Testimony

of Jason Speer
Vice President and General Manager
Quality Float Works, Inc.

on behalf of the National Association of Manufacturers

before the Senate Finance Committee

on the U.S.-Panama Trade Promotion Agreement

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**TESTIMONY OF JASON SPEER, VICE PRESIDENT AND GENERAL MANAGER
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Good morning Chairman Baucus, Ranking Member Hatch and members of the Committee. I am Jason Speer, vice president and general manager of Quality Float Works, Inc. I am pleased to testify this morning before the Senate Finance Committee on the U.S.-Panama Trade Promotion Agreement.

The National Association of Manufacturers (NAM) is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Its membership includes both large multinational corporations with operations in many foreign countries and small and medium manufacturers.

Quality Float Works is also proud to be a member of the Latin American Trade Coalition, a broad-based group of 1,200 U.S. companies and associations that directly employ more than 10 million American workers — all of which have joined together to press for approval of the U.S.-Panama and U.S.-Colombia Trade Promotion Agreements.

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

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

While our domestic sales felt the effects of the recession, international sales have continued to flourish. In developing countries with lacking infrastructure, our products have proven invaluable in purifying water, and our foreign partners are eager to do business with an American company. These foreign customers have found that it is often more cost-effective to purchase Quality Float Works' products and ship them overseas than to buy from local competitors. In this vein, the benefits of free trade have been fundamental to the growth of our company and our ability to provide quality jobs to American workers. However, tariff and market access barriers in overseas markets continue to present challenges to us and other American exporters. Quality Float Works benefits whenever foreign barriers to our products are reduced, and we are interested in all three of the pending trade agreements with Colombia, Korea and Panama.

The U.S.-Panama TPA

Let me focus on the Panama agreement, which is the subject of this hearing. Thousands of companies, including ours, eagerly await passage of the Trade Promotion Agreement (TPA) with Panama.

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

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

As an illustration of the importance of the Panamanian market, I was in Panama just last week seeking distributors and customers for Quality Float Works products. Our particular products currently face import duties of 3-10 percent. These duties will go to zero immediately upon implementation of the trade agreement, making our products even more attractive to potential customers.

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

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

The U.S.-Panama agreement would immediately eliminate nearly all of Panama's tariffs on manufactured goods and would improve rules governing trade – strengthening intellectual property (IP) protection, increasing safeguards against product counterfeiting and copyright piracy, strengthening investment rules, opening access to government procurement, facilitating electronic commerce, speeding customs processing, encouraging express delivery and opening financial telecommunications and other services markets.

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

U.S. Manufactured Goods Trade with Panama

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

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

Effect on U.S. Imports

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

In 2010, the United States imported just $379 million in products from Panama. According to the U.S. International Trade Commission (ITC), "U.S. imports from Panama were fairly concentrated in a few product categories, primarily fish and crustaceans, including shrimp, tuna, and frozen fillets of fresh-water fish; cane sugar; gold; coffee; fruit, such as melons and pineapples; fruit and vegetable juice; and glass containers. Fish and crustaceans account for more than 30 percent of total U.S. imports from Panama."

How the Panama Trade Agreement Will Boost U.S. Exports

Given the size of Panama's economy, as compared to other bilateral trade agreements, the U.S.-Panama FTA could have the following positive effects on U.S. exports: (1) expansion of U.S. exports stemming from the reduction and elimination of Panamanian tariffs on U.S. production; (2) expansion of U.S. exports through the reduction of non-tariff barriers in Panama and the trade facilitation measures they are committed to take; and (3) preservation of existing U.S. exports that otherwise would be lost if Panama maintains its expansion of trade agreements with other nations that compete with the United States in manufactured goods, like Canada, Brazil or the European Union (EU).

A wide variety of U.S. industrial products will benefit from the immediate reduction of these tariffs, the vast bulk of which – over 88 percent of industrial and consumer goods -- would be eliminated immediately upon implementation of the agreement. The ITC's analysis shows the largest increases in U.S. exports will be chemicals, rubber and plastic products, machinery and equipment, and motor vehicles and automotive parts. NAM analysis shows other sectors that stand to gain, including processed food products, electronic and electrical equipment, and transportation equipment.

U.S. Manufactured Goods Exports Compete with Other Suppliers, not with Panamanian Industries

Analysis of the relative strengths of the U.S. and Panamanian manufacturing sectors shows that there is little overlap in the types of goods produced. This means that U.S. manufactured exports to Panama currently are, and will continue to be, in sectors where Panama either has no significant manufacturing presence or has very low levels of production. At the same time, there is not a level of significant manufacturing in Panama. Moreover, these Panamanian industries already have duty-free access to the United States and already have benefitted from that treatment.

There is, however, a high degree of similarity in the composition of U.S. exports to Panama and those of our competitors in other nations, and this is where the U.S.-Panama agreement will provide significant benefits to U.S. manufacturers. U.S. exports to the region will become duty-free, while exports from the EU, Canada, China, Japan and other countries will continue to be subject to the full duties assessed by Panama. This will make U.S. products more price-competitive relative to third-country production and will result in a shift of Panamanian purchases from the other suppliers to U.S. products.

There is danger in not acting rapidly to pass this agreement, because Canada and other nations are in negotiations with Panama on FTAs of their own. If these agreements are enacted before ours, foreign products will replace American goods in Panama, and there will be a significant loss of U.S. market share. Time is of the essence in implementing this agreement.

Curbing Restrictions to Success in International Markets

Though the focus of this hearing is on Panama, let me say a few words about the other two pending agreements, and why the NAM seeks to have all three agreements implemented as quickly as possible.

As the pending trade agreements with South Korea, Colombia and Panama have languished, our trading partners have moved forward rapidly to negotiate their own market opening agreements. For example, on July 1 of this year, an FTA between South Korea and the EU will enter into effect. Implementation of this agreement without the U.S.-South Korea trade agreement in place will immediately place U.S. businesses and farmers at a competitive disadvantage as South Korean consumers turn toward more price-competitive EU member country goods and services.

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

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

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

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

Manufacturing

Before I conclude, I would like to turn briefly to manufacturing more generally and to the importance of trade agreements to America's manufacturers. Manufacturing is a critical part of the American economy and, contrary to some opinions, it is not dead. The United States is the world's largest manufacturing economy, producing one in every five dollars of all manufactured goods in the world. Last year, America's factories shipped $5.0 trillion dollars of products – not far from the record $5.5 trillion of 2008 before the serious recession. Manufacturing supports an estimated 18.6 million jobs in the U.S. – about one in six private sector jobs. Nearly 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing.

Exports are vital to American manufacturing and to the creation of jobs in the United States. Exports are now 22 percent of U.S. manufacturing production, and that ratio has been increasing over time as world markets outpace the domestic market. Over the past decade, reflecting the two manufacturing recessions we have gone through, factory shipments rose only 19 percent.

During the same period, shipments for the domestic market rose 14 percent, but exports of manufactured goods were up 46 percent. Exports grew more than three times as fast as shipments for the domestic market.

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

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

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

Conclusion

The NAM strongly supports swift congressional approval and implementation of the U.S.-Panama trade agreement, as well as the U.S.-Korea and U.S.-Colombia agreements. U.S. manufactured goods exports are strong generators of economic growth and employment both directly and indirectly, and U.S. exports benefit substantially when an FTA is put into place.

The record shows beyond a doubt that removal of tariff and non-tariff barriers increases U.S. exports of goods and services. U.S. manufactured goods exports are the vast majority of exports to Panama, and the U.S. manufacturing sector will be among the largest and most immediate beneficiaries.

In summary, American manufacturers will see immediate reductions of 8 percent in average industrial tariffs on exports to Panama. Panama's exports enter the United States duty-free and have done so for over a decade. U.S. exports of manufactured goods will also benefit from other aspects of the agreement, which will facilitate and support U.S. export growth.

The United States must move swiftly to avoid trade diversion to the EU, Canada, Korea, China and other industrial competitors, which have utilized the United States' three-year timeout on trade to forge dozens of preferential trade agreements that threaten to leave America's manufacturers far behind. The NAM believes the time has come to level the playing field for American manufacturers.

Thank you, Mr. Chairman.