

**NOMINATIONS OF JOHN K. VERONEAU
AND ROBERT K. STEEL**

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON THE

NOMINATIONS OF

JOHN K. VERONEAU, TO BE DEPUTY U.S. TRADE REPRESENTATIVE
WITH THE RANK OF AMBASSADOR, EXECUTIVE OFFICE OF THE
PRESIDENT; AND ROBERT K. STEEL, TO BE UNDER SECRETARY, U.S.
DEPARTMENT OF THE TREASURY

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RETARY, U.S. DEPARTMENT OF THE TREAS-
URY**

THURSDAY, SEPTEMBER 21, 2006

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

The hearing was convened, pursuant to notice, at 10:37 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Present: Senator Baucus.

The CHAIRMAN. We are going to start the hearing right away, but I have to go next door here to make a quorum for Judiciary, so I am going to ask Senator Baucus to conduct the hearing in my absence.

**OPENING STATEMENT OF HON. MAX BAUCUS,
A U.S. SENATOR FROM MONTANA**

Senator BAUCUS. Thank you, Mr. Chairman.

Today we consider two important nominees, Robert Steel to be Under Secretary for Domestic Finance, and John Veroneau, to be Deputy U.S. Trade Representative. Both of these nominees will face tough challenges. They both appear to be up to the task.

Let me start, first, with Mr. Steel. President Clinton's advisor, James Carvel, once famously remarked that in his next life, he wanted to come back as the bond market because it was so powerful.

Mr. Steel has seen that power up close. He knows how it works. He is well-suited to serve as the government's primary ambassador to the bond market, the Under Secretary of Domestic Finance.

Mr. Steel comes highly recommended by Democrats and Republicans alike. I am pleased that Secretary Paulson is bringing in talent of the highest caliber.

Once confirmed, Mr. Steel will supervise the issuance of Federal debt, maybe even figure out a way to insure it, too. His job will include the grim task of recommending when Congress will need to raise the statutory debt limit.

Unfortunately, his predecessors over the past 6 years told Congress that we had to raise the debt limit by about \$3 trillion. The debt limit has increased by 50 percent during that time, from \$6 trillion to \$9 trillion. That means that every man, woman and child in America carries a debt burden of about \$30,000.

And the future does not look better. The administration projects that the debt will rise to \$11 trillion in the next 5 years. Beyond that, the picture gets even worse. Do we really want to leave that kind of burden to our grandchildren?

Much of the increase in the debt is financed by foreigners. During this administration, debt held by foreigners has doubled. If foreigners decided to buy less of our debt, it could cause a drop in the value of the dollar. It could cause a rapid increase in interest rates. It could cause a recession.

We are in this mess because the government has failed to act responsibly. We need to change course. We need to return to paying as we go.

We were doing just that as recently as 6 years ago. The Treasury Department played a big role in that effort, and Treasury should play a role again.

As one of Secretary Paulson's senior domestic advisors, I hope that Mr. Steel will help to restore fiscal sanity. I hope that he will bring a little of that power of the bond market into the room to help us change course.

I am also pleased that the committee is considering Mr. Veroneau's nomination to become Deputy USTR. I believe that Mr. Veroneau is well-qualified. He has served both as Assistant USTR for Legislative Affairs and USTR General Counsel.

I admire and appreciate his willingness to return to public service to serve in this important post, and I have confidence that he will be a great asset to USTR.

I believe that his skills and experience will be put to good use during this difficult period in trade policy. The Doha Round negotiations are at an impasse, WTO members differ on how the system should operate, populism is on the increase, particularly in South America, and I understand it will be part of his portfolio. To break the deadlock, America will have to provide real leadership. There is nobody else who can.

But providing leadership abroad will be difficult if we do not first address concerns about trade here at home. Many have serious concerns about the way that this administration has used trade promotion authority. That authority expires in less than a year, and I for one do not see a smooth path to renewal. I favor it, but I do not see a smooth path. It is going to be very difficult.

Mr. Veroneau has extensive experience with the Senate. He is well-placed to meaningfully address Congressional concerns and to help find a way forward.

I again thank both the nominees for their willingness to serve. It is a real sacrifice, especially to their families. I look forward to working with them in the future, and I really mean that.

We have to form a real partnership, you, us, the executive branch, and the Congress. I think this committee is developing good relationships with a good number of people that this committee deals with, and I extend my hand to both of you and tell

you I am more than willing to want to work to try to find solutions here, and I know you both feel the same way.

Thank you.

The CHAIRMAN. Thank you, Senator Baucus.

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

The CHAIRMAN. I believe, in listening to Senator Baucus, he covered most of the points that I would on each of these individuals.

I would highlight this, though, that Senator Frist had hoped to be here to introduce Mr. Veroneau, and he is submitting a statement that I am going to put in the record for him and express his regrets that he cannot be here.

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

The CHAIRMAN. Of course, I would be repetitive of what Senator Baucus said about speaking to your vast experience on Capitol Hill, in Washington, in the private sector, so I will not repeat that, but it will be printed in the record.

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

The CHAIRMAN. Then I would only highlight, in the case of Mr. Steel, long years of experience in which he, for 30 years, has experienced and seen the dynamic change in how people utilize the capital markets on both the domestic and international level, and how that is going to prepare him well for his duties as Under Secretary.

So with that in mind, we will now turn to you. We do not swear people in in this committee, so we ask you to do two things. One, give any opening statement you want to make to the committee. A long statement, if you have one, will be printed in the record. Then we would like to have each of you, maybe before either one of you speaks, to introduce family and friends who are with you and have come here to support you, and ask them to stand as you introduce them.

Mr. Veroneau, would you like to start with introduction of family, friends, and supporters?

Mr. VERONEAU. Thank you, Mr. Chairman. With me today are my wife Carol, my sons Zach and Sam, my sister Anne, and my sister-in-law Cathy.

Senator BAUCUS. Would you all stand so we can applaud you? Because you have a lot of teamwork here. You have to work together. [Applause.]

The CHAIRMAN. And Mr. Steel?

Mr. STEEL. Yes. Thank you, Mr. Chairman. With me today are my wife, Gillian, of 26 years, and my two brothers, John and Charles. Our three daughters, all of whom are college-aged, are hopefully either in class or studying, because that is what they told me they were doing today. [Laughter.]

The CHAIRMAN. All right.

Senator BAUCUS. Congratulations, all of you. [Applause.]

The CHAIRMAN. Thank you.

Mr. Steel, we will start with your testimony.

STATEMENT OF ROBERT K. STEEL, NOMINATED TO BE UNDER SECRETARY, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. STEEL. Thank you. Chairman Grassley, Ranking Member Baucus, and distinguished members of the committee, thank you for the opportunity to testify today. I am both honored and enthusiastic about being nominated to the position of Under Secretary of the Treasury for Domestic Finance.

If confirmed, I look forward to serving the President, the Secretary of Treasury, and our country in this position. I also look forward to working closely with the Congress on a variety of important issues facing our country.

I am also honored, especially as I know many of the people who have held this position previously, and I am humbled to assume these same responsibilities as this group of distinguished public servants.

I am enthusiastic because of the opportunity to work for this administration, and for Secretary Paulson. The Secretary and I have worked closely together for almost 3 decades. I know him to be a leader of wisdom and integrity, and would look forward, subject to confirmation, to being a member of his Treasury team.

I hope that my personal and professional background is a good fit with the responsibilities of this position. Recently, I retired from Goldman Sachs after nearly 30 years with the firm and, over that time, had the opportunity to be part of the significant evolution and change in the domestic and international capital markets.

My career started in 1976 in the company's Chicago office, and I rose through the ranks to become co-head of institutional sales in Chicago by 1984.

In 1987, I relocated to London to establish the firm's equity capital markets efforts in Europe. At this time there was a movement in Europe to privatize major state-owned companies and a transition towards a more market-driven economy.

I was directly involved in the efforts to transition these companies, which included major telecommunications, utility, and energy holdings of the different governments of Europe.

In 1996, I became co-head of the Equities Division and joined the firm's Management Committee. Lastly, I was appointed vice chairman of the firm, and these responsibilities expanded to include many cross-divisional strategic activities.

Today, I remain an advisor to the firm and, when asked, play an active role in issues related to inter-firm training, education, and diversity initiatives.

Over the course of my career I have had the benefit of great counsel from many of my colleagues and our firm's esteemed clients. I generally believe that these experiences should give me an appropriate foundation to do my best with regard to the responsibilities related to this position.

I have also had the opportunity to participate in the academic and public policy worlds, using my experience to help frame discussions of important issues facing our markets and our economy.

If confirmed as Under Secretary for Domestic Finance, I plan on bringing my understanding of financial matters and my commitment to sound public policy to the Treasury Department.

In closing, I want to thank you for your consideration and want to pledge to you that, if confirmed, I will fulfill my duties as Under Secretary to the best of my ability.

I welcome your questions today.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Now we will go on to Mr. Veroneau, then we will come back to questioning.

STATEMENT OF JOHN K. VERONEAU, NOMINATED TO BE DEPUTY U.S. TRADE REPRESENTATIVE WITH THE RANK OF AMBASSADOR, EXECUTIVE OFFICE OF THE PRESIDENT, WASHINGTON, DC

Mr. VERONEAU. Thank you, Mr. Chairman.

Chairman Grassley, Senator Baucus, it is a pleasure to be here today. I deeply appreciate your time and consideration. I am grateful for the confidence shown in me by the President and Ambassador Schwab in nominating me for this position.

I would like to thank, publicly, my wife Carol and our sons, Sam and Zach, for supporting my continued interest in government service.

While previously at USTR, I had the pleasure of working with this committee on many trade policy and enforcement issues. I applaud the committee's bipartisan approach to trade and, if confirmed, look forward to working closely with you to continue that tradition.

I believe strongly that open markets best serve America's long-term interests, but recognize that even the best policies are for naught if they lack political support. It is incumbent upon those of us who endorse global trade to ensure and to demonstrate that, over time, open markets serve the interests of all Americans.

Those of us who benefit most directly and immediately from a global economy must redress those who, in the short term, may be adversely affected. We must support policies that encourage job creation and help workers in acquiring new skills.

At the same time, I think it is important to realize that the global economic pie is not fixed. Trade between nations enhances the well-being of the citizens in both countries.

Twenty-five years ago I helped Cambodian refugees fleeing genocide under Pol Pot to build new lives here in America. Today, economic opportunities exist in Cambodia, thanks in part to trade agreements that simply did not exist at the time. Economic progress in Cambodia is clearly good for Cambodia, but it is also good for America.

Consumers benefit from a wider choice of goods and, over time, Cambodia will provide a growing market for U.S. exports. Greater economic and political stability in Cambodia will also enhance our security interests in that part of the world.

Open trade, along with technological changes and other factors, have made the 21st century a period of unprecedented growth and change in the world. The challenge of the next few years will be to continue to secure the benefits of a global economy, while building political support for the institutions and policies that make global integration possible.

The chairman of the Federal Reserve Bank recently cautioned that further global economic integration “should not be taken for granted.” He then pressed the need to “ensure that the benefits of global economic integration are sufficiently widely shared.” I share Chairman Bernanke’s sentiments in this regard.

If confirmed, I welcome the opportunity to work with this committee to advance vigorously our trade interests and to maximize the benefits of global integration for all Americans. I thank you for your time this morning.

The CHAIRMAN. Well, thank you very much.

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

The CHAIRMAN. We have three questions that we ask everybody, and all you have to do is answer “I will” or “I will not.”

The first question is, and I would ask you to answer separately, is there anything that you are aware of in your background that might present a conflict of interest with the duties of office to which you have been nominated? Mr. Steel?

Mr. STEEL. No, Mr. Chairman.

The CHAIRMAN. Mr. Veroneau?

Mr. VERONEAU. No, Mr. Chairman.

The CHAIRMAN. Next, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated? Mr. Steel?

Mr. STEEL. No, Mr. Chairman.

Mr. VERONEAU. No, Mr. Chairman.

The CHAIRMAN. Third, do you agree, without reservation, to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress, if confirmed? Mr. Steel?

Mr. STEEL. Yes, Mr. Chairman.

Mr. VERONEAU. Yes, Mr. Chairman.

The CHAIRMAN. My first question is for Mr. Steel. As recently as Tuesday in the *Wall Street Journal*, but in other places as well, we have been reading a lot about hedge fund losses and the pension plans that invest in them.

We are now also hearing—and this is what I am referring to recently reading about—the United Kingdom is looking into potential tax abuses by hedge funds.

I would like to know your views on these matters and would like you to share with us whether these are areas related to hedge funds that you believe need to have a heightened level of scrutiny with regard to public policy, and in regard to tax policy.

I do not pretend that you ought to know what this committee has been active in, so let me tell you in regard to tax policy and hedge funds and things of that nature.

This committee has had quite a crusade on to close abusive tax shelters or other ways that people are avoiding taxes, and particularly under Senator Baucus’s leadership in that effort, and doing other things to close the tax gap. So, in regard to public policy as well as tax policy.

Mr. STEEL. Thank you, Mr. Chairman. Let me approach the question in maybe three ways. One, let us look at the position of hedge funds; two, think about what the issues are; and three, the

public policy remedies, and then maybe comment on the tax issue lastly, if I might.

The CHAIRMAN. Yes.

Mr. STEEL. First, with regard to the landscape with hedge funds, if one goes back just to about 1990, there were probably about \$50 billion in hedge funds. Today, depending on which numbers you believe, it is between \$1.2 to \$1.5 trillion. So, clearly this has changed the landscape, and it is something quite important to be aware of.

From my perspective, number two, the key public policy issues really relate to systemic risk and to protection of the people so that the right people are investing in hedge funds.

What I mean by both of those is, from a systemic risk perspective, we need to understand when hedge funds might have positions that could affect the system in a broad way. I will come to that in my policy point.

Second, I think the issue is that hedge funds are a sophisticated instrument for investment. They should be available to people who can live with the illiquidity and the potential risk and non-transparency of the hedge fund regimen.

With regard to what should be done, I think that, if you go back to 1998 and in the wake of the long-term capital situation, in 1999 the President's working group reported that they saw no direct need for regulation specifically.

Instead, there are ways that the SEC has, whether it is through the anti-fraud provisions or market manipulation issues, to monitor. The counter-party network is really the best way to monitor the risk.

Having said that, there are many groups looking at this. At Treasury, it is my understanding that there will be meetings this fall with both people who were participants and public policy people to discuss what is going on in the hedge fund market. The SEC has indicated that they are interested in this also. So, I think now is the time, from a public policy perspective, to pause, reevaluate, and see what might be needed from a public policy perspective.

With regard to the tax issue, I know what I have read. It seems as though there was an agreement with Inland Revenue and this specific hedge fund in the United Kingdom to come to a settlement.

Without knowing the specifics, it certainly seems appropriate that vigilant review of the appropriate domicile for taxing should be part of this, and people should not be able to seek a place that gives them a preferred tax rate.

So that should be part of that, and I look forward to learning more about it and working with you to make sure, if confirmed, that this is something that the government is vigilant about from a collection of taxes.

The CHAIRMAN. All right.

Also, you are going to be involved, of course, in advising the Secretary and Deputy Secretary in areas of domestic finance, banking, and fiscal policy. Your office includes many different policy areas and programs that will give you the opportunity to have an impact in many ways.

So, getting some direction from you—as you probably considered whether or not you ought to take the appointment and the impact that you make, because I would think that you would see your job

as trying to improve everything that would come within your jurisdiction so we would have a better economy, a better country—if you are confirmed, what would your priorities be? Where would you like to have an impact, from day one, as you begin your tenure as Under Secretary?

And maybe if you could be specific from this standpoint: if there are policies that are being done that you think ought to be changed, where would you change those?

Mr. STEEL. Thank you. Maybe the right way would be to highlight three areas that seem to me, from the outside, to be areas of interest and where, having spoken to Secretary Paulson, we would like to work together, should I be confirmed. I think the first we would put under the rubric of the competitiveness of the American capital markets.

In 2002, the Sarbanes-Oxley bill was passed, and it was very constructive and a very positive force. But here we are 4 years later, and it seems as though there are aspects of that that warrant review and possibly modification. So I think making sure that America has the best capital markets and focusing on the competitiveness would be one.

I think the second issue, sir, has to be the issue of entitlements. This is an important issue, going back to Senator Baucus's opening comments about the issues that we really owe it to ourselves to take charge of.

Secretary Paulson said recently that when you see a large problem you should run toward it to deal with it, as opposed to running from it. As Senator Baucus outlined, this is an impending issue that requires our attention. So I think the entitlements aspect, with the dual issues of Social Security and Medicare/Medicaid, would be item number two.

I think for the third—and this is something that is really going on right now in Congress—is the issue of reform for GSEs. It is appropriate to consider reform with the key issues being to deal with a stronger regulator and to protect against systemic risk, but also to ensure that the housing market remains strong and confident, and that people who want access to finance so as to buy a home and to fund their housing have confidence in the system, too. So those would be three areas and how I might think about how to approach them.

The CHAIRMAN. All right.

After Senator Baucus gets done with his questioning, I would have four or five questions for you, Mr. Veroneau.

Go ahead, Senator Baucus.

Senator BAUCUS. Mr. Steel, what did Secretary Paulson say to you to get you to take this job? [Laughter.]

Mr. STEEL. Well, I think the reality is, Secretary Paulson and I have been friends for a long time, and he has been a great person to work for. The idea of being part of his Treasury team is quite appealing.

I guess I would say parenthetically, Senator Baucus, that Goldman Sachs is a place that has a long tradition of encouraging all of us to think about what we can do, not just for our firm, but in a bigger sense.

In the 30 years I worked at the firm, there were six leaders of the firm: John Whitehead, John Weinberg, Bob Rubin, Steve Friedman, John Corzine, and Hank Paulson—Secretary Paulson, I beg your pardon.

If you think about the example they set, they were not bosses that told you what to do. They were leaders that showed you what to do. Every one of them has had this same aspect. So, I look forward to the privilege of working with Secretary Paulson and being a part of his team.

Senator BAUCUS. I appreciate that. Maybe you answered my question in your previous answer. But in addition to serving, generally, what do you want to accomplish? How do you want to be remembered in 2 years?

Mr. STEEL. Well, I think, as I just said to Chairman Grassley, I would go back to focusing on the issues that might be easy to avoid, but really demand our attention. In your opening comments you alluded to several. I think that entitlements would be high on that list. Ensuring the competitiveness of American capital markets would be one, and otherwise focusing on those types of issues.

Senator BAUCUS. Right.

Now, what are your concerns in regard to competitiveness in the capital markets?

Mr. STEEL. Well, I think that in the wake of Sarbanes-Oxley in 2002—

Senator BAUCUS. Yes. You anticipated that. In going through your biography here, I see you wrote an article on July 29 in, I guess maybe it was the *Financial Times* last year, in which you say Sarbanes-Oxley was “a breath of fresh air.” I was curious the degree to which you still think that.

Mr. STEEL. Well, I think that there is no question that it was successful. If you look back, sir, at the time, with the issues that were affecting the economy and the capital markets, we had all the effects of the bursting of the telecom bubble. We had a lack of confidence with corporate management. We had the effects of 9/11 and a slowing economy. Shortly after 9/11, it was the opinion of almost every economist that we were heading into recession.

So you can see why these were the right tools for the task for giving confidence in the capital markets. I think today we are 4 years later, and, as Secretary Paulson alluded to, sometimes the pendulum swings too far.

Senator BAUCUS. Has it, do you think?

Mr. STEEL. I think there is no question that we need to work together to look at these issues and see if that is not the case.

Senator BAUCUS. Because you hear a lot about public companies going private. A lot of companies want to de-list, new listings are overseas, not in New York.

Mr. STEEL. Yes.

Senator BAUCUS. What is going on?

Mr. STEEL. Well, I think that sometimes people kind of bang on about that being only a Sarbanes-Oxley issue. I do not think that is the case.

Senator BAUCUS. What else might it be?

Mr. STEEL. I think it is really issues related to, number one, capital markets outside the United States are better, deeper.

Senator BAUCUS. Better than they were in the past?

Mr. STEEL. Better than they were in the past.

Senator BAUCUS. All right.

Mr. STEEL. Thank you. And so I think that the competition is better, and so we should realize that our markets have to improve and be aware of that. And there are other aspects, whether it is the litigation system, and there may be some parts of Sarbanes-Oxley that can be part of all the ingredients in this issue. But it is not simply one thing.

Senator BAUCUS. So what do you recommend? First, you want to reexamine Sarbanes-Oxley. You mentioned litigation. What are the other factors that, perhaps comparatively, make the U.S. capital markets a little less competitive than they once were?

Mr. STEEL. Well, I think, as I said, it is the improvement of others. I think there are aspects of Sarbanes-Oxley. In particular, Sarbanes-Oxley is 75, 80 pages long, and there are about 150 words in the fourth title of that in 404 that require review. That would be one. I think, also, it is possible that certain other parts of the U.S. markets need to be reconsidered, and we should see what we can learn from other places.

Senator BAUCUS. What comes to mind there? What might we learn?

Mr. STEEL. Well, I think that there are changes going on in the American capital markets, increased use of technology, changing business models, things like that.

Senator BAUCUS. What about this doubling of our foreign debt in the last 5 years? What are we going to do about that? I mean, this is serious. There is a lot of talk, but what can you pledge to do about that?

Mr. STEEL. I think that my description would be, first of all, to try to frame the issue. The level of debt that we currently have is manageable, both by historic standards and compared to our other major competitors. For example, we really, today, run with public debt as a percent of GDP of about 36 percent. Throughout the 1990s, that was closer to 45 or 46 percent.

If you look at the G-7 countries, ex the United States, that same number, which is 35 percent in the United States, would be close to 60 percent. Having said that, the President and Secretary Paulson have committed to reducing the deficit and driving it down. They have a plan in place and the goal is to cut the deficit by half by the year—

Senator BAUCUS. Right. But you have talked about debt as a percentage of GDP. I am talking about debt held by foreigners. This may not be accurate, but I heard not long ago that, in the last year, 60, 70 percent of the new debt is purchased by foreigners.

Mr. STEEL. I do not know the number on the marginal debt, the new debt.

Senator BAUCUS. Yes. Right.

Mr. STEEL. I know what it is on total.

Senator BAUCUS. But I am talking about the accumulation. The trend is not good.

Mr. STEEL. Well, I think there is another way of looking at that. That is, when foreign governments, who own today about 52 percent of the public debt of the United States, actually want to in-

vest, it is a positive for us. It lowers the interest rate. Having competition of demand among different people to want to own our debt is not all unconstructive. There are positive aspects for it, too.

So I think, as the issuer and someone who is seen as a place of refuge, of sound investment with good return on a risk-adjusted basis, that is a compliment to the United States. So while there are attendant risks, potentially, I see it overall as a positive of having competition for the debt, for owning our debt.

Senator BAUCUS. Right. Well, my time has expired. I will have to come back later. Thank you.

The CHAIRMAN. I said I was done asking you questions, but this is not a difficult one for you. It follows up on something you said as you answered my question about hedge funds.

You talked about a group at Treasury talking to folks in the hedge fund industry. I would like to ask if the Finance Committee staff, if possible, would be allowed to participate, or at a minimum at least be closely informed on Treasury's findings from that review. Would that be possible?

Mr. STEEL. I pledge to you that, sir.

The CHAIRMAN. All right. Thank you very much. I am glad that you would cooperate with us on that.

Now, Mr. Veroneau, in regard to Argentina, it seems to be imposing a 23 percent export tax on soybeans, but only 5 percent export tax on biodiesel from soybeans, giving Argentina and people in business there a strong incentive for them to export biodiesel over soybeans.

It seems to me that the export tax on biodiesel, in effect, operates like an export subsidy. If confirmed, would you raise that issue with government officials in Argentina?

Mr. VERONEAU. Absolutely, Mr. Chairman. This is an area that the U.S., as you know far better than I, is extremely competitive. I think it is critical that USTR step up and go to bat for our producers in the face of what may be distorting practices by other countries. I would be pleased, if confirmed, to raise this with my counterpart.

The CHAIRMAN. All right. On another trade issue involving Mexico, high fructose corn syrup, presumably this is all worked out. But I would beg you to pay great attention to seeing that complete liberalization of the sweetener markets will take place when it is supposed to, on January 1, 2008, and not wait until January 1, 2008 to see that it is evolving into their good-faith compliance with what they told us they were going to do.

Mr. VERONEAU. Yes, Mr. Chairman. As you know, there is an industry-government group that has been formed to manage these issues over the next 15 months to assure that the market liberalization that is called for in NAFTA comes to fruition.

The CHAIRMAN. Yes.

And you know, with several countries—now I guess, four or five—we have moved forward with the President's goal of a Middle East Free Trade Area by the year 2013. Part of each one of those debates and negotiations is whether these free trade partners in the Middle East would or would not participate in the Arab League boycott of Israel.

So, if confirmed, I would hope that you would work to obtain commitments that that would continue as we bring more countries into it, and also police the commitments of those countries that have already made that promise.

Mr. VERONEAU. Without question, Mr. Chairman, this has been a high priority in all of the FTA negotiations in that part of the world, to secure that commitment that countries are abiding by their WTO MFN obligations in that regard.

The CHAIRMAN. Yes.

The next question, in regard to Brazil, is probably a little sensitive for you right now, because I know that your boss is going to try to work out some things for the reauthorization of the Generalized System of Preferences.

But I have taken a strong position that Brazil and other countries that are impeding our efforts to get the World Trade Organization Doha Round completed, that these countries that benefit from our opening our markets through GSP but are not, in turn, helping us open, not only their markets, but worldwide markets as well—and Brazil is one of them—that we should not give GSP to those countries.

Why should we continue to extend unilateral preferences to Brazil, given the lack of cooperation on the Doha Round negotiations?

Mr. VERONEAU. Mr. Chairman, I understand your position on this. As you mentioned, these are unilateral preferences that we provide as a gift, as an incentive to developing countries to help them get different parts of their economies off the ground.

But because these are unilateral, I agree that we should take this time as the program expires to reconsider and assess different countries and different sectors to see if the extension of those unilateral benefits is still warranted, to the extent that they are.

The CHAIRMAN. Yes. And obviously it is my view they should not be.

During the committee's informal consideration of the proposed legislation to implement the U.S.-Peru Trade Promotion Agreement, our committee amended the Statement of Administrative Action to reflect that the administration will not implement that trade agreement until Peru takes measures necessary to comply with its obligations under certain agreements on sanitary and phytosanitary barriers to trade and technical barriers to trade.

Do you understand that to be the administration's position? Before you answer, if confirmed, will you work with Peru to see that such measures are, in fact, taken before the agreement enters into force?

Mr. VERONEAU. Mr. Chairman, that is my understanding of the administration's position. I would intend to make a high priority for myself, if confirmed, to the execution and enforcement of these commitments.

As you well know, these food safety issues have at certain times been thinly veiled protectionist measures, and I think it is important that we endeavor to make sure, in all these cases, that we are separating legitimate safety issues from thinly veiled protection.

The CHAIRMAN. To emphasize another—I do not know whether it is small or large at this point—disagreement between Peru and

the United States on these agreements: we want them to take into consideration our request on their taking our beef into their market.

Mr. VERONEAU. Understood, Mr. Chairman.

The CHAIRMAN. All right.

Senator Baucus?

Senator BAUCUS. Yes. If I might just follow up on that last point about beef. Peru, as I understand it, in the agreement we reached, agreed to take beef over 30 months of age, but is not doing so. Is that correct?

Mr. VERONEAU. Well, there are negotiations under way right now with Peru, as I understand it, Senator Baucus, where the goal is to secure the kind of commitment that was secured with Colombia with regard to beef.

Senator BAUCUS. And in the side letter, Peru committed to permit beef—all beef—under internationally accepted standards. Is that your understanding?

Mr. VERONEAU. That is my understanding.

Senator BAUCUS. But Peru is not doing so with respect to beef over 30 months.

Mr. VERONEAU. It is my understanding that the USTR and USDA are working extremely closely and diligently with Peru to make sure that this matter is resolved satisfactorily.

Senator BAUCUS. Well, I would hope you would work aggressively, once confirmed, because this is very important to a lot of people in our country.

Back to you, Mr. Steel. You mentioned a little about entitlements as a way to get a handle on the budget deficit. Do you not agree, though, that it is a little bit unwise to just cut Medicare, cut Medicaid as a way to address the rise in entitlement spending in health care because health care costs are increasing for all Americans?

On a per capita basis, I think we are number one, by a magnitude of close to two. We are about twice as expensive on a per capita basis. Health care costs in the United States are about twice as expensive on a per capita basis compared with health care costs in other countries.

So, as we try to address Medicare and Medicaid increases in expenditures, really it is important to address the underlying questions. Why are health care costs generally increasing? It is not just for Medicare patients. It is not just for Medicaid patients. It is for all Americans.

Do you not think it unwise just to cut Medicare and Medicaid just for the sake of cutting without also trying to address the underlying health care costs that this country faces?

Mr. STEEL. Absolutely, Senator Baucus. This is quite a complex issue. The idea that there is a single solution of just cutting is, I think, completely wrong. Instead, I look forward to learning a lot more about this.

But there is an issue of, from a system perspective, what can we do to encourage efficiency, reward innovation, and bring a slowing down, as you quite correctly described, of health care costs rising at what seems to be an overly quick rate.

Senator BAUCUS. I do not want to overstate the point, but I was in Bangalore not long ago. I was at the Jack Welch Technology

Center. It was very impressive. I am no technology buff. I like to think I am, but I know I am not. But it was very impressive.

I turned to the manager there afterwards and I said, why are you here? Why are you here in Bangalore? He said, because this is the greatest talent pool. I said, what country has the next greatest talent pool? China. I asked, where is the United States? He said, well, you are down there a ways.

I asked, what do we need to do to get up there? He said, two things. One, education. You need to better educate your people, especially in science and math, and so forth. But, second, he said health care costs. He said, you have to get a handle on your health care costs.

Now, I did not have a long, involved conversation with him, but those were two responses that popped up in his head in response to my questions to him, just right off the top. I think he is accurate.

You and I all talk to lots of American businessmen who have had a devil of a time dealing with their health care costs, let alone the legacy costs, say, that GM, Ford, and other companies, airlines, have to face.

So I urge you very, very strongly, when you are in your inner sanctum there, talking about all these things, that you figure out a way to address the underlying causes of all this, and that is health care costs. And be very aggressive about it, because otherwise these problems are going to continue to increase, in my judgment. It is not an easy issue.

Mr. VERONEAU. No. Thank you, Senator.

Senator BAUCUS. In fact, I ask people every day their solutions to this question. I would guess, every day, a couple of different groups come into my office, hospital groups, cancer folks, intermediaries, you name it. I ask, what are we going to do about health care costs in this country?

Unfortunately, not many people have a good answer. They are kind of pigeon-holed, or siloed. They just look at their issues and they do not look at it overall. We have to start looking at the overall. We have to start thinking ahead. We have to think strategically about all this, not just react ad hoc. Again, I would just urge you very strongly that we have to do something about this.

Now, on entitlements. Some suggest an entitlement commission of some kind to get a handle on entitlements. Do you not agree, if we are going to solve this honestly—which means solving the Federal budget deficit, the fiscal imbalances—that we have to also include revenue?

Revenue has to be on the table. If we are going to look at entitlements, we have to look at, not only entitlement spending, but discretionary spending and also revenue. Do you agree that everything has to be on the table if there is going to be an honest, non-political solution?

Mr. STEEL. Well, Senator, I think that, if confirmed, my perspective would be to hear what everyone thinks. I guess to the extent that means everything is on the table, I guess that is right. But the issue really now is understanding.

As you said, these issues are quite complex and quite large. So, hopefully, we can get the right people, in a bipartisan way, around the table to focus on these issues and to talk about everything.

Senator BAUCUS. Yes. I do not want to belabor the point, but a lot of us talked about this basic question, the fiscal imbalances, trade imbalances, et cetera. We are trying to grapple, trying to find solutions.

But to avoid the talk, that is, and get down to action, in this form of government we have, in a democracy, it only really works, in my judgment, when both ends of Pennsylvania Avenue, both political parties, kind of forget the politics. This is real. This is serious. We have to solve this thing.

Mr. STEEL. Yes, sir.

Senator BAUCUS. The only example I can think of that really worked was back in the 1980s with the Social Security Commission. President Reagan appointed Mr. Greenspan, and it worked.

Jim Baker called Tip O'Neill and said, if you Democrats agree to lower benefits, we Republicans will agree to raise taxes. Tip said, fine. Baker said, great. There was a handshake. They did it. Nobody criticized anybody.

My judgment here is that you have to do the same. You have to do the same thing here, otherwise one party is going to suspect there are ulterior motives. People will say, oh, you just want to cut entitlement spending. You just want to cut Medicare and Medicaid. What about other issues? You have to avoid any smell or scent or scintilla of perceived political ulterior motive to get something done.

Mr. STEEL. Well, I think to reference, as I have before, your opening comments, that basically to get things done, we are going to have to find things that are nonpartisan and work together.

Senator BAUCUS. Right.

Mr. STEEL. And the second point is, I think we should focus on the big, important issues. If we were to say, what are the issues that fall in the center of the crossfire of those two issues that are important and require bipartisan effort, then this is the one.

Senator BAUCUS. Let me give you another big, important issue, and that is the tax gap. You know as well as anybody, it is about \$350 billion every year.

Mr. STEEL. Yes, sir.

Senator BAUCUS. Income taxes, legally owed, are not collected. It is about \$340, \$350 billion a year. The Chairman alluded to this in the statement he made. I am making this sort of a cause of mine to start doing something about this. I asked Secretary Paulson to address it. I have asked Commissioner Everson and others.

This committee essentially gave the administration, a couple, 3 months ago, a deadline of the end of September to come up with a plan, that is, with benchmarks, deadlines, and metrics and so forth, and an honest, realistic way to try to address it. So far, they have not come up with that. I just strongly urge you, when confirmed, to find a solution to this.

Mr. STEEL. Sir, I can tell you that when I saw Secretary Paulson several days ago before he headed to Asia, we were talking about a variety of things, that your voice has been heard, and Secretary

Paulson has this as an issue that he knows he wants to be responsive on.

Now, whether we hit exactly the program or the project by a certain date, he is just getting into the job. But your point of view has been heard loud and clear, and his intention is to be responsive to your issue.

Senator BAUCUS. Well, thank you very much. Really, not to be corny about it, a lot of American people are thinking, gee whiz, they pay taxes and it is being collected. What about these other folks who are not paying their taxes? And it is a big amount.

Mr. STEEL. Yes, sir.

Senator BAUCUS. All right. Thank you, Mr. Chairman.

The CHAIRMAN. Yes. Thank you.

I have one question left for Mr. Veroneau, and then one little thing to discuss with Mr. Steel.

Senator Baucus and I, on May 11, along with Chairman Thomas and Ranking Member Rangel, sent a letter to President Bush about Russia's accession to the WTO.

We said that until Russia demonstrates a sustained commitment from the highest levels of Russian government to protect intellectual property rights and to respect and implement international standards on sanitary and phytosanitary measures, that we could not support their accession to the WTO.

What is your assessment of the Russian government's commitment to do these things we wrote about, intellectual property rights and implementing international standards on sanitary and phytosanitary measures?

Mr. VERONEAU. Truthfully, Mr. Chairman, I think it is unclear. I think they have made some efforts and made some progress, but frankly I think there is much more that they need to do to demonstrate that they are committed to enforcing intellectual property and to not use SPS issues in an inappropriate way.

As you know, this past summer there was great pressure and, I would dare say expectation, that the U.S. would reach a bilateral agreement with Russia on its WTO accession.

At the end of the day, Ambassador Schwab and the President said, no, we are not ready to close this. We do not have the commitments that we need to move confidently ahead. They said no.

I think, hopefully, that sent a strong message to the Russian government that the President and Ambassador Schwab need further progress, a demonstration of progress on those two important issues, as well as some others.

The CHAIRMAN. Yes. Thank you.

Mr. Steel, not a question, but a conversation with you. It picks up on the issue that Senator Baucus brought up, and probably impressions I get from my town meetings in Iowa.

That is, I think Iowans have the opinion that we go hat-in-hand to Beijing, saying, will you buy some of our debt. And I do not think that is the way it works. If it does work that way, say so.

I think each Monday morning, or some period of time, somebody in the Treasury Department goes out once a week to refinance our debt. Chuck Grassley can invest in that, and people in China can invest in that. Do we go to Beijing and say, will you finance our

debt, or do we just put it out on the market and, in the marketplace, they invest in it?

Mr. STEEL. It is the latter, sir. It is, we offer our debt to the people that would pay the highest price or, in essence, give us the lowest interest rate.

The CHAIRMAN. All right.

Mr. STEEL. It is an open market. The savings of these other places, the largest buyer of our debt is Japan, the second would be China, and the third is the United Kingdom. These people choose to buy our debt because it is attractive and there is no quid pro quo inferred at all.

The CHAIRMAN. All right.

Well, it would be good for somebody in the executive branch of government to say that, because people listen to the executive branch more than they do 535 members of Congress. Anything we say kind of gets lost.

I have a feeling, even from speeches on the Senate floor that various Senators make, that they think we go to Beijing and beg them to take our debt, as opposed to the marketplace making that determination.

So that gets me back then to a point about whether the problem is a problem of our government. And I know there are certain public policy issues right now that Secretary Paulson is working on, like the floating of their currency and things of that nature, and whether or not they are keeping their promise under the World Trade Organization and all those things. Those are our business. We have to deal with those.

So much of our debt is related to consumer goods, and it seems to me in America that the consumer is king. If Americans decide to have a negative saving ratio, like we did last year for the first time, and we want to buy everything that China is selling to us, then the problem is that America is not saving enough, we are prone to live for today and forget about tomorrow.

We want to be materialistic in what we are doing, so we are spending all of our money instead of investing it in government bonds. Somewhat, the problem is each of us as we look in the mirror every morning. We do not save enough. We want to be so consumer-oriented.

That is one of the reasons we have a big trade deficit with China. They save a lot and they want to invest in America. Right or wrong? If I am wrong, do not be afraid to tell me, because I have to think these things through, and you can help me think them through.

Mr. STEEL. I look forward to helping you think these things through.

The CHAIRMAN. In other words, I am wrong in what I said. [Laughter.]

Mr. STEEL. No, Mr. Chairman. I assure you, that is not the case. I think there are lots of issues here, going back to the purchasing of our debt by foreign governments.

About half of the publicly traded debt of the United States is owned by people outside the United States because it is an attractive place to invest. I think that the idea of the savings rate in the

United States starting to rise is a good thing and that we should work together.

I look forward, if confirmed, to try to work with the Congress on thinking about ways to encourage savings in America. That should be a good ambition for us. Together, we can think about those issues, but I think that is the right way to think about the issue.

The CHAIRMAN. All right.

Well, one of those things you have 2 or 3 months to think about is taking this Breaux-Mack Commission report, or maybe it is the Secretary's responsibility, and making some recommendations to the President, because our tax policies discourage savings to a considerable extent.

There are several opportunities in that commission report for encouragement for savings. I am hoping—although we are going to move forward regardless—that the President will study that and make some recommendations to Congress from the year-long work of the Breaux-Mack Commission.

Senator Baucus, did you have something you wanted to say?

Senator BAUCUS. Yes, just a couple of things. I need to find out more myself. To what degree are the Chinese and Japanese buying American debt because, (a) it is an attractive investment, but also, (b) it helps keep the dollar high vis-a-vis the RMB and the yen, which helps them sell more goods.

Americans find lower prices, Chinese prices for goods. Those Wal-Mart products come over from somewhere. I mean, is this not sort of a vicious circle we are in here? They like to buy our debt because it helps keep the dollar higher compared with the RMB and the yen, which makes us buy more of their products.

Mr. STEEL. Yes. I think the right thing for me to say, Senator, is that, if confirmed, that is something I look forward to learning more about from the inside of Treasury, and then having further discussions with you.

The CHAIRMAN. Well, it seems to me that common sense would dictate that if we are trying to float our debt, the impact on the dollar is not any different than if Chuck Grassley invests in that debt or some Chinese person invests in that debt. You are taking a dollar out and putting it in savings. So would they not both have the same impact on the dollar, on the value of the dollar?

Mr. STEEL. Yes, sir.

Senator BAUCUS. But just to explore further here. The Chinese are willing to get lower pay or to get back lower interest rates than maybe others, because they like to invest in the United States, and for the reasons I mentioned. Is there any truth in that?

Mr. STEEL. I am not sure I can completely comment on the perspective, the ambition, or the interest of the specific investor. But I think the overriding aspect is that investing in the debt of the United States is seen as an attractive, safe alternative that, on a risk-adjusted basis, provides an attractive return for the investor.

The CHAIRMAN. Wait a minute. Does common sense not dictate that the marketplace is going to make that determination? If the Chinese want to invest, they are going to pay some percentage point or part of a percentage point more than Chuck Grassley is going to pay for that debt. Right or wrong?

Mr. STEEL. Yes, sir. Yes, sir. [Laughter.]

The CHAIRMAN. So there. [Laughter.]

Senator BAUCUS. Fine.

What country has the highest proportionate debt held by foreigners after the United States?

Mr. STEEL. I do not know the answer, sir.

Senator BAUCUS. Any rough guess what it may be?

The CHAIRMAN. No, you just said. You said Japan.

Senator BAUCUS. No, the other way around. The other way around.

The CHAIRMAN. I am sorry.

Senator BAUCUS. They have our debt. I am asking the question: what other countries have so much of their debt held by foreigners?

Mr. STEEL. I would look forward to finding out and coming back to you, sir.

Senator BAUCUS. Yes. I am a little bit surprised at that answer because you know a lot about all this. You are kind of steeped in all this, and I am just a little surprised you are not able to help us a little more.

The CHAIRMAN. These are kind of arcane statistics, you know.

Senator BAUCUS. Well, they are somewhat arcane, but this is Mr. Steel's life, to a large degree, too. So I am just a little curious there.

Mr. Veroneau, how in the world are we going to, almost literally, get more consensus and understanding that trade is good so long as everybody benefits, not just companies, frankly, but also Joe Sixpack?

There is a concern not just in the United States, but also in other developed countries, as to the widening divergence in income between the most wealthy and the least wealthy. I mean, it is widening in America, it is widening in other countries, too. I think that probably explains why there is a lot of concern about trade and why trade agreements are not very popular.

Hugo Chavez's comment yesterday, playing to populism, for example, in South America, does not help either. So what is your overall general approach? And maybe both of you could chime in here a little bit. How can the United States provide leadership?

What do we have to do to kind of lower the temperature here a little bit and also to address some legitimate questions, namely the perceived gap in who benefits from trade with the United States, an actual gap, and yet encourage other countries, maybe Peru, and, say, Venezuela, to kind of start working together?

Mr. VERONEAU. Right. Senator, as you well know, all politics is local. I think when you take each country, there are different trends in these countries, but a common theme lately. That is this backlash against globalization. It is serious in some countries and less serious in others.

I think, in my view, the objective evidence is overwhelming that a global, integrated economy is a win-win. There are certainly issues of competitiveness in subsectors, and certainly with families.

Those families and those sectors deserve our attention because, at the end of the day, the goal here is to make sure that all human capital is fully employed. If people are losing their jobs in one sector, we need to make sure that they are as quickly and as painlessly transitioning to others.

Senator BAUCUS. Well, that is the objective. But do you have any plans to concretely do something about that?

Mr. VERONEAU. Well, I think, going back to comments you made earlier about your conversation in India, the education system—I do not have domain over U.S. education policy, but clearly the administration, together, must have a coherent strategy for the competitiveness of the U.S. in education. Lifelong job training has to be part of it, and is part of it. It is not an overnight solution, but it is a steady solution that we need to focus on.

I think in Latin America you are seeing this sort of rolling populism for different reasons. Some of it is, these governments are relatively new democracies, many of them. Democracy is hard, and especially new democracies that, over the past 20 years, have made promises to their citizens of what they will deliver and have not always followed through on some perhaps over-aggressive promising.

I mean, we see this in Russia with the collapse of the Soviet Union. There is clearly a backlash among some in the citizenry who feel that they had it better under the old regime. Even though, without question, Russia is on a proper path now and a better path for its future, there are difficulties in the transition.

I would submit that in Latin America, what we are seeing, albeit on a less drastic basis, is economies, cultures, and countries going through a transition that is not easy, but is the right transition.

Senator BAUCUS. Right. Right. Well, as you said, politics is local. It is also, as you know, a perception of reality. A lot of people in our country really wonder about the value of trade agreements. I support almost all of them, but I can tell you, it is difficult. People at home really wonder, and with good reason.

I strongly urge you to address much more aggressively in future trade agreements the current transition, TAA benefits that really work, that are not just talk. If we want people to adjust, we have to help them adjust.

Some people have a hard time adjusting. A 50-year-old guy, that is all he knows. It is easy for an investor to adjust, he just moves his capital around. It is very difficult for a working stiff to adjust. Very difficult. You have to develop policies to help that really happen.

Second, I just think, with respect to Latin America, this country has made a big mistake by poking our finger in Chavez's eye. He uses us as a foil for his populism. We should take away that foil. It is just common sense to me. And we are causing some of our problems in Latin America, frankly. That is one way to help, I think, find some solutions here.

Thank you.

The CHAIRMAN. I would suggest that we tell Chavez, if we want to help Venezuela, how stupid he was when 19,000 oil workers went on strike and he fired them all and hired people back that did not know how to run the oil industry, and he is reaping half a million barrels less per day.

I would say, for the President of Bolivia, how stupid he was to nationalize his gas industry. Then all the industry pulls out and he finds out 6 months later he does not know how to run it, and he has to call in somebody from Brazil to run it. They are not very wise.

If they want to help the people they were elected to help, as populism is supposed to, they ought to be a little bit smarter on how they make their decisions. If I was in the executive branch of government, that is what I would be telling those people, how stupid they are. [Laughter.]

[Whereupon, at 11:40 a.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

**Opening Statement of U.S. Senator Max Baucus (D-Mont.)
Hearing to Consider the nominations of Robert Steel and John Veroneau
Hearing before the Senate Finance Committee**

Today we consider two important nominees: Robert Steel, to be Undersecretary for Domestic Finance; and John Veroneau, to be Deputy U.S. Trade Representative.

Both of these nominees will face tough challenges. They both appear to be up to the task. Let me start with Mr. Steel.

President Clinton's advisor James Carville once famously remarked that in his next life, he wanted to come back as the bond market, because it was so powerful.

Mr. Steel has seen that power up close. He knows how it works. He is well suited to serve as the Government's primary ambassador to the bond market, the Undersecretary of Domestic Finance.

Mr. Steel comes highly recommended by Democrats and Republicans alike. I am pleased that Secretary Paulson is bringing in talent of the highest caliber.

Once confirmed, Mr. Steel will supervise the issuance of Federal debt. His job will include the grim task of recommending when Congress will need to raise the statutory debt limit.

Unfortunately, his predecessors over the past six years told Congress that we had to raise the debt limit by about \$3 trillion. The debt limit has increased by 50 percent during that time, from \$6 trillion to \$9 trillion.

That means that every man, woman, and child in America carries a debt burden of about \$30,000.

And the future looks no better. The administration projects that the debt will rise to \$11 trillion in the next five years. Beyond that, the picture gets even worse. Do we really want to leave that kind of burden to our grandchildren?

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And much of the increase in the debt is financed by foreigners. During this administration, debt held by foreigners has doubled. If foreigners decide to buy less of our debt, it could cause a drop in the value of the dollar. It could cause a rapid increase in interest rates. It could cause a recession.

We are in this mess because the Government has failed to act responsibly. We need to change course. We need to return to paying as we go.

We were doing just that as recently as six years ago. The Treasury Department played a big role in that effort. And Treasury should play that role again.

As one of Secretary Paulson's senior domestic advisors, I hope that Mr. Steel will help to restore fiscal sanity. I hope that he will bring a little of that power of the bond market into the room, to help us change course.

I am also pleased that the Committee is considering Mr. Veroneau's nomination to become Deputy U.S. Trade Representative. I believe that Mr. Veroneau is well qualified for that position. He served both as Assistant USTR for Legislative Affairs and USTR General Counsel.

I admire and appreciate Mr. Veroneau's willingness to return to public service to serve in this important post. I have confidence that he will be a great asset at USTR.

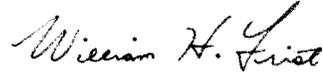
I believe that Mr. Veroneau's skills and experience will be put to good use during this difficult period in trade policy. The Doha Round negotiations are at an impasse. WTO members differ on how the system should operate. Populism is on the increase, particularly in South America, which I understand will be part of his portfolio. To break the deadlock, America will have to provide leadership.

But providing leadership abroad will be difficult, if we don't first address concerns about trade here at home. Many have serious concerns about the way that this administration has used Trade Promotion Authority. That authority expires in less than a year. And I, for one, do not see a smooth path to renewal.

Mr. Veroneau has extensive experience with the Senate. He is well placed to meaningfully address congressional concerns, and to help find a way forward.

I thank both of the nominees for their willingness to serve. I look forward to working with them in the future. And I look forward to hearing of their good work. Who knows, perhaps even the bond market will be impressed.

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Remarks as Prepared for Senate Majority Leader Bill Frist, M.D.
Nomination of John Veroneau as Deputy U.S. Trade Representative
Senate Finance Committee
United States Senate
Thursday, September 21, 2006

Mr. Chairman,

In August, President Bush nominated John Veroneau to the position of Deputy U.S. Trade Representative, with the Rank of Ambassador. Today, I have the honor of introducing him to the Committee.

I have known Mr. Veroneau for nearly a decade. He's my former Legislative Director, so I speak with some authority on his experience and qualifications. To put it simply, Mr. Veroneau is a skilled legislative hand. While serving as my Legislative Director, he proved an integral member of my staff. He consistently demonstrated a nuanced understanding of a diverse array of issues, and his insightful advice was always on the mark. Mr. Veroneau was an invaluable asset to my staff, and I was sorry to lose him.

Mr. Veroneau's depth of experience in policy, and trade in particular, makes him well suited for the job of Deputy U.S. Trade Representative. He has a unique understanding both of how Capitol Hill operates and of the Administration, so he brings a balanced approach to critical trade issues. He's a person of great character, and I can say with absolute confidence that he will represent the country well.

I look forward to swift action by the Committee and confirmation by the Senate. He will be a valuable addition to the already superb staff of the USTR office.

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U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Opening Statement of Chairman Grassley
Nomination Hearing of John Kevin Veroneau and Robert K. Steel
Thursday, Sept. 21, 2006

The purpose of today's hearing is to consider the nominations of John Veroneau to be Deputy United States Trade Representative in the Office of the United States Trade Representative, and Robert Steel to be Under Secretary for Domestic Finance at the Department of the Treasury.

Before we start, I want to note that Senator Frist had hoped to be here today to introduce Mr. Veroneau to the committee. Unfortunately, Senator Frist is unable to attend today's hearing. Instead, Senator Frist is submitting a statement for the record in support of Mr. Veroneau's nomination.

President Bush has made an outstanding selection in nominating John Veroneau to be Deputy United States Trade Representative. Mr. Veroneau is well-known to the committee, having served previously as both General Counsel and Assistant USTR for Congressional Affairs in the Office of the United States Trade Representative.

Mr. Veroneau comes to the Committee as a partner in the law firm DLA Piper Rudnick Gray Cary. He has also served as Assistant Secretary of Defense for Legislative Affairs, Chief of Staff to Senator Collins, and Legislative Director to both Senator Frist and former Senator Bill Cohen.

Mr. Veroneau is highly qualified to be Deputy USTR. He brings a wealth of experience and perspective to this new position, and I hope my colleagues will join me in processing his nomination quickly.

Mr. Steel is also very qualified for the position to which he has been nominated. He developed his qualifications to be Under Secretary for Domestic Finance over the course of a long and venerable career at The Goldman Sachs Group. Over the course of his career, Mr. Steel has experienced thirty years worth of dynamic change in how people utilize capital markets, on both a domestic and international level. Mr. Steel also has extensive experience working with the investment community while interacting with various state and federal regulatory bodies. His accumulated experiences make him well-qualified for the position to which he has been nominated.

STATEMENT OF ROBERT K. STEEL
NOMINEE FOR UNDERSECRETARY OF DOMESTIC FINANCE,
DEPARTMENT OF TREASURY
SEPTEMBER 21, 2006

Chairman Grassley, Ranking Member Baucus and distinguished Members of the Committee, thank you for the opportunity to testify today. I am both honored and enthusiastic about being nominated to the position of Undersecretary of the Treasury for Domestic Finance. If confirmed, I look forward to serving the President, the Secretary of the Treasury, and our country in this position. I also look forward to working closely with the Congress on a variety of important issues facing our country. I am also honored as I know many of the people who have held this position previously, and I am humbled to assume these same responsibilities as this group of distinguished public servants.

I am enthusiastic because of the opportunity to work for this Administration and for Secretary Paulson. The Secretary and I have worked closely together for almost three decades. I know him to be a leader of wisdom and integrity and would look forward, subject to confirmation, to being a member of his Treasury team.

I think that my personal and professional background is a good fit for the responsibilities of this position. Recently I retired from Goldman Sachs after nearly 30 years with the firm and over that time have had the opportunity to be a part of the significant evolution and change in the domestic and international capital markets. My career started in 1976 in institutional sales in the company's Chicago office and rose through the ranks to become co-head of institutional sales by 1984.

In 1987, I relocated to London to establish the firm's Equity Capital Markets efforts in Europe. At this time there was movement in Europe to privatize major state-owned enterprises in a transition toward a more market-driven economy. I was directly involved in the efforts to transition these companies which included major telecom, utility and energy holdings of the governments.

In 1996, I became co-head of the Equities Division and joined the firm's Management Committee. Lastly, I was appointed Vice Chairman of the firm and these responsibilities expanded to include many cross-divisional strategic activities. Today I remain an advisor to the firm and play an active role in important issues related to intra-firm training, education and diversity initiatives.

Over the course of my career I have had the benefit of great counsel from many of my colleagues and our esteemed clients. I genuinely believe that these experiences should give me an appropriate foundation to do my best with regard to the responsibilities related to this position.

I have also had the opportunity to participate in the academic and public policy worlds, using my experience to help frame discussions of important issues facing our markets and our economy. If confirmed as Under Secretary for Domestic Finance, I plan on bringing my understanding of financial matters and my commitment to sound public policy to the Treasury Department.

In closing, I want to thank you for your consideration and I want to pledge to you that if confirmed I will fulfill my duties as Undersecretary to the best of my abilities. I welcome your questions.

SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Robert King Steel
2. Position to which nominated:
Under Secretary of Treasury (Domestic Finance)
3. Date of nomination:
September 6, 2006.
4. Address: (List current residence, office, and mailing addresses.)
Home (also mailing): 71 Mayfair Lane
Greenwich, CT 06831
Office (also mailing): 85 Broad Street
New York, NY 10004
5. Date and place of birth:
Durham, NC; August 3, 1951
6. Marital status: (Include maiden name of wife or husband's name.)
Married to Gillian Vought Steel née Vought.
7. Names and ages of children:

Alexandra Deaton Steel 24
 Elizabeth MacArthur Steel 21
 Charlotte King Steel 19

8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

Durham High School
 1967 - 1969 High School Diploma June 1969

Duke University
 1969 - 1973 B.A. May 1973

University of Chicago
 1974-1984 M.B.A. March 1984

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

1976 - present	Senior Director Advisory Director Participating Managing Director	The Goldman Sachs Group, Inc.	New York, NY
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10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

N/A

11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

The Goldman Sachs Group, Inc.: Senior Director
 Barclays PLC and Barclays Bank PLC: Non-Executive Director
 The After-School Corporation: Chairman
 The Aspen Institute, Trustee

Boy Scouts of America, Greater New York Councils: Director
 Duke University: Chairman, Board of Trustees
 Duke University Management Company: Board Member
 Harvard University: Senior Fellow, Kennedy School of Government
 The National Humanities Center: Trustee
 Windward School: Trustee

I am also a limited partner in a large number of disclosed investment partnerships. I have no active role in these partnerships.

I am a limited partner in a several disclosed real estate-focused partnerships. I have no active role in these partnerships.

12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Member Only:

Bear's Club, North Palm Beach, FL: Member
 Field Club, Greenwich, CT: Member
 Golf Club of Purchase, Purchase, NY: Member
 Maroon Creek Club, Aspen, CO: Member
 Round Hill Club, Greenwich, CT: Member
 Saddle & Cycle Club, Chicago, IL: Member
 Racquet Club of Chicago: Member
 St. Barnabas Church, Greenwich, CT: Member

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.

N/A

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

I am a listed supporter of various Republican activities and candidates.

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

Date	Recipient	Amount
7/13/2006	Straight Talk America	\$10,000

7/13/2006	Straight Talk America PAC	\$5,000
5/18/2006	Republican Majority for Choice	\$100,000
5/1/2006	Mike DeWine for U.S. Senate	\$1,000
11/1/2005	Straight Talk America PAC	\$5,000
6/27/2005	Christopher Shays for Congress	\$2,000
6/23/2005	Sandhills Political Action Committee	\$5,000
10/23/2004	Friends of John McCain	\$2,000
2/17/2004	John Edwards for Senate	-\$1,000
12/22/2003	Richard Burr Committee	\$2,000
12/22/2003	Richard Burr Committee	\$2,000
9/15/2003	Jack Ryan for U.S. Senate	\$2,000
9/9/2003	TOMPAC	\$1,000
8/27/2003	Christopher Shays for Congress	\$2,000
6/15/2003	Bush-Cheney '04	\$2,000
6/9/2003	NRCC	\$15,000
5/30/2003	Missourians for Kit Bond	\$2,000
5/27/2003	Evan Bayh	\$2,000
5/27/2003	Evan Bayh	\$2,000
4/10/2003	Citizens for Arlen Specter	\$2,000
4/10/2003	Campbell for Colorado	\$2,000
4/10/2003	Citizens for Bunning	\$2,000
4/10/2003	Missourians for Kit Bond	\$2,000
4/10/2003	VOLPAC	\$5,000
1/28/2003	Goldman Sachs Group, Inc. PAC	\$5,000
1/28/2003	Goldman Sachs NY PAC	\$2,500
1/27/2003	Securities Industry Association PAC	\$5,000
1/10/2003	Shelby for U.S. Senate	\$1,000
12/20/2002	Citizens for Arlen Specter	\$2,000
12/4/2002	Louisiana State Republican Party	\$25,000
10/23/2002	WISH List	\$500
10/21/2002	John Edwards for Senate	\$1,000
10/17/2002	NRSC, Non-Federal	\$25,000
10/15/2002	Chambliss for US Senate	\$1,000
10/4/2002	Christopher Shays for Congress	\$1,000
10/3/2002	DSCC	\$9,000
9/23/2002	Strickland for Colorado	\$1,000
9/4/2002	DSCC	\$4,000
8/29/2002	Erskine Bowles for US Senate	\$1,000
6/24/2002	New American Optimists, Non-federal	\$25,000
6/24/2002	Alexander for Senate	\$1,000
5/10/2002	Leadership PAC	\$1,000
2/25/2002	Goldman Sachs Group, Inc. PAC	\$2,000
2/25/2002	Goldman Sachs Group, Inc. PAC	-\$2,000
2/25/2002	Goldman Sachs NJ PAC	\$1,000
12/3/2001	Strickland for Colorado	\$1,000

11/30/2001	Erskine Bowles for US Senate	\$1,000
11/20/2001	WISH List	\$500
10/18/2001	Dan Blue for Senate	\$1,000
10/1/2001	Friends of Phil Gramm	-\$1,000
3/26/2001	Friends of Schumer (S)	\$1,000
3/23/2001	Friends of Schumer (S)	\$1,000
3/15/2001	Friends of Phil Gramm	\$1,000
2/20/2001	Goldman Sachs NY PAC	\$1,000
2/20/2001	Goldman Sachs Group, Inc. PAC	\$2,000
7/18/2000	DSCC	\$10,000
6/15/2000	John Edwards for Senate	\$1,000
3/20/2000	Goldman Sachs NY PAC	\$1,000
3/20/2000	Goldman Sachs Group, Inc. PAC	\$5,000
2/15/2000	Friends of Phil Gramm	\$1,000
12/30/1999	Corzine 2000 Inc.	\$1,000
12/30/1999	Corzine 2000 Inc.	\$1,000
7/20/1999	Bill Bradley for President Committee	\$1,000
5/25/1999	McCain 2000, Inc.	\$1,000
3/11/1999	Goldman Sachs NY	\$1,500
3/11/1999	Goldman Sachs Group, Inc. PAC	\$1,250
10/29/1998	John Edwards for Senate	\$1,000
1/28/1998	Goldman Sachs NY PAC	\$1,000
1/28/1998	Goldman Sachs Group Inc. PAC	\$2,000
6/19/1997	Schumer '98	\$1,000
6/18/1997	Friends of Senator D'Amato	\$1,000
2/1/1997	Goldman Sachs NY PAC	\$2,500
2/1/1997	Goldman Sachs Group Inc. PAC	\$3,000
9/30/1996	Democratic National Committee - Florida Wins '96	\$1,000
2/21/1996	Goldman Sachs NY PAC	\$1,250
2/21/1996	Goldman Sachs Group, Inc. PAC	\$1,250

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)
- Boy Scouts of America: Eagle Scout Award;
 - Boy Scouts of America: Silver Beaver Award;
 - Duke University: Charles Duke's Award for University Service
15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

- *Sarbanes-Oxley has let fresh air into boardrooms*, Financial Times, July 29, 2005 (co-author Thomas Healy);
- *Rx for Medicare*, Hoover Digest, 2005 No. 3 (co-author Thomas Healy);
- *For Retirees, The Day of Reckoning*, The Washington Post, August 16, 2005 (co-author Thomas Healy).

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

- N/A

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

Since joining Goldman Sachs in 1976, I have had the opportunity to be a part of the significant evolution and change in the domestic and international capital markets of the last 30 years. The firm has expanded along with the globalization of the markets. I believe that well functioning markets can serve as a key ingredient to a growing economy that is so important for the citizens of our country and the rest of the world. While at Goldman Sachs, I had a large variety of experiences working both with the investment community which are the providers of capital and the corporations and other entities that are the users of capital. I have also had the opportunity to manage large complex businesses and be responsible for risk management in certain areas. In addition, I have had the opportunity to interact with many state and federal regulatory bodies and participate in public policy discussions at a senior level. These experiences have provided me with an understanding of the functions and practices of particular governmental bodies. If confirmed I will do my best to apply my background to the duties and responsibilities of the position for which I have been nominated.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

Yes, except as specified in the terms of my ethics agreement with the Department of Treasury, which is documented by letter to Bernard Knight, Jr., Assistant General Counsel (General Law & Ethics) and Designated Agency Ethics Official.

I will seek guidance from a Treasury ethics official regarding my activities with these organizations as needed.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No, except as specified in the terms of my ethics agreement with the Department of Treasury, which is documented by letter to Bernard Knight, Jr., Assistant General Counsel (General Law & Ethics) and Designated Agency Ethics Official. I will seek guidance from a Treasury ethics official regarding my activities with these organizations as needed.

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No.

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes, if confirmed by the Senate, I expect to serve at the pleasure of the President.

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Bernard Knight, Jr., Assistant General Counsel (General Law and Ethics) and Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or

acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Bernard Knight, Jr., Assistant General Counsel (General Law and Ethics) and Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

From 1996 to 2006, as the Senior Director of The Goldman Sachs Group, Inc., I helped represent or oversee representation of the company's interests before both the Congress and the Administration on a wide range of issues, including:

- accounting issues;
- ERISA modernization;
- market issues, including hedge fund regulation, credit rating agencies and mutual fund regulation;
- bankruptcy legislation and predatory lending

- 4 Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)

Any potential conflicts of interest will be identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Bernard Knight, Jr., Assistant General Counsel (General Law and Ethics) and Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

5. Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

N/A

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

Goldman Sachs as a firm has been the subject of such litigation; however, none involved me specifically nor have I ever been a named party to such litigations.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

N/A

E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?

Yes.

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes.

**Confirmation Hearing of Robert K. Steel
Questions for the Record
September 21, 2006**

Snowe Question 1 (New Markets Tax Credits):

One of my top legislative priorities is to reauthorize the New Markets Tax Credit to help revitalize struggling communities. Last year, Senator Rockefeller and I worked together to obtain a one-year extension, through 2008, of the incentive in the Senate's version of the tax reconciliation bill. We remain hopeful that the provision will be included in the forthcoming tax extenders package.

Enacted in December 2000 to stimulate increased investment and economic growth in low-income communities, the New Markets Tax Credit offers a seven-year, 39 percent federal tax credit for Qualified Investments made through investment vehicles known as Community Development Entities. Thus far, a total of \$12.1 billion has been allocated to community development organizations working to create jobs, promote health care, foster small businesses, and stimulate economic opportunities in urban and rural areas across the country.

In my home state of Maine, the New Market Tax Credit has brought much needed investment dollars to struggling rural communities, particularly in the Katahdin Forest area. The Credit enabled two pulp and paper mills owned by the Great Northern Paper Company in the Katahdin Forest area to stay in business and modernize, resulting in the direct employment of 650 people.

Data collected by the CDFI Fund reveals that the Credit is being deployed in an efficient and effective manner. Allocates are deploying their capital into low income communities at an extremely fast pace. They are targeting poorer communities than required by law or regulation, and they are investing more than is minimally required in these areas as well. Mr. Steel, if confirmed, you will oversee the CDFI Fund at Treasury that administers the New Markets Tax Credit program. I'd like to ask you if I can count on you to work with me and my colleagues to re-authorize the New Markets Tax Credit if you are confirmed? I would also like to know what other ideas you have to help our nation's most needy communities attract capital and create jobs so they are not left behind in the global economy.

Answer:

Should Congress decide to reauthorize the New Markets Tax Credit program, I will work with Senate Finance Committee cooperatively to ensure that the CDFI Fund continues to provide capital and technical assistance to underserved areas. Investing in education and people is one way to help ensure that those in the poorest communities of our country are not left behind. If confirmed I look forward to working with you on this

important topic, and try to find new, innovative ways to channel investment and expertise to these areas.

Baucus Question (Tax Extenders):

I understand in your new role you will be a close economic policy advisor to the Secretary. As you know, a host of popular tax incentives that we call the “extenders” is being held up for other legislation. These extenders include business credits, such as the R&D credit and the Work Opportunity Credit, and individual deductions, such as the tuition deduction, state sales tax deduction, and the classroom teachers’ deduction. The IRS has told us that October 15 is their deadline for the 2006 tax season forms. That is, if the law is changed after that, significant costs will be borne by the IRS and particularly taxpayers who may will miss out on the important tax incentives. With more than 120 million taxpayers filing Form 1040, which contains specific lines for a number of these incentives, the risk of confusion and error is a near certainty. The Treasury Department has remained on the sidelines on this issue though.

Would you agree that under-utilization of these credits, taxpayer confusion and error, and increased IRS administrative costs, all of which are likely if the extenders do not pass until later in the year, are bad for our economy, for taxpayers, and for IRS’ administrative process?

Answer:

While I have not been briefed on the details of these provisions, I believe it is important that this country have a stable tax code so individuals and businesses can plan and invest accordingly. If confirmed, I look forward to working with the Treasury personnel in the Office of Tax Policy, which I understand has primary responsibility for these issues.

Baucus Follow-up: To what extent do you believe that Treasury should take a more active role in pushing for an earlier extension this year?

Answer:

Again, not being familiar with the details of these provisions or the history of the legislation pending in Congress, I do not believe it would be constructive for me to express a view on the Treasury Department's role in this matter.

Bunning Question 1:

In the discussions during the Banking Committee’s hearings on hedge funds, a lot of people talked about “sophisticated investors” that do not need government interference.

I do not think that it is the Congress’ job to tell an investor what to invest in. It is our job to examine potential risks to the whole financial system. If confirmed, would you push for more transparency in this sector?

Answer:

With regard to “sophisticated investors”, my comments should be viewed as noting that there are two broad groups of investor classes rooted in our securities regulatory structure. One group of investors can be broadly classified as “sophisticated” and by that I mean that these investors are presumed to have the knowledge or the means to acquire the knowledge to learn relevant information about particular investments. Another group of investors does not fall into this group and therefore our securities laws impose greater requirements on those marketing or selling securities, mostly in the form of enhanced disclosure, to provide these investors with greater protections.

I do agree with the main theme of your question – that Treasury’s principal role should be to facilitate the soundness of the broader financial system. A fundamental aspect of my job, if confirmed as Under Secretary for Domestic Finance, will be to engage in the dialogue that Treasury is planning to have over the next several months with investment and financial professionals, regulators, and policy-makers that have a stake or interest in the hedge fund sector.

The purpose of these meetings will be to take a broad view of hedge funds in order to make sure we have a clear understanding and a balanced view of the current trends, benefits, and risks posed by hedge funds and their growth. These discussions are necessary steps we must take before we can determine which potential regulatory or administrative actions, if any, would best address the risks and investor protection issues presented by hedge funds.

One of the recommendations made by the President’s Working Group on Financial Markets in its 1999 report on hedge funds and the Long-Term Capital Management episode was for more frequent and meaningful information on hedge funds to be made available to the investing public. This is unquestionably an issue that we will revisit in the course of our dialogue with hedge fund managers, investors, and other market participants.

Bunning Question 2:

I had the opportunity to pose this question to Mr. Quarles during a hearing this spring on hedge funds, and I would now like to ask you: in a regulated mutual fund industry, many questionable practices that were not in the best interest of the individual investor and the markets had to be corrected by government intervention.

Why would we assume in a lightly regulated hedge fund industry that we wouldn’t encounter similar indiscretions by managers?

Answer:

I do not think it can be assumed that the hedge fund sector is any less – or, for that matter, more – susceptible to managerial indiscretions than any other segment of the financial services industry, irrespective of the level of regulation or oversight.

Your question presents interesting investor protection issues. An important issue to consider is whether the threshold for permitting individuals to invest in hedge funds is set appropriately. I intend to work with the Securities and Exchange Commission and other appropriate financial services regulators to examine these issues. Moreover, this is a question that we intend to explore in our upcoming dialogue with hedge fund managers, investors, and other market participants.

When we talk about hedge funds, we must also be cognizant of the potential systemic risks that they pose. We hope to achieve a broad consensus on these issues as well in our dialogue.

Bunning Question 3:

As you know, the cost of regulatory compliance is becoming a bigger and bigger issue for banks, especially small banks who have a much harder time absorbing the costs than larger banks. Do you have any suggestions on how we can lessen the regulatory costs on small banks?

Answer:

I am aware that cost of regulatory compliance is an important issue for banks and other financial institutions, and even more so for smaller institutions that have a smaller revenue base to absorb the fixed costs associated with a regulatory compliance regime. Public policy makers should continually evaluate costs and benefits of regulations so that our financial system can operate in the most efficient manner. At this time I do not have any specific suggestions on how regulatory costs can be reduced for small banks, but if confirmed I look forward to considering this issue more fully.

Bunning Question 4:

In a speech earlier this year to the NAIC on regulatory reform, Assistant Secretary for Financial Institutions Emil Henry said, "Property and casualty insurance products appear to be much more state-specific than life insurance products, and thus might call for differing regulatory approaches." Do you agree with Mr. Henry's statement? If so, please explain why Treasury feels the property and casualty and life markets are so different, and therefore call for differing regulatory solutions.

Answer:

It is my understanding that many property and casualty insurance products (such as automobile insurance) are more directly linked to state laws, regulations, and case law in the various states, while life insurance products have a greater degree of national uniformity. That is the basic point I believe Assistant Secretary Henry was describing. I am not aware of any decision that Treasury has made regarding differing regulatory solutions for property and casualty insurance versus life insurance, or on the general matter of insurance regulatory modernization.

Bunning Question 5:

In that same speech, Mr. Henry said, "A dual regulatory environment as enjoyed by the banks involves regulatory competition, which can be positive if it leads to general

deregulation, innovation, and increased consumer choice; but we realize that it can also have potential downsides.” What are those downsides?

Answer:

I believe the potential downside of regulatory competition Mr. Henry was referring to is the potential for regulatory arbitrage, sometimes referred to as “the race to the bottom.” If a regulated entity has a choice in determining its regulator, there is always the possibility that it will choose a more lenient regulator, and some regulators might even attempt to provide less strict regulatory standards in an effort to encourage more entities to elect to be under its jurisdiction. The duplication of regulatory efforts with its inevitable increases in regulatory costs, as well as the potential inefficiency of multiple regulators, might also be considered as downsides to regulatory competition.

Bunning Question 6:

If Congress decided to go forward with federal regulation of the insurance industry, should an existing agency take over regulation or should a new independent regulator be created?

Answer:

Several proposals have been made that call for some degree of federal involvement in the regulation of insurance. At this point I believe given the differing views on what form federal involvement in insurance modernization might take, it would be premature to speculate on the structure of a federal regulatory agency.

Bunning Question 7:

Do you believe the lack of a federal insurance regulator, or advocate for the insurance industry, have been problematic within the government when discussing or creating policy?

Answer:

The insurance industry is a large and critical part of the U.S. financial sector, and performs an essential function in our overall economy by providing a mechanism for businesses and the general population to safeguard their assets from a wide variety of risks. Not having a federal role in insurance regulation may create problems, both in understanding the risks that are present in the insurance market and how they relate to our overall national financial system and global financial system. If confirmed, I look forward to fully evaluating these issues.

Bunning Question 8:

Recently, Secretary Paulson has indicated that he may be willing to ease the administration's position on GSE portfolio restrictions. Assistant Secretary Henry said that the best way to deal with this issue is through a legislative solution and that Treasury is reviewing options in the event there is no legislation before Congress lets out before the November elections. What is your position on portfolio limits? Would you agree with Assistant Secretary Henry's statement that a legislative solution is preferable? What

options do you see Treasury pursuing in the event that legislation is not taken up before the elections?

Answer:

We should keep three goals in mind when considering GSE regulatory reform: 1) promoting the strength and resilience of U.S. housing finance markets; 2) lessening the potential for systemic risk; and 3) continuing the nation's progress in meeting the mortgage credit needs of all of its homebuyers. I do agree with Assistant Secretary Henry's statement that a legislative solution is preferable. I fully understand that the Treasury Department has the authority to approve the issuance of GSE debt. I am not in a position to say what actions Treasury might take regarding its debt approval authority.

**Statement of John K. Veroneau
Nominee for Deputy United States Trade Representative
Before the Senate Finance Committee
September 21, 2006**

Chairman Grassley, Senator Baucus, distinguished members of the Committee, it is a pleasure to appear before you today. I deeply appreciate your time and consideration.

I am grateful for the confidence shown in me by the President and Ambassador Schwab in nominating me for this position.

I would like publicly to thank my wife, Carol, and our sons, Sam and Zach, for supporting my continued interest in government service.

While previously at USTR, I had the pleasure of working with this Committee on many trade policy and enforcement issues.

I applaud the committee's bipartisan approach to trade and, if confirmed, look forward to working closely with you to advance a strong trade agenda.

I believe strongly that open markets best serve America's long-term interests but recognize that even the best policies are for naught if they lack political support.

It is incumbent upon those of us who endorse global trade to ensure and to demonstrate that – over time – open markets serve the interests of all Americans.

Those of us who benefit most directly and immediately from a global economy must redress those who – in the short term – may be adversely affected. We must support policies that encourage job creation and help workers in acquiring new skills. At the same time, it is important to realize that the global economic pie is not fixed. Trade between nations enhances the well-being of citizens in both countries.

Twenty five years ago, I helped Cambodian refugees, fleeing genocide under Pol Pot, to build new lives here in America. Today, economic opportunities exist in Cambodia – thanks in part to trade agreements – that simply did not exist at that time.

Economic progress in Cambodia is good for Cambodia. It is also good for America. Consumers benefit from a wider choice of goods and over time Cambodia will provide a growing market for U.S. exports. Greater economic and political stability in Cambodia will also enhance our security interests in that part of the world.

Open trade, along with technological changes and other factors, have made the early 21st century a period of unprecedented economic growth and change in the world.

The challenge of the next few years will be to continue to secure the benefits of a global economy while building political support for institutions and policies that make global integration possible.

The Chairman of the Federal Reserve Bank recently cautioned that further global economic integration "should not be taken for granted." He then pressed the need "to ensure that the benefits of global economic integration are sufficiently widely shared."

I share Chairman Bernanke's sentiments in this regard.

If confirmed, I welcome the opportunity to work with the Committee to advance vigorously our trade interests and to maximize the benefits of global integration for all Americans.

I thank you for your time and consideration.

**SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.):
John Kevin Veroneau
2. Position to which nominated:
Deputy United States Trade Representative
3. Date of nomination:
4. Address: (List current residence, office, and mailing addresses.)

Home: 1715 North Inglewood Street
Arlington, Virginia 22205

Office: DLA Piper Rudnick Gray Cary LLP
1200 19th Street, N.W.
Washington, D.C. 20036
5. Date and place of birth:
June 3, 1960, Portland, Maine
6. Marital status: (Include maiden name of wife or husband's name.)
Married; Carol L. Svoboda
7. Names and ages of children:
Samuel S. Veroneau (Age: 9)
Zachary S. Veroneau (Age: 9)
8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)
9/1974 to 6/1978, Cheverus High School, 6/1978
9/1978 to 5/1983, University of Maine, Bachelors of Arts, 5/1983
9/1986 to 6/1989, University of Maine, Juris Doctor, 6/1989

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

3/2005 to Present, DLA Piper Rudnick Gray Cary
Partner
1200 19th Street, N.W., Washington, D.C. 20036

3/2003 to 2/2005, U.S. Trade Representative
General Counsel
600 17th Street, N.W., Washington, D.C. 20508

2/2001 to 3/2003, U.S. Trade Representative
Assistant USTR for Congressional Affairs
600 17th Street, N.W., Washington, D.C. 20508

11/1999 to 2/2001, U.S. Department of Defense
Assistant Secretary of Defense for Legislative Affairs
Pentagon, Washington, D.C. 20050

2/1999 to 11/1999, U.S. Department of Defense
Acting Assistant Secretary of Defense for Legislative Affairs
Pentagon, Washington, D.C. 20050

7/1998 to 2/1999, U.S. Department of Defense
Principal Deputy Assistant Secretary of Defense for Legislative Affairs
Pentagon, Washington, D.C. 20050

5/1997 to 7/1998, U.S. Department of Defense
Deputy Assistant Secretary of Defense for Senate Affairs
Pentagon, Washington, D.C. 200050

12/1996 to 5/1997, U.S. Senator Susan M. Collins
Chief of Staff
461 Dirksen Building, Washington, D.C. 20510

5/1996 to 12/1996, U.S. Senator Bill Frist
Legislative Director
509 Hart Building, Washington, D.C. 20510

3/1994 to 5/1996, U.S. Senator Bill Cohen
Legislative Director
332 Hart Building, Washington, D.C. 20510

3/1992 to 3/1994, U.S. Senator Bill Cohen
Legislative Counsel
332 Hart Building, Washington, D.C. 20510

11/1989 to 3/1992, U.S. Senator Bill Cohen
Legislative Assistant
332 Hart Building, Washington, D.C. 20510

6/1986 to 6/1989, Bean, Jones & Warren
Law Clerk
Scarborough, Maine

6/1987 to 8/1987, U.S. Department of Justice
Summer Honors Program
Washington, D.C.

6/1988 to 8/1988, U.S. Department of Justice
Summer Honors Program
Washington, D.C.

10/1985 to 6/1986, Hard Times Café
Cook
Alexandria, VA

9/1983 to 9/1984, Lutheran Immigration and Refugee Service
Refugee Resettlement Coordinator
Boston, MA

10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)
None
11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.):
Partner, DLA Piper Rudnick Gray Cary LLP (March 2005 – present)
12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)
Maryland Bar Association
District of Columbia Bar Association
American Bar Association
13. Political affiliations and activities:
 - a. List all public offices for which you have been a candidate.
None

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more

2000	Olympia J. Snowe for Senate	\$100
2005	DLA Piper PAC	\$5000
2005	Reagan Dunn for County Council	\$100
2005	Olympia J. Snowe for Senate	\$1000
2006	Dave Emery for Governor	\$500
2006	House Majority Whip Roy Blunt	\$500

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

U.S. Department of Defense Medal for Distinguished Public Service, Jan 2001

U.S. Department of Navy Medal for Distinguished Public Service, Jan 2001

U.S. Department of Air Force Medal for Exceptional Civilian Service, Jan 2001

U.S. Department of the Army, Distinguished Public Service Award, Jan 2001

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

Op-ed, "Central America Deserves Support," *Bangor Daily News* (June 9, 2005)

"Foreign Acquisition Of U.S. Government Contractors Facing Higher Scrutiny", *International Government Contractor* (October 2005)

Op-ed, "Asian Investors, Beware," *The Wall Street Journal* (Asia Edition) (March 10 -12, 2006)

"A High Bar for US Safeguards," *China Business Review* (March-April 2006)

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

No formal speeches.

Testimony before the House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology on May 17, 2006 regarding "H.R. 5337, Reform of National Security Review of Foreign Direct Investments Act."

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

The following experiences, in my opinion, qualify me to serve as Deputy U.S. Trade Representative:

As General Counsel at USTR, I worked on a wide range of legal and policy matters in negotiating and enforcing trade agreements, and administering U.S. trade laws.

As former Assistant USTR for Congressional Affairs, I understand the critical constitutional role that Congress plays in matters affecting international trade.

As former Assistant Secretary of Defense, I understand the important relationship that often exist between U.S. economic and national security interests.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.
Yes
2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.
No
3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.
No
4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.
Yes

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.
None
2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

As a partner in the law firm of DLA Piper Rudnick Gray Cary, I have represented clients on various matters. It is possible that these clients could have matters before USTR. However, I do not foresee any conflicts that would materially affect my responsibilities as Deputy USTR.
3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

In June 2005, I published an op-ed urging Congressional support for the US-Central America Free Trade Agreement (CAFTA).

In March 2006, I was retained by the Organization for International Investment (OFII) to advise on matters affecting foreign direct investment subject to approval by the Committee on Foreign Investment in the United States (CFIUS). The scope of this representation included legislative proposals affecting CFIUS.

In June 2006, I represented Valley Fresh Seafood in advocating the introduction of S.3118, a bill to provide duty relief for certain fish production.
4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with **two** copies of any trust or other agreements.)

As discussed in my ethics agreement, for one year I will not participate in any particular matters involving specific parties where DLA Piper Rudnick Gray Cary is representing a party, or in which one of my former clients is or represents a party.
5. **Two** copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been

nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

Copies will be provided directly to the Committee as requested.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

No

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

Yes. Pled guilty to a Disorderly Conduct charge (consuming alcohol in public) in 1979 in Old Orchard Beach, Maine. Paid \$100 fine. Also pled guilty to charge of theft of public property (street sign) in North Conway, N.H. in 1978. Paid \$50 fine.

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? If so, provide details.

Yes. Pled guilty to a Disorderly Conduct charge (consuming alcohol in public) in 1979 in Old Orchard Beach, Maine. Paid \$100 fine. Also pled guilty to charge of theft of public property (street sign) in North Conway, N.H. in 1978. Paid \$50 fine.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

No additional information

E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?
Yes
2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?
Yes

**Written Responses to Senate Finance Committee Questions for the Record
John K. Veroneau
September 26, 2006**

Senator Baucus:

1. Mr. Veroneau, congratulations on your nomination. You have a great reputation. I look forward to working with you. I have made a practice recently of asking trade nominees to tell me the top three issues they plan to address when they take office. And I ask nominees to report back to me in six months on their progress fulfilling these priorities. So, what will be your top three priorities for your tenure as Deputy USTR? Will you commit to sending me a progress report six months after your confirmation as Deputy USTR?

Response:

In addition to the day-to-day enforcement of our trade agreements and advocacy on behalf of U.S. exporters, the following will be my three top priorities if confirmed to be Deputy United States Trade Representative:

1. **Global Negotiations:** The WTO Doha negotiations offer U.S. businesses, farmers, ranchers and workers the best opportunity to benefit from trade liberalization. As such, working to bring the pending Doha negotiations to closure will be my first priority. I am mindful of the serious challenges facing these negotiations and agree that no deal is better than a bad deal. But, if confirmed, my highest priority will be to work creatively with Ambassador Schwab, the Congress and other stakeholders to see if a deal can be reached that would serve America's trade interests.
2. **Bilateral and Regional Negotiations:** Consistent with a primary focus on WTO negotiations, another priority will be maximizing U.S. interests in bilateral and regional trade liberalization. As long as our trade partners are willing to negotiate comprehensive agreements, my priority will be to pursue as many Free Trade Agreements as possible – with a priority on those countries that provide greater economic opportunities for U.S. exporters.

Priorities include full implementation of the CAFTA-DR, bringing the Oman agreement into force, and completing negotiations and securing passage of the Peru, Colombia, and Panama Trade Promotion Agreements.

3. **Russia: intellectual property and food safety measures based on science:** Russia's interest in joining the WTO provides an opportunity to make serious progress toward protecting intellectual property (IPR) and employing science-based sanitary-phyto-sanitary (SPS) standards in Russia. If confirmed, I intend to focus intently on U.S. interests in these areas and to help Russia understand that adherence to WTO standards on IPR and SPS issues would serve Russia's long-term interests as well.

If confirmed, I will be pleased to report to you at the six-month mark on the status of these matters. In the interim, I would look forward to consulting with you and other members of the Committee on these matters.

2. Like many of my colleagues, I am concerned that we ensure an orderly transition to free trade in sweeteners under NAFTA in 2008 for American sugar producers, Mexican sugar producers, and U.S. HFCS producers. I have serious concerns about the recent U.S.-Mexico sweetener agreement, but I would like more detail on one part of that agreement. As part of the agreement, the countries agreed to establish a joint industry/government task force on trade in sugar and high fructose corn syrup. What are the administration's plans for this task force? What will the task force look like? Who will serve on it? When will it be established? Please describe to me in writing in detail the administration's plans for this task force.

Response:

The July 27 exchange of letters with Mexico on sweetener trade calls for a joint industry/government task force to assist the governments in preparing for tariff elimination on sweeteners in January 2008 and to periodically review sweetener shipments over the next 15 months to ensure the prompt and full utilization of the market access the agreement provides.

USTR and USDA are currently consulting with the private sector on the most appropriate way to structure this task force to monitor bilateral sweetener trade, and if confirmed, I would welcome input from all interested parties.

While the Administration has made no decisions at this time, and of course will have to reach agreement with Mexico on the task force's operation, the initial thinking is that the task force will comprise representatives from the relevant stakeholders including sugar producers, corn refiners and sweetener users.

As a rule, joint task forces of this type are most useful and productive when they have a clear and specific mandate. The sweetener agreement with Mexico provides such a mandate. It directs the task force to focus on the tariff elimination for sugar or syrup goods and HFCS goods in January 2008 and to ensure utilization of the market access the agreement provides between now and January 2008.

The Administration expects to consult with the Government of Mexico on the task force shortly, and to have it operational early in the 2007 marketing year. If confirmed, I look forward to consulting with you on this matter.

3. Mr. Veroneau, you come to this position with considerable trade experience, including two years as USTR General Counsel. As you know, enforcement of our trade agreements

is a major priority of mine. In this Congress, I introduced bills with Senator Grassley and Senator Hatch that would strengthen USTR's enforcement function, including creating a Chief Enforcement Officer at USTR. What do you think are the most important enforcement priorities for USTR in the portfolio you would assume? Drawing on your experience as General Counsel, what can USTR do better to enforce our trade agreements? Does USTR have the necessary tools and resources to carry out its enforcement function?

Response:

I agree that monitoring and enforcement of our trade agreements is an important priority. Vigorous monitoring and enforcement is necessary to ensure that our workers, farmers, ranchers, and businesses receive the benefits that the United States has negotiated for them.

My priority will be to address any area where U.S. goods, services, or intellectual property are facing unfair trade practices. It is not possible to predict with any certainty today what problems will arise with our trading partners, but I know that some of the areas where we have traditionally needed to engage in enforcement have been agriculture and sanitary and phytosanitary issues, intellectual property, tariff and non-tariff barriers, and services. And of course we will need to be working closely with our largest trading partners, including the EU, China, Canada, and Japan, on addressing trade problems.

I understand that USTR has taken steps over the past several months that will strengthen its enforcement function. USTR has created the position of Chief Agriculture Counsel to focus on agriculture policy and enforcement issues. And as a result of the top-to-bottom review of U.S. China trade policy, USTR has appointed a Chief Counsel for China Trade Enforcement, who is co-chairing a China Enforcement Task Force along with the Deputy Assistant U.S. Trade Representative for China Enforcement. That Task Force is already developing enforcement initiatives, including potential WTO cases.

These additional positions, mechanisms, and processes supplement existing USTR tools and resources for enforcement. For example, the TPSC Subcommittee on Monitoring and Enforcement and the TPSC Compliance Task Force continue to assist in responding to monitoring and enforcement needs and coordinating interagency enforcement efforts. To date, these tools and resources appear to have been sufficient to carry out USTR's enforcement function, but that question will need to be reassessed on an on-going basis.

4. Mr. Veroneau, America's ranchers continue to face barriers to their beef exports all over the world. This has been an enormous and unfair burden to the ranchers in my state of Montana. Peru has not fulfilled its commitment to open its market to all U.S. beef and beef product imports. This Committee passed an amendment at the mock markup of the Peru implementing package that would require the administration to delay entry into force of the agreement until Peru fulfills this commitment.

What is the status of this Committee's amendment? Will it be included in the package the administration submits to Congress?

Response:

It is my understanding that the Administration plans to include the amendment passed by the Finance Committee in the Statement of Administrative Action that accompanies the implementing legislation for the U.S.-Peru Trade Promotion Agreement.

What steps will you take to open Peru's market as soon as possible?

Response:

Currently, Peru permits entry of U.S. bone-in and bone-less beef from animals under 30 months of age. Peruvian officials have indicated recently that they would like to resolve the issue of Peru's import restrictions on U.S. beef from animals 30 months of age and older. USTR is now are working intensively to reach agreement on this matter with the Government of Peru.

5. Mr. Veroneau, I have congratulated Ambassador Schwab and her staff at USTR for their excellent work in resolving the U.S.-Canada lumber dispute. They worked hard and deserve our thanks and recognition. Yet every agreement is only as good as its implementation. What specific steps will you take to monitor the implementation of this agreement?

Response:

The Softwood Lumber Agreement will only succeed if it is viewed as part of an ongoing process with Canada to resolve the underlying dispute over Canadian trade practices. The agreement creates several formal channels for dialogue with Canada. First, it establishes a bi-national Softwood Lumber Committee composed of U.S. and Canadian government representatives to oversee the implementation of the agreement. To facilitate this and related work, the agreement contains extensive provisions on information exchange. Second, it establishes a formal 18-month process at the outset of the agreement to negotiate specific policy reforms Canadian provinces would need to undertake to help ensure, for purposes of the agreement, that their administrative systems produce market-determined results. Third, it encourages the creation of a bi-national industry council to allow the industries to work out their differences. Finally, if the governments cannot resolve matters through consultation and negotiation, the agreement contains a formal dispute settlement process. USTR should not hesitate to use this process where warranted. I expect that USTR will work closely with the U.S. industry and the Canadian government to resolve any differences, and will raise any problems through the channels provided under the agreement to ensure that it functions as intended.

6. I am concerned about the direction South America has taken recently. Especially with Hugo Chavez in Venezuela preaching a brand of populism that relies largely on attacking

the United States, I am wondering what we should be doing on trade policy in the Americas. What do you think we should do? What do you think we can do to improve our trade and investment relationship with two of our largest trading partners, Canada and Mexico?

Response:

U.S. trade policy in Latin America has been successful in cementing relationships with countries that share our commitment to open markets and democratic values. The U.S. – Chile FTA has more than doubled two-way trade since implementation in 2004. The United States has implemented the CAFTA-DR with four partner countries and it is important to keep working to bring the agreement into force with the remaining two signatories. CAFTA-DR will make a major contribution to increased trade and consolidation of democracy in the region. As a further step, Congress should approve the trade promotion agreement we signed with Peru earlier this year. USTR recently concluded negotiations on an FTA with Colombia. I know the Administration is looking forward to signing that agreement this fall. That agreement will be a big stride towards freer trade in the hemisphere. The Senate recently gave its advice and consent to the U.S. – Uruguay Bilateral Investment Treaty, the first of the new model BITs. The agreement demonstrates our commitment to create new economic opportunities with those countries in the hemisphere that are willing to help themselves by implementing sound economic policies. USTR is negotiating an FTA with Panama and has established forums for deepening the trade and investment discussion with Uruguay, Paraguay, Brazil, Argentina, and CARICOM. In short, U.S. leadership is producing real progress for countries in the region and proof that open, market-based economies are the surest path for growth and development. USTR should continue to explore additional means to build on these accomplishments.

Regarding NAFTA, the agreement has been a great success for all three countries. Canada and Mexico are our top two export markets, accounting for 36.7% of all exports – up from 30.5% before NAFTA. Since 1993, U.S. merchandise exports to NAFTA partners grew more rapidly – at 137 percent – than our exports to the rest of the world, at 77 percent.

To build on this success, implementation of the remaining NAFTA provisions – largely removal of remaining agricultural tariffs – should continue on schedule so we reach free trade in all goods with Mexico on January 1, 2008.

We also need to think about what can be done to keep NAFTA current with changing conditions of trade. For example, changing sourcing patterns may make the NAFTA's rules of origin more difficult to meet. USTR has already agreed to rule of origin changes covering \$39 billion in NAFTA trade. USTR should continue to consider ways in which we can adapt NAFTA to current conditions

A second challenge we face today is increased security concerns. We need to ensure that the United States works with Canada and Mexico to address today's security concerns without creating unnecessary barriers to trade.

7. The U.S. coffee industry is an important contributor to U.S. export growth. U.S. companies and workers roast and process over 1.1 million metric tons of green coffee annually, and export more than 57,000 metric tons of green, roasted and instant coffee per year. There are more than 1,000 U.S. roasters, processors, and importers, supporting more than 150,000 jobs. Around the world though, coffee is a highly protected commodity. I know that USTR has been working hard this past year to reduce coffee tariffs and prevent restrictive rules of origin – particularly through free trade agreement negotiations. Looking ahead, I hope that Korean coffee tariffs can be immediately eliminated as a part of the KORUS negotiations. But high tariffs also exist in countries with which we are not negotiating free trade agreements. In India, for example, the bound tariff rate on roasted coffee is an astonishing 150 percent. I participated on a trade mission to India earlier this year, and I know first hand the opportunities that exist in that market. But to take advantage of those and other export opportunities – and keep jobs in the U.S. – we have to eliminate the high tariffs, such as the tariff on coffee that our companies and workers encounter around the world. Please update me on USTR's efforts to eliminate high coffee tariffs through free trade agreement negotiations and bilateral trade dialogues.

Response:

I understand that USTR intends to take this issue up with India on a bilateral basis in Trade Policy Forum meetings. The next meeting of that forum is tentatively scheduled for November in New Delhi.

On the multilateral front, the United States is calling for substantial reductions in all agricultural tariffs in the Doha Development Agenda negotiations, including for coffee exported to India and all other WTO Members. USTR should continue to press in these negotiations for the deepest possible tariff cuts.

The Administration is also seeking increased market access for roasted coffee in U.S. free trade agreements (FTAs). The Peru and Colombian trade promotion agreements will provide for duty-free access to those countries for a certain amount of roasted coffee under a tariff-rate quota and rule of origin system that confers origin on coffee that is roasted in the United States.

Rapidly eliminating tariffs and obtaining a favorable rule of origin for U.S. coffee is also a priority in the FTA negotiations with Korea and Malaysia. I understand that the negotiators in the Korea and Malaysia FTAs have not yet addressed the issue of coffee tariffs in any detail.

The U.S. coffee industry represents an important export-related success story. If confirmed, I look forward to working with you to support the continued success of the industry by providing additional market access opportunities abroad.

8. As you know, Senator Murray and I (and others in the Senate) have been ardent supporters for years of taking action against the European Union for providing more than \$35 billion in WTO-inconsistent subsidies to Airbus. I commend you for having led the

Administration's efforts while serving as the General Counsel at the U.S. Trade Representative's Office and believe we must be vigorous in pursuing our case at the WTO. I also strongly believe the Administration should be seeking to ensure in all of its dealings with this industry that business is conducted on a level playing field. Please share your views on Europe's actions to date in seeking to resolve the dispute.

Response:

I share your view that it is critical to ensure a level playing field for trade in this industry. As you know, the Administration has been working for more than two years to end launch aid and other EU subsidies to Airbus. It is my understanding that the Administration would still prefer to settle the matter through negotiation. The negotiations will not be successful, however, if the EU is not willing to end launch aid.

USTR held technical discussions with the EU earlier this year that I understand made some progress on the issues we would need to solve to reach an agreement. I believe the Administration should remain ready to continue those discussions.

I also understand that the Administration is carefully watching Airbus' and EADS' plans to launch a new version of the Airbus A350 aircraft and whether the EU member states will decide to provide launch aid for that aircraft. A decision to provide such aid could prove fatal to negotiations.

Given the current state of the negotiations, it is important to keep moving forward with our WTO case against the EU. Our goal should remain to end launch aid and other subsidies to Airbus as soon as possible and thereby eliminate the unfair commercial advantages they provide for Airbus.

9. I understand that USTR has presented a paper in the WTO encouraging the Committee of Participants on the Expansion of Trade in Information Technology Products to hold consultations on the erosion of product coverage under the Information Technology Agreement (ITA). It is our understanding that the Committee is receptive to this proposal and may convene such a consultation at the next Committee meeting.

Information technology and electronics offer some of the greatest opportunities for giving developing countries the tools needed to advance economically and contribute significantly to the global economy. Yet the erosion of coverage is seriously diluting the promise of the ITA and makes all the more clear the need for an electronics sectoral initiative.

What additional steps are being taken to promote consultations in the Committee on implementation issues such as this?

More generally, what steps are being taken to advance trade liberalization in certain sectors such as electronics, where there is international industry support for such an approach?

Response:

I share your concern about the “erosion” of product coverage under the ITA. Duty-free tariff treatment under the ITA should continue, including for products incorporating updated technology. I understand USTR has been working to develop a coalition of other countries who will support the U.S. proposal before the ITA Committee and identify specific ITA products that they feel are in danger of losing duty-free tariff treatment. It will be important to reach consensus among ITA participants on how to ensure that duty-free tariff treatment for ITA products will be maintained. In the longer-term, if confirmed, I would seek to expand product coverage for IT products through a broad sectoral agreement on electronics and electrical products, aimed at the elimination of tariffs on these products. I understand that others supportive of this approach include Hong Kong, China; Japan; Korea; Singapore; and Thailand. Participation in the sectoral agreement is not mandatory, though countries accounting for a critical mass of world trade would need to participate in order for the initiative to be concluded. If confirmed, I also intend to work to develop a proposal to address non-tariff barriers faced by this industry.

10. The liberalization of world trade in the information technology sector, as provided for by the WTO Information Technology Agreement (ITA), has been a catalyst for U.S. productivity and economic growth.

I understand that the European Commission intends to take action in the near future that would subject trade in several of its products to customs duties, contrary to the EU’s WTO commitments. What does USTR intend to do to ensure that set-top boxes exported to the EU continue to receive bound, duty-free treatment, as called for by the ITA, as well as to address other actions by the European Union to erode the ITA?

Response:

I share the U.S. IT industry’s concern that recent EU actions may result in certain ITA products, in particular products containing advanced technology or incorporating additional functions, no longer receiving duty-free tariff treatment. Ambassador Schwab sent a letter to EU Commissioner Mandelson in late June regarding the general issue of ITA erosion and in particular EC actions with respect to set top boxes (an ITA product). I understand that USTR has yet to receive a response from Commissioner Mandelson on this issue, but is continuing at every opportunity to stress to Commission officials the importance of ensuring that any action taken by the EC is consistent with its WTO obligations in regard to this issue. If confirmed, I intend to work with other ITA participants to ensure that advances in technology do not undermine tariff commitments already made under the ITA. The United States tabled a draft proposal for discussions among WTO Members on this issue at the ITA Committee meeting in July.

11. I have heard concerns regarding Chile's implementation of its intellectual property rights commitments in the US-Chile FTA. Specifically, I am told that Chile has not met certain obligations regarding data protection and linkage which have left some American companies at risk of losing protection they should have under the agreement. What is USTR doing to address these concerns?

Response:

I know that USTR is committed to ensuring proper implementation of the FTA provisions and remains very concerned about implementation of the intellectual property chapter of the FTA with Chile. USTR is currently conducting an out-of-cycle review of Chile's intellectual property rights (IPR) regime, including the drug approval process for patented medicines, as a result of increased concern over Chile's protection of IPR. In addition, AUSTR Eissenstat traveled to Chile in August to press the Government of Chile to work to improve its implementation of the agreement. USTR also continues to work closely with U.S. pharmaceutical firms to gather information regarding the problems they are facing in Chile. USTR should consider all appropriate options to ensure that the obligations in our FTA with Chile are respected.

12. In your view, and in light of section 182(b)(1) of the Trade Act of 1974, would a measure that denies fair and equitable market access to U.S. persons that rely upon intellectual property protection form a sufficient basis on which to designate a country a "Priority Foreign Country," and/or to warrant its designation on the Priority Watch List or Watch List? If so, is it your view that section 182 requires that such a measure violate an international trade agreement, such as the WTO Agreement, in order for a country to be designated a "Priority Foreign Country," or other designation under the "Special 301" statute?

Response:

The interplay between regulatory, market access, and intellectual property barriers facing certain U.S. export sectors requires considered attention under a range of policy tools available to the Administration under U.S. trade law. The Special 301 process remains an essential tool for evaluating priorities with respect to effective protection of U.S. IPR, and for engaging with U.S. trading partners to advance those priorities. Consistent with the terms of the Special 301 statute, the Special 301 tools may, depending on the circumstances of an individual case, represent one of several appropriate means to address U.S. concerns. For example, if particular market access or regulatory barriers clearly represent a violation of WTO obligations, and where those barriers have implications for U.S. IPR, designation under one of the Special 301 categories should be considered as one of a number of policy options.

Senator Bunning:

1. It appears to me that the E.U. has a double standard on W.T.O. compliance – imposing huge sanctions on the U.S. in the “FSC” case but ignoring its own obligations in the longstanding Bananas case.

If confirmed for this position, will you pursue W.T.O. consultations on the banana matter and do you think it is appropriate for the U.S. to request a 21.5 enforcement panel in this matter?

Response:

I too have concerns about the EU’s banana regime and about the EU fulfilling its commitment to move to a tariff-only regime by 2006 that would at least maintain total market access for MFN banana suppliers. I understand that USTR has raised these concerns with the EU directly and at the Hong Kong WTO Ministerial in December and continues to raise this issue in the meetings of the WTO Dispute Settlement Body and WTO Council for Trade in Goods. At the same time, USTR should continue to work closely with the U.S. companies affected by the new EU banana regime and interested Latin American countries to identify the most appropriate and effective way to address concerns with the regime. All options remain on the table.

2. The U.S. textile industry cannot utilize traditional trade remedies, like dumping, against apparel imports from Vietnam or any other country that dumps apparel into the U.S. market, is that correct? What is U.S.T.R. doing to ensure that U.S. industry has recourse if Vietnam, China or others dumps apparel into the U.S. and further disrupts our market?

Response:

I believe that strong and effective remedies against unfair trade practices, including those against dumping and unfair subsidies, are critical for maintaining support for trade liberalization, and are essential to ensure that the benefits gained from trade liberalization are not undermined. I understand that some in the U.S. textile industry have concerns with the effectiveness of these laws. If confirmed, I would be pleased to work with Congress and with industry to resolve these concerns and to ensure that our trade remedy laws remain effective for injured U.S. industries.

The USTR has worked with the domestic textile industry on a variety of issues to ensure the success of the post-2005 integration of the textile sector into the full set of WTO rules. USTR staff has reviewed with industry representatives the various trade remedies available to injured industries under U.S. law and WTO rules, including antidumping, and explored with them in detail their concerns and relevant considerations with respect to these remedies. As you know, the Department of Commerce and the U.S. International Trade Commission, and not USTR, are the agencies that conduct U.S. antidumping investigations, and have the greatest expertise in how those laws are administered.

In order to address the industry's concerns regarding Vietnam, USTR negotiated a unique mechanism in the bilateral market access agreement, which forms part of Vietnam's WTO accession commitments. This mechanism will ensure that Vietnam will live up to its obligations to end immediately all WTO-prohibited subsidies for textile and apparel goods. Specifically, in addition to the standard remedies for WTO-prohibited subsidies already available to the United States through WTO dispute settlement, USTR has taken the unprecedented step of adding an enforcement mechanism that would allow for the prompt reimposition of quotas on textile and apparel goods if Vietnam fails to fulfill its obligations to eliminate WTO-prohibited subsidies immediately upon becoming a WTO member.

3. I am told that Russia's negotiations to join the WTO are close to wrapping up, yet a significant sticking point still remains in the currently negotiated provisions. Specifically, in the services arena, Russia is insisting on a 50% cap on foreign market share in perpetuity, something that the United States has never agreed to in any other trade agreement to date.

I am concerned that this new type of restriction is not only bad for free trade generally, but also severely undermines the WTO negotiations immediately and in the future, as it may lead to other key trading partners, such as China, Brazil, and/or India freezing their liberalization. I am told USTR has worked this issue intensively, but clearly we still have an offer that does not meet our minimum threshold for an acceptable accession package that achieves full liberalization via a scheduled phase-in period and by a date certain. What is the current status of this issue and where do we go from here?

Response:

Russia and the United States are continuing to negotiate a bilateral market access agreement that will form part of Russia's overall WTO accession package. My assessment is that Russia's entry into the WTO is not imminent. Even after the bilateral market access agreement is concluded, there will be substantial work before Russia may join the WTO. In terms of other bilateral agreements, all of the other WTO members in Russia's Working Party have long-since concluded their bilateral market access agreements, while the United States has held out for a solid bilateral agreement. Once the U.S. finishes on market access, the U.S. will join other WTO members in negotiations on Russia's adherence to multilateral rules. It is important to get Russia back to the multilateral table, so that other WTO Members can share in the hard work rather than leaving it up to the United States.

USTR is pursuing a number of outstanding issues to conclude the bilateral agreement. They include: agriculture, trade in products with encrypted technology and issues on a few other manufactured products, financial services, IPR enforcement and treatment of state-owned enterprises. These issues were discussed by President Bush and President Putin when they met in St. Petersburg, in July.

As negotiations have progressed, USTR has worked closely with industry and the Committee staff to try to find solutions to the remaining concerns. I understand that we have made

substantial progress in securing a high level of commitments for the banking, securities and insurance sectors including a phase out of foreign equity restrictions, a significant expansion of the types of financial services that may be offered in Russia's market, protection of the rights of existing financial service suppliers in Russia's market, and branching rights for life and non-life insurance. As industry knows, many of these improvements were made at U.S. insistence and do not appear in any of Russia's other bilateral market access agreements. Russia does have concerns with respect to the so-called sector cap and I understand that this issue has been discussed at the highest levels in both governments. My understanding is that USTR believes it can find a solution that will not result in mandatory caps and therefore not create an unwise precedent.

USTR does not believe that Russia's discretionary sector cap will set a precedent for other negotiations. It is highly unlikely that any of our major trading partners, such as Brazil, India or China would try to introduce a similar sector-wide restriction on foreign equity, since such a restriction would be likely to violate their current commitments and these WTO members would pay a high price for that under the multilateral system. As a final point, the current level of foreign investment in the Russian banking sector is roughly 12 percent and the level of foreign investment in the Russian insurance sector is 4 percent.

