but on each barrel there are five-cent or ten-cent specific duties. Altogether the savings comes to about $40 million.

Trade Preferences Help Poor Nation Economies

Beyond this domestic benefit, we and our members believe in the value of a stable system of trade preferences that offer duty free access to the U.S. market as a tool to provide broad and deep benefits to some of the world's poorest countries. This is not only a moral obligation, but also in our national economic and security self interest.

In many of the poorest countries, without access to the markets of the United States and other wealthy nations, employment opportunities lie in subsistence agriculture, government jobs and intermittent and economically unstable opportunities in the informal sector, which provide no path toward a better future. Preferential access to the U.S. market in the 1980s led to increased exports in nations covered under the Caribbean Basin Economic Recovery Act, which led to increased foreign direct investment in Central America, resulting in real income growth.

The eligibility criteria inherent in all U.S. preference programs have led to economic and legal reforms which have made a real difference in building and strengthening a home grown entrepreneurial class which allows economies to diversify and move beyond dependence on preference programs for growth. For example, the NFTC strongly believes that a strong domestic IPR regime in developing countries is a key component in creating an indigenous class of entrepreneurs and innovators. Many cite the eligibility criteria in GSP as contributing to Brazil moving forward to increase their IPR protections and that is paying off for domestic innovation.

However, when beneficiary countries move away from the rule of law, such as Ecuador's withdrawal from the International Centre for Settlement of Investment Disputes and diminishing the independence of the judiciary, it is important that our eligibility criteria provide leverage for an appropriate response. While AGOA and Haiti preferences have strong rule of law and right to due process provisions, ATPA does not carry the same requirements. Instituting across the board eligibility criteria mandating a strong rule of law and respect for an independent judiciary, combined with adequate capacity building assistance, will serve to separate countries who are moving forward from those, like Ecuador, who are moving away from international norms.

<u>Move Toward a Unified Set of Preferences, Target the Poorest for Duty Free Quota Free, and Decrease the Uncertainty of Renewal</u>

In April of this year the NFTC joined with a very broad and diverse group of 29 organizations to send a letter to Ambassador Kirk and to Congress outlining our consensus agreement on what improvements to the preference programs would be most beneficial. This group consists of broad based and sectoral trade associations and bilateral business councils and NGOs focusing on international economic development, poverty and hunger eradication, and other international aid issues.

Since then, facilitated by the Trade, Aid and Security Coalition of the GlobalWorks Foundation and the Trade Partnership, we have continued to meet, including other faith based, labor and food security NGOs and major corporations and other experts to find common ground on the details, while communicating regularly with Committee and Member staff. This effort proves that while we may remain divided on some of the details, we are unusually and uniquely united in the belief that Congress must and can make tangible improvement to the preference programs.

A progress report on the group's work will be forthcoming, but our experience has shown that the main thing Congress should do is:

- Move toward a unified set of preferences, harmonizing the elements of GSP and regional preference programs over a short time frame. Crafting a program that is certain, reliable, predictable and long term is the most powerful thing Congress can do to insure that preferences work for those it is intended to help.

- Provide permanent, 100 percent duty free and quota-free benefits for eligible lesser developed countries (LDCs). This bold move provides the commitment and leadership that will serve as the foundation for all the other work needed to make sure that the poorest nations begin to integrate preferential access to the U.S. market into their broader development plans.

- End the short and uncertain renewals. Waiting until a month, days or even after the expiration of a program to renew it makes it difficult to use the programs. For importers, stability is probably the most important issue. Investing in developing countries and building strong sourcing relationships requires time and money. Companies are reluctant to spend these precious resources if the preferences constantly start and stop, or if it seems like a product might lose GSP just as the investment begins to pay for itself. For non-LDC beneficiary countries, this means moving to a multiple year renewal period.

- Simplify the rules. Integrating the multiplicity of rules of origin, eligibility requirements and product graduation requirements will increase use of the program. Along with this, Congress should simplify and coordinate government administration of the program.

- Tie renewal, eligibility, and graduation more completely to capacity building. While preferences can serve as a potent catalyst for economic, regulatory, legal and political reform, the capacity to build the infrastructure and the understanding of what is needed to utilize the programs and what is expected to maintain this privilege are all crucial to success.

Trade Preferences Are Not a Cure-All

In conclusion, we understand that preferential access to the U.S. market is a privilege, not an entitlement, and along with it go responsibilities. Countries who receive these preferences must demonstrate the vision to undertake other efforts to improve their citizens' livelihood.

Preferences are only one tool to spread economic opportunity globally. We believe that U.S. leadership in finding a way forward to conclude the Doha Round of WTO negotiations is of paramount importance. Clearly articulating and implementing a comprehensive forward looking national trade policy that opens markets for U.S. business, workers, farmers and ranchers, must go hand in hand with the important effort to update and modernize the system of U.S. trade preference programs, and we look forward to working with Congress and this Administration in this effort.

Thank you for this opportunity to appear before you today.