NATIONAL ASSOCIATION OF Manufacturers

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Testimony

of Drew Greenblatt
President & Owner
Marlin Steel Wire Products, LLC
on behalf of the National Association of Manufacturers

before the Committee on Foreign Affairs
U.S. House of Representatives

on "Job Creation Made Easy: The Colombia, Panama, and South Korea Trade Agreements"

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COMMENTS OF DREW GREENBLATT

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS

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Good morning Chairman Ros-Lehtinen, Ranking Member Berman and members of the Committee. I am Drew Greenblatt, president of Marlin Steel Wire Products. I am pleased to testify before the Committee on Foreign Affairs on “Job Creation Made Easy: The Colombia, Panama, and South Korea Free Trade Agreements.”

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

We heartily support your committee’s emphasis on free trade agreements (FTAs) driving American job creation, because trade liberalization increases our manufacturing exports, and manufacturing means jobs. Manufacturing also means opportunity, innovation, security and economic growth. Competing on a global stage, manufacturing in the United States needs to have policies that enable companies to thrive and hire locally. Opening foreign markets through trade agreements is a key way to drive growth. Growing manufacturing jobs will strengthen the U.S. middle class and help America rebound from the deep recession.

Of course, the title of today’s hearing – “Job Creation Made Easy: The Colombia, Panama, and South Korea Free Trade Agreements” – raises issues that are close to my own heart. Marlin Steel Wire is a leading manufacturer of custom wire baskets, wire forms and precision sheet metal fabrication assemblies – all produced entirely in the United States. Our customers come from the pharmaceutical, medical, industrial, aerospace and automotive industries all over the world. In all, we export to 34 countries. Twenty-five percent of Marlin Steel’s employees are mechanical engineers or designers. The innovative ideas from the engineering team propel success at Marlin Steel.

Like so many other manufacturers, my company succeeds through innovation, investment and the hard work of our dedicated employees. Even as Marlin Steel Wire has invested in automation to improve productivity and quality control, we have also added employees. When I bought the company in 1998, we did about $800,000 in sales with 18 workers. Last year was our most successful one as a business, as we did $3.9 million in sales, exporting to more than 30 countries. Today, Marlin Steel Wire employs 25 people. Manufacturing does mean jobs! We pay well. Also, each of our employees has great health insurance and we pay for 100 percent of their college education. Our parking lot is double- and triple-parked and more than half of my employees own their own home. Manufacturing creates solid middle-class jobs.

Manufacturers need a level playing field. In today's global marketplace, manufacturers in Maryland are no longer just competing against Texas companies that compete against Georgia companies. We face competition from around the world. Foreign manufacturers often must comply with fewer regulations and have governments that use every tool at their disposal to give those companies a competitive edge, frequently at the expense of manufacturers in the United States. The solution is to increase access to foreign markets through trade agreements and ensure the regulatory environment in the U.S. does not put manufacturers at a disadvantage.

To do this, manufacturers need an international trade policy that opens global markets, reduces regulatory and tariff barriers and reduces distortions due to currency exchange rates, ownership restrictions and various "national champion strategies." Congress must enact pending trade agreements as soon as possible, and the Administration must negotiate additional agreements in the Asia-Pacific area and elsewhere.

Again, speaking from my own experience, one of Marlin Steel's core niches is selling custom stainless steel material-handling baskets to Japanese automakers. As we all know, Korean automakers have steadily increased their market share, and I want to sell our custom wire baskets to the Korean automakers as well as the Japanese. The U.S.-Korea FTA, if enacted, will help Marlin Steel compete on a level playing field with Korean wire basket suppliers. I must note, however: now that the EU- Korea FTA is in place, I am up against a significant disadvantage with one of my direct competitors in Germany. He can sell his products with no tariff to Korean customers -- but I still face a prohibitive 8 percent tariff, which keeps me out of that market. Pass the U.S.-Korea trade agreement, and I can compete and win in Korea.

In addition to leveling the playing field on trade, policies must help small and medium-sized manufacturers through programs such as technical aid and financial assistance that promote expanded exports. Small and medium-sized enterprises make up more than 90 percent of America's exporters. They can flourish with the support of U.S. government and public/private partnership programs that promote exports. Many countries have robust export programs – the United States needs to ensure our programs stand up to our competitors.

Today we are specifically speaking about the three pending FTAs and their impact on job creation. Take a moment and think of the opportunity these agreements will present to the small business community here in the United States. These agreements represent nearly 90 million new customers for American goods, services and farm products. I have had success selling my products around the world, but cutting tariff and non-tariff barriers – as these agreements do – give me a competitive advantage over my competitors. That advantage is also available to tens of thousands of small manufacturers and exporters in every state of this country. In addition to my own sales, I encourage other manufacturers to sell their products in these countries – and I will freely supply my contacts and experience gained from my years of effort.

Manufacturing

I would now like to turn to manufacturing more generally and to the importance of trade agreements to America's manufacturers, particularly the small and medium manufacturers. Manufacturing is a critical part of the American economy and, contrary to some opinions, it is not dead. The United States is the world's largest manufacturing economy, producing one in every five dollars of all manufactured goods in the world. Last year, America's factories shipped $4.8 trillion in products – not far from the record $5.5 trillion of 2008, before the recent serious recession. Manufacturing supports an estimated 18.6 million jobs in the U.S. – about one in six private sector jobs. Nearly 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing.

Exports are vital to American manufacturing and to the creation of jobs in the United States. Exports are now 20 percent of U.S. manufacturing production, and that ratio has been increasing over time as world markets outpace the domestic market. Over the past decade, reflecting the two manufacturing recessions we have gone through, factory shipments rose only 15 percent. The importance of exports can be seen during that period: shipments for the domestic market rose 9 percent, but exports of manufactured goods were up 48 percent. Exports grew more than five times as fast as shipments for the domestic market.

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

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

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

The Three Pending FTAs and Jobs

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

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

There is a widely-held myth that U.S. FTAs are the reason the United States has a trade deficit, and that they have been a major contributor to job losses in manufacturing. It amazes me how this myth endures in face of the facts. In truth, the U.S. Commerce Department's analysis shows the United States had a combined trade *surplus* of $21 billion in manufactured goods trade with our existing FTA partners in 2010 – the third annual surplus in a row. 2011 is on track to become the fourth annual year of surplus.

Our cumulative manufactured goods trade surplus with our FTA partners for the last three years was nearly $70 billion. During that same period, our manufacturing goods deficit with countries with which we do <u>not</u> have trade agreements accumulated to $1.3 trillion. We have a trade deficit problem, for sure – but the data show our FTAs are part of the solution, not part of the problem.

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

The U.S.-Colombia Trade Promotion Agreement

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

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

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

While almost all of Colombia's exports enter the United States duty-free, U.S. manufacturers face significant tariff barriers in Colombia. Colombia's average import duty on manufactured goods is 11.3 percent. These duties, however, are assessed not only on the invoice value of the goods but also on the freight and insurance charges (known as the "CIF value"). When other charges are applied as well, the effective import duty on manufactured goods is 15 percent.

Manufactured goods predominate in U.S. trade with Colombia -- the United States exported $11 billion in manufactured goods to Colombia in 2010, representing over 90 percent of our total merchandise exports of $12 billion. It is the second-largest export market in South America for U.S. exports, behind only Brazil. We had a trade surplus in manufactured goods of $6 billion last year with Colombia.

According to U.S. Department of Commerce methodology, U.S. manufactured goods exports to Colombia in 2010 supported nearly 70,000 U.S. jobs. The United States represents over one-quarter of Colombia's imports of manufactured goods. Small and medium-sized exporters (SMEs), like my company, form the vast majority of U.S. exporters to Colombia – over 85 percent of all exporters to Colombia are SMEs. Over 11,000 U.S. SMEs exported products to Colombia in 2009, making up over a third of total exports by value. This point cannot be made enough times – our FTAs benefit firms of all sizes.

In 2010, while the United States imported $15.7 billion in products from Colombia, $10.4 billion – two-thirds – was oil and other mineral fuels. Coffee, precious stones, fruits and nuts, and cut flowers follow in importance. These four product sectors, together with mineral fuels, comprise over 90 percent of total U.S. imports from Colombia. While the United States had a 2010 merchandise trade deficit of $3.6 billion with Colombia, if mineral fuels are excluded, the United States had a trade surplus of over $5 billion – most of which was in manufactured goods.

Implementation of the U.S.-Colombia agreement is unlikely to result in significant new increases in U.S. imports from Colombia beyond those which can be expected to occur without the trade agreement. We expect that U.S. imports from Colombia will continue to increase, but the principal drivers of this will be the expansion of Colombia's oil production and the continuation of the duty-free treatment that the U.S. Congress has already given to imports from Colombia. In fact, 99 percent of non-mineral fuel imports from Colombia already enter the United States duty-free.

The U.S.-Korea (KORUS) FTA

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

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

The United States is already a very open market to Korea. Over half of all Korean exports to the United States enter duty-free. The average U.S. duty on dutiable imports from Korea is only 3.5 percent. Korea's market is considerably more closed than the U.S. market. Korea's duties on dutiable manufactured imports average 6.6 percent. Since Korean tariffs are assessed on not just the invoice value of the imports but also on the cost of the freight and insurance (CIF value), and Korea's 10 percent Value Added Tax (VAT) is levied on the CIF duty paid value, the effective Korean import duty is actually about 8 percent.

The KORUS agreement would level the playing field for U.S. producers by providing much greater access to Korea – and provide American manufacturers with a competitive advantage over most other exporters. The EU and Korea have completed a bilateral FTA, which has been in force since July 2011. The EU now benefits from duty removal/reduction on 90 percent of their manufactured goods exports, while U.S. exports of similar or identical goods continue to face duties of nearly 8 percent. The EU has pulled ahead of the United States in exports to Korea over the last 4 years, and since July, its exports are up over 15 percent over 2010. If the U.S.-Korea agreement is not quickly approved and implemented, American manufacturers will face import substitution in Korea of our products with those of Europe, which enjoy a competitive advantage of nearly 10 percent at this time.

U.S. Manufactured Goods Trade with Korea

The United States exported $38.8 billion worth of goods in 2010. It is the third-largest export market in Asia for U.S. exports, behind only China and Japan. Manufactured goods predominate in U.S. trade with Korea. U.S. exports of manufactured goods to Korea totaled $31.6 billion in 2010 – 81 percent of total U.S. exports.

According to U.S. Department of Commerce methodology, U.S. manufactured goods exports to Korea in 2010 supported nearly 200,000 U.S. jobs. SMEs form the vast majority of U.S. exporters to Korea – 89 percent of all exporters to Korea are SMEs. Over 18,000 U.S. SMEs exported products to Korea in 2008, making up over a third of total exports by value.

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

<u>The U.S.-Panama TPA</u>

The United States exported $6 billion worth of products to Panama in 2010. Manufactured goods dominate this relationship. U.S. exports of manufactured goods to Panama totaled $5.6 billion in 2010 – 93 percent of total U.S. merchandise exports to Panama. It is the United States' sixth-largest manufacturing export market in South America and the Caribbean, virtually tied with Peru. We had a trade surplus in manufactured goods of $5.5 billion in 2010. The overall U.S. merchandise trade surplus with Panama was our ninth-highest among all trade partners.

This has been accomplished despite the existence of significant trade barriers in Panama. Panama's tariffs on U.S. manufactured goods average 8 percent, and the elimination of those tariffs will reduce the price of U.S.-made goods in Panama and lead to increased sales.

Such newfound market access would facilitate sales for other U.S. manufacturers as well – both large and small. The agreement with Panama is an important step in the U.S. strategy to promote trade liberalization and economic integration with the region. As well as being a gateway from the Pacific to the Atlantic, Panama is a literal and figurative bridge between the Americas. This region represents a significant and growing market that has largely avoided the worst of the current economic crisis. Further, the $5.25 billion expansion of the Panama Canal is moving ahead and presents significant opportunities for U.S. companies to provide goods and services to the region.

Congress has repeatedly voted for tariff preferences for Panama that permit it to export duty-free to the United States as part of the Caribbean Basin Initiative (CBI). The Panama TPA would convert this one-way free trade to two-way free trade by giving U.S. exporters to Panama the same open access to that market that Panama's exporters already have to the U.S. market. Thus, the agreement would truly level the playing field. The U.S.-Panama agreement would immediately eliminate nearly all of Panama's tariffs on manufactured goods and would improve rules governing trade.

It is important to stress the comprehensive nature of the agreement's coverage and its strong contributions toward improving both labor and environmental conditions in Panama. The Panama TPA contains enforceable provisions on core labor and environmental standards included as a result of the landmark May 2007 bipartisan trade policy agreement between Congress and the Administration. Such provisions were included in the 2007 U.S.-Peru trade agreement, which was supported by a bipartisan majority in the 110th Congress. Identical measures are included in the pending trade agreements with Colombia and, in many cases, with Korea. The NAM continues to oppose intellectual property rights measures on pharmaceuticals contained in the 2007 agreement.

U.S. Manufactured Goods Trade with Panama

According to Department of Commerce methodology, U.S. manufactured goods exports to Panama in 2010 supported nearly 40,000 U.S. jobs. The United States represents over 30 percent of Panama's imports of manufactured goods. Machinery, chemicals, plastics, electrical equipment, iron, steel, motor vehicles and other transportation equipment are the major U.S. manufactured goods exports to Panama.

Over 85 percent of all exporters to Panama are SMEs, and over 7,250 U.S. SMEs exported products to Panama in 2009, making up over one-third of total exports by value. This point cannot be made enough times – our FTAs benefit companies of all sizes.

Effect on U.S. Imports

Panama's producers already have virtually complete duty-free access to the U.S. market under the CBI. As a result, implementation of the U.S.-Panama agreement is unlikely to result in any significant new increases in U.S. imports from Panama. In fact, Panama has a negligible level of manufacturing exports to the United States – less than $87 million of our $379 million in imports from Panama in 2010 were manufactured goods.

The Future: Far More Trade Agreements Are Needed

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

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

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

United States House of Representatives
Committee on Foreign Affairs

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, per House Rules.

1. Name:	2. Organization or organizations you are representing:
DREW GREENBLATT	MARLIN STEEL & NAM
3. Date of Committee hearing:	
9/23/2011	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☐ Yes ☒ No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature: Managing Member	

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