

# MARKETS FOR A NEW MILLENNIUM

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## FIELD HEARING

BEFORE THE

### COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

### UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

JUNE 19, 1999

Printed for the use of the Committee on Commerce, Science, and Transportation



U.S. GOVERNMENT PRINTING OFFICE

70-416 PDF

WASHINGTON : 2002

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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## MARKETS FOR A NEW MILLENNIUM

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SATURDAY, JUNE 19, 1999

U. S. SENATE,  
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,  
*Kansas City, Missouri*

The committee met, pursuant to notice, at 10:50 a.m. in the Foyer of Midwest Terminal Company, 1700 North Universal Street, Kansas City, Missouri, Hon. John Ashcroft presiding.

Staff members assigned to this hearing: Robert Taylor, Republican counsel; and Gregg Elias, Democratic counsel.

### OPENING STATEMENT OF HON. JOHN ASHCROFT, U.S. SENATOR FROM MISSOURI

Senator ASHCROFT: Good morning. I am pleased to call this meeting to order. I would like to thank all of you who have come to participate in this hearing today, and especially want to express my pleasure in the fact that Kansas City is so focused on the opportunities that appear to be represented in the kinds of inquiries that are being made by us and the members of the city council who are here. Teresa Loar and Chuck Eddy are to be commended, as local officials, for expressing their interest and sacrificing their Saturday. And those of you that have also come to help us from industry and from the governmental entities, I am grateful.

This hearing has been entitled "Markets for a New Millennium." It is an honor to spend time with you today and to exchange ideas in one of the nation's premier potentials for the kind of New Millennium marketing that will include not just the United States but the capacity of American producers, be they agricultural or industrial or service sector related, to serve the entire world.

We are here to discuss the cornerstone of economic opportunity for every Missourian. Kansas City, of course, is already a leader, as we well know, and Missouri is a leader. Our state ranks second in the number of farms. We just heard this morning, again, that Kansas City is the second most active railhead in the nation. We are in the top five states in livestock production. Missouri's success reflects the ingenuity and competitiveness of the private sector.

I believe that the best definition of America is a phrase. It is not geography, it is not demography. It is a definition that simply says, "The best is yet to come." It has always been true about this country; we want it always to be true about this country, and this State.

This definition is our basis for developing international trade, because if we are going to continue to improve our standing, we will have to continue to improve our performance. Our capacity is the

best capacity for competitive work, and I believe we cannot be either hindered by hurdles that we put in the way of those who would serve the world, and we cannot be allowed to be stopped by barriers that others would put in our way in foreign markets.

Missourians need to have full access at every stage from the farm gate to the foreign market, from the factory floor to the trading centers of the international community.

International trade does not just occur at the nation's borders. It begins in the factory and on the farm. A more advanced transportation infrastructure will accommodate us in helping develop international trade from the heart of America. It is my belief that the heart of America has the capacity and opportunity to demonstrate that we can be the heart of America's international trade. Missouri is already first-class in production, processing, marketing, and manufacturing-at home and abroad. America is the world's leader in technology, and Missouri is at the head of the pack.

But our continued prosperity and competitiveness for the next generation is tied to our current competitiveness in global markets. The U.S. must face, head-on, the barriers that our own government places between us and foreign markets. If indeed the Heartland of America is to be at the heart of foreign trade, we must make sure that we do everything we can to streamline our approach to helping Missourians move their goods to markets overseas.

As we are holding this hearing, the President is meeting with the Heads of State of the G8 countries at the summit in Cologne, Germany. He has made a commitment to raise with his foreign counterparts the issue of their barriers to U.S. agriculture grown with biotechnology. That is something I asked him to do. It is something that we passed a resolution last week in the Senate asking him to do, and I thank the President publicly for doing it.

This commitment was made because Senator Harkin of Iowa and I passed the resolution and asked the President to raise these issues. The interests of the American farmer have always had a seat at the table, especially at the highest political levels, I believe they ought to continue to do so.

Nearly 40 percent of all U.S. agricultural production is exported, so in terms of the industries that we have represented today, all of them are interested in export, clearly. Agriculture is one of the highest levels of exports. Some agricultural sectors export over half of their production. In the United States, we consume less than half of the soybeans we produce, for instance. That means the rest has to go overseas.

However, we can create even more export opportunities, because 95 percent of the world's market, 95 percent of the world's consumers, live outside the United States. This gives us an opportunity to build on our tradition of ascending opportunity in world markets.

America must lead on every front. My goal is for the nation's international trade policy to reinforce the character and definition that we have a level of ascending opportunity. We must remove barriers here at home by streamlining, by integrating, by doing a better job so that Missouri's enterprising business community will be able to get the goods out of America efficiently and effectively.

And we must break down barriers overseas that would keep us from being competitive.

It is my pleasure now to call upon a group of individuals whose from-ground-zero-up understanding of manufacturing and farming and processing and moving goods in international trade can help us comprehend what our challenges are. I am delighted to welcome the witnesses we have here from this community and from the State of Missouri.

So, today, it will be my privilege first to call upon Mr. Karle Eberle, who is the Executive Vice President of the Harley-Davidson Corporation. Harley-Davidson is a relatively new member of the Kansas City community, since 1998. It is my understanding that about a quarter of the sales of all Harley-Davidson products are in overseas settings, and so it is with that in mind that I welcome the testimony of Mr. Eberle.

Would you please turn that microphone toward you, and give me and the rest of us a chance to hear clearly those things that you can develop in us an awareness about.

**STATEMENT OF KARL EBERLE, VICE PRESIDENT AND  
GENERAL MANAGER, HARLEY-DAVIDSON CORPORATION,  
KANSAS CITY OPERATIONS**

Mr. EBERLE. OK. Thank you, Senator. I would like to thank you for making this opportunity possible today. I am going to give you 20 minutes worth of testimony in 5 minutes, and then I am going to leave for my daughter's baseball game.

I have had the privilege of working for Harley-Davidson for the past 9 years, and it is a very unique company. To really understand our export capability and importance, I would like to give you a little background on the company.

With that, I would like to show you some of the models that we make. We have four families of motorcycles in these mounted slides: a Sportster family, which is made exclusively in Kansas City now; we have our Dyna and Softail family, which is made in York, Pennsylvania, along with the Touring motorcycles.

The Touring and the Sportster both represent about 25 percent of our total volume, and contrary to what most people believe, there are Harleys for less than \$20,000. In fact, the family of Sportsters start at \$5400 and go to about \$8500, and the York models can go to about \$18,500 at suggested retail price. Obviously, with the shortage of Harleys, that in itself is part of a wish list to get one at retail price.

In addition to that, we offer the Buell model. The Buell model is our sport bike model, which is particularly popular in Europe and Asia, where sport bikes make up the biggest portion of the heavyweight motorcycle market.

We are a lot more than just a motorcycle company. Seventy eight percent of our sales are motorcycles, but our mission is really about fulfilling dreams. I think this picture captures a lot of it; there are not many customers or products that will brand themselves with the brand of the company, and that is very typical for our products. We have a 94 percent repurchase rate amongst our customers.

A little bit about the Kansas City facility. The Kansas City facility was constructed in 1996 and 1997 with a capital investment of

\$85 million. We started up production in January 1998. We are currently in the 400-employee range, and we continue to go up.

The economic impact that we have had on Missouri: in 1996, about \$45 million; \$85 million in 1997 at the peak of our construction; and in 1998, about \$78 million.

As far as the public-private partnership that we have established with the State of Missouri and the city of Kansas City, Missouri, our success in Kansas City is due in large part to that relationship that has been established with both the State and the City. We certainly look forward to continued relationship in that. We have had enormous success when it comes to training, infrastructure, utilities, and community support with that partnership. It is a very important part of our future.

From a revenue perspective, if you look at our growth over the last 13 years, we have had a year-over-year growth of 17½ percent from total revenue for the company. Earnings has grown faster than that. It is a compounded annual growth rate of 37 percent year over year. Exports is a very critical piece of that.

If you look at registrations, the top line is the worldwide registrations of heavyweight motorcycles, and it has grown for 7 years in a row. The last 2 years have been double-digit growth. The bottom line indicates Harley's growth, and we have had steady growth for the last 13 years in the motorcycle market. This is the heavyweight motorcycle market, which is 651cc and above.

Worldwide market share: this chart shows the four main areas, but in the U.S. last year—and this is from 1998—there was a 19 percent growth in the market. In Europe it grew at 8 percent, and in the Pacific Rim, 17 percent. Of that, Harley-Davidson grew at about 18 percent in the U.S. alone. If you add it all up worldwide, 1 out of 4 motorcycles is a Harley-Davidson heavyweight motorcycle that has been sold in 1998.

So we are definitely a player, and we believe we have significant opportunities in both Europe and Asia because of our lower percentage of market share.

If you look at export versus domestic, we are at approximately 30 percent of all of our products are sent overseas. That in itself says a lot. When you look at Kansas City, the only reason Kansas City exists today is because of the export potential that we have been displaying over the years. Without this 30 percent, there would be no need to build the Kansas City facility.

Now, with that comes its challenges. One of them is the Japanese area. We will use it as an example. You can see here, for the past 4 years, we have had an annual growth rate of 20 percent up to 1997. What we found is that there were some very unique opportunities from a regulatory standpoint. We worked directly with the U.S. Offices of Trade and Department of Commerce, and indirectly with American Motorcycle Manufacturer's Association, as well as some of the federal international motorcycle associations, to influence some of the barriers to trade.

For example, there was a barrier in Japan that in order to get a license on a heavyweight motorcycle, you had to be able to put the motorcycle on its side and pick it up. Well, there are not many of us that can do that, especially if you are riding a Harley.



In working with these agencies, both directly and indirectly, we were able to influence that law. That law was reversed. And as a result of it, in 1998—or between 1996 and 1997, we saw a 43 percent increase in our export sales to Japan alone.

Now there are other barriers over there. For example—you cannot ride tandem on a motorcycle over there. That, obviously, is a huge barrier for us, and we are working now to resolve that issue. But it certainly talks about the growth potential in the export market, but it is something that you have to pay close proximity to and attention.

In addition to that, global harmonization is another thing that we are looking very hard at, and for example, we have four engine platforms in our motorcycles, and we have 26 different models. With the international requirements for exports, each one of those has eight different varieties, so we come up with 208 variants, instead of 26. So—and I am sure we are not unique in this industry; that those requirements have barriers to other manufacturers as well. So that is an area that we would also like to work.

Bottom line, though, for Harley-Davidson, this is a—this really shows our shareholder price from 1986 to 1999. If you invested 65 cents in 1986, in March 1999, you would have got back \$57.38. We believe this is indicative of Harley-Davidson's performance, and we believe it is indicative of what has gone on. It is really work in progress for the past 96 years.

So we look forward to continued growth in the export business, and we look forward to our 100th anniversary in 2003. Thank you.

Senator ASHCROFT: Let me thank you very much. I know you are eager to get to your daughter's game, and you should be. We need for parents to spend more time with their children in this culture. I'm glad that you, as a leader, a community leader, not only lead in industry but in character and in your family. But before you go, I guess I want to make sure I understand clearly. You are telling us here today that if we did not have export opportunities, there would be no need to have the Kansas City production facility.

Mr. EBERLE: That is correct.

Senator ASHCROFT: About 30 percent of all the company's output finds its way into international markets.

Mr. EBERLE: Yes. That is a fair statement. Kansas City presently produces about 25 percent of the total motorcycle volume for Harley. So that would eliminate the need for Kansas City.

Senator ASHCROFT: Well, I thank you very much for coming. I wish you the best, and I hope you will extend to your daughter our best wishes that she has a great day—

Mr. EBERLE: Thank you, Senator.

Senator ASHCROFT: —and that she plays to the very top of her capacity. If she does that, we may have a job for her with the Royals.

Mr. EBERLE: Thank you very much.

[The prepared statement of Mr. Eberle follows:]

PREPARED STATEMENT OF KARL EBERLE, VICE PRESIDENT AND GENERAL MANAGER,  
KANSAS CITY OPERATIONS

**Marketing For A New Millennium**  
**Commerce Committee Field Hearing**



**Karl Eberle**  
**Vice President and General Manager**  
**Kansas City Operations**

Thank you for the invitation to speak on Harley-Davidson and the importance of exports for our company. I would like to thank Senator John Ashcroft's office, and Mike Copps, Assistant Secretary for Trade Development for making this input today possible.

## Commerce Committee Field Hearing

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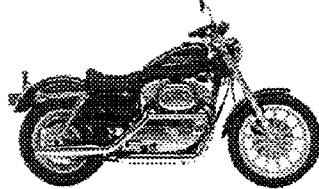
- An Overview of Harley-Davidson
- Exports
- Influencing the Market through International Trade and Regulatory Affairs
- Closing Remarks

I would like to set the context for our conversation by providing an overview of Harley-Davidson. I've had the privilege of working for Harley-Davidson the last nine years, and it is truly a unique company. The passion and commitment of our employees, dealers, and customers are instrumental in our business success. By first providing the overview, I can hi-lite exports and its importance to Harley-Davidson's business.

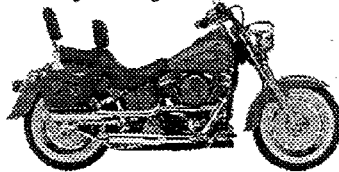
## H-D Motorcycles



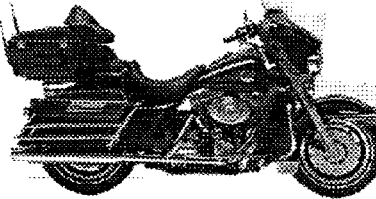
*Sportster*



*Dyna/Softail*



*Touring*



At the center of the lifestyle, the passion and the brand of Harley-Davidson are Harley-Davidson motorcycles.

Under the Harley-Davidson brand we offer 24 different motorcycle models in the custom and touring segments of the heavyweight motorcycle market, above the 650cc displacement. Contrary to popular belief not all Harley-Davidson motorcycles cost \$20,000. In fact our motorcycles range in manufacturer's suggested retail price, or MSRP from \$5,400 to \$18,500. However, the fact that demand still exceeds supply in most of our markets does create the opportunity price premiums at retail.

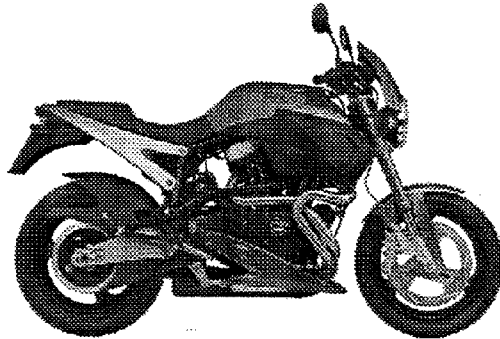
We have four families of motorcycles that are considered heavyweight Custom motorcycles. Our Softail and Dyna families are our larger custom motorcycles, while our Sportster family is the platform for our smaller custom bikes. The pictures show a Sportster on top and a Fatboy model from our Softail family below.

In the Touring segment we offer a variety of models. This slide depicts the Ultra Classic Electra Glide which is designed for long comfortable rides.

Our new Twin Cam 88 engine which has gained notoriety as the best air cooled v-twin engine in the industry currently powers all the Dyna and Touring motorcycles.

## Buell Motorcycles

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**Buell**  
AMERICAN MOTORCYCLES

Under the Buell brand, we offer motorcycles that compete in the Sport/Performance segment of the heavyweight motorcycle market which in Europe and the Asia/Pacific capture the majority of the heavyweight market.

Buell motorcycles are powered by Harley-Davidson engines, but that's where the similarity ends. Buells are purchased by customers that desire a different riding experience: one that requires a motorcycle with higher performance and handling characteristics suitable for more aggressive riding.

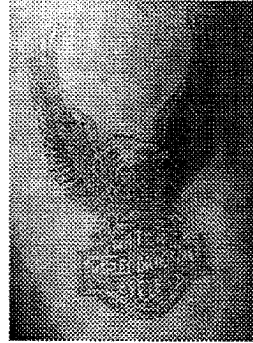
We offer three Buell models with an MSRP range of \$8,600 to \$12,800.

This picture is of the 1999 Lightening XI that was introduced to the U.S. market in July of last year. It has been well received and was featured on the cover of Cycle World Magazine. They subsequently named it one of the 10 best motorcycles in the world.

## Harley-Davidson “BRAND”



- More than motorcycles
- 96 years of heritage
- “Fulfill dreams”



**H-D motorcycle repurchase intent = 94%**

Although 78% of our sales are motorcycles, Harley-Davidson is much more than a motorcycle manufacturing company.

Harley-Davidson has 96 years of heritage and mystique behind the brand. The brand represents individuality, freedom, and a desire for adventure. And even as we've made motorcycling a more socially acceptable sport and broadened the customer base—we've managed to keep an “edge” to the brand.

In 1998 we rewrote our mission statement and it starts with simple phrase “We fulfill dreams...” I really think this captures what Harley-Davidson means to our customers. Some of them feel so strongly about it that they even brand themselves with our brand. This loyalty is also illustrated by our incredible H-D motorcycle repurchase intent of 94 percent.

## Harley-Davidson Kansas City

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- Construction of Facility..... 1996 & 1997
  - Capitol Investment      \$85 Million Project
  - Production Startup              January 1998
  - Present employees              400 in 1999
- 
- 1996                              \$44,565,622
  - 1997                              \$85,302,568
  - 1998                              \$77,837,000

## Public - Private Partnership

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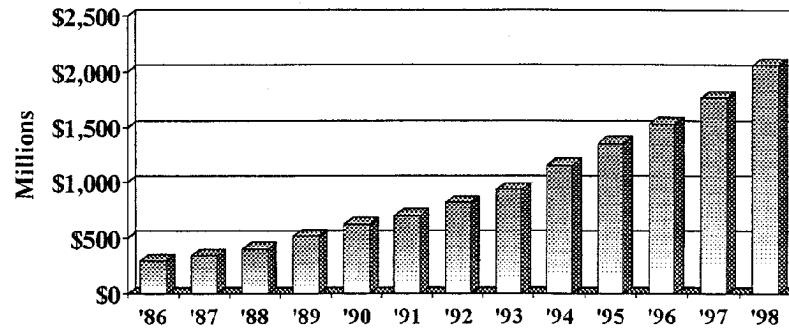
- State of Missouri
- City of Kansas City, Missouri
  - Training
  - Infrastructure
  - Utilities Support
  - Community Support

Our success in Kansas City is in a large part due to the public-private partnership with the state of Missouri and the city of Kansas City, Missouri. We appreciate this continued support from all levels of Government.

## Consistent Growth



### HDI Revenue



*Compound Annual Growth Rate = 17.5%*

Harley-Davidson is also about growth.

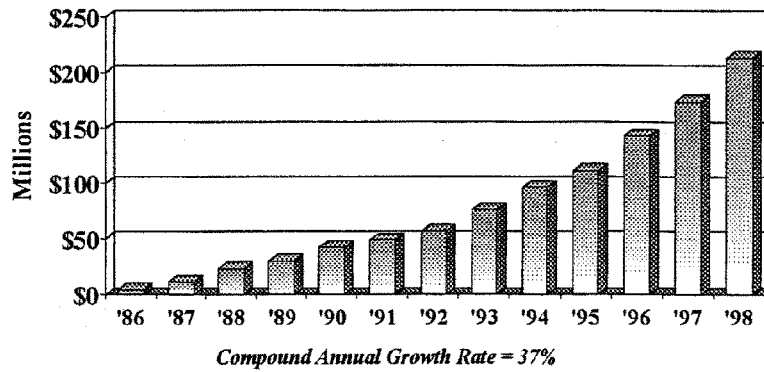
This chart illustrates the steady, consistent growth that Harley-Davidson has experienced over the past 13 years, and we are committed to growth in the future. As we will discuss in a minute, expanding in international markets is an essential tenet of our future growth strategies.



## Earnings growing faster



### HDI Earnings

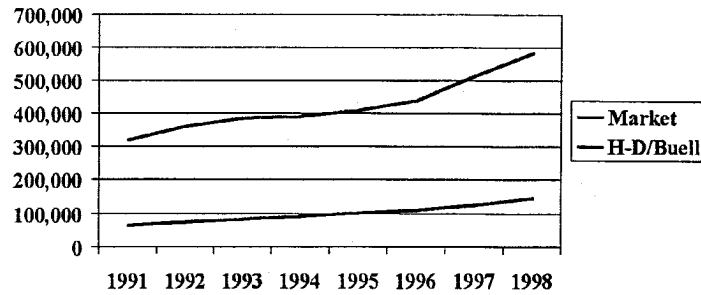


This chart also shows our consistent steady growth in earnings. And for 12 of the last 13 years earnings have grown faster than revenue.  
There aren't many companies that have delivered this type of financial results.

## Growing Worldwide Market



651+cc Motorcycle Retail Registrations



Turning to the market now, the Worldwide heavyweight motorcycle market grew for the seventh consecutive year in 1998. And for the last two years it has been growing at a double-digit rate.

During the same timeframe Harley-Davidson retail registrations have also grown. In fact Harley-Davidson retail registrations have grown steadily for the past 13 years.

## Growing Worldwide Market



*651cc+ Retail Registrations: 1998  
(percentages)*

	<i>U.S.</i>	<i>Europe</i>	<i>Asia/ Pacific</i>	<i>Total</i>
<b>Market</b>	+18.9	+8.0	+17.6	+13.8
<b>H-D/Buell</b>	+17.8	+7.4	+6.9	+15.8
<b>Market Share</b>	49.5	6.4	15.6	24.8

More specifically, this chart shows the 1998 growth in each of the three major regions.

As you can see all three regions experienced strong growth in 1998. Harley-Davidson and Buell retail registrations also grew in each region. Although in each region we grew somewhat less than the overall market—worldwide we gained a little market share. This may seem counter intuitive—but because the U.S. is over 70% of our sales and it is growing faster than the world it really drives our market share.

However, as this data indicates, we have significant opportunity to increase market share in Europe and in Asia/Pacific.

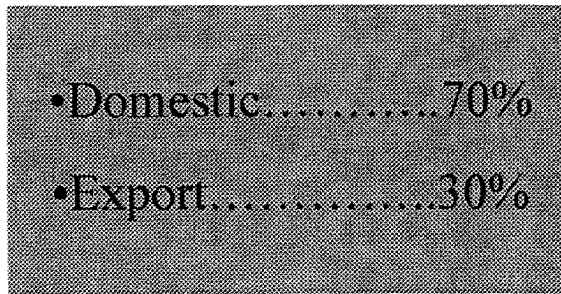
## Export Business



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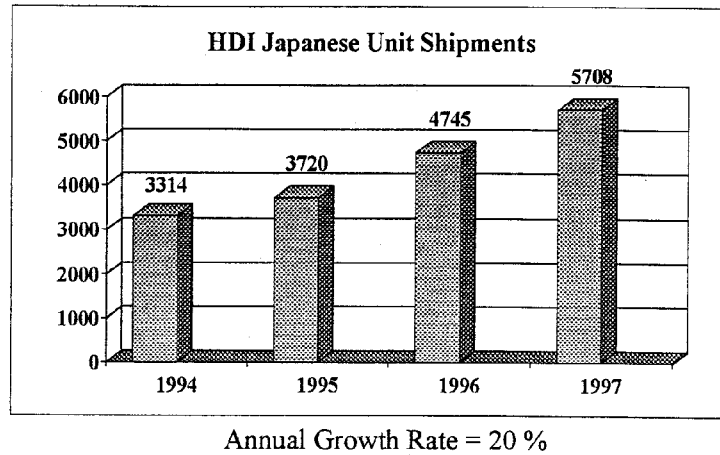
# Motorcycle Shipments

( Approximate )



Exports represent a substantial and important part of our motorcycle business. This percentage varies by model and by country. The challenge to growth is to overcome the barriers to entry, including complexity due to unique country requirements.

## Japanese Market Growth



Specifically, for the period from 1994 to 1997 Harley-Davidson has experienced an average annual growth rate of 20%.

## Regulatory Affairs

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- Direct Influence
  - United States Trade Representative’s Office
  - United States Department of Commerce
- Indirect Influence
  - International Motorcycle Manufacturer’s Association (IMMA)
    - President - Tim Hoelster
  - Federation International Motorcyclist (FIM)
  - American Motorcyclist Association (AMA)

Harley-Davidson maintains a very active and effective regulatory and international affairs strategy. This strategy divides into two basic tenets. The first is to create direct influence on international trade barriers and regulatory interests through U.S. government agencies. Harley-Davidson has worked extensively over the past years with the United States Trade Representative’s Office and the United States Department of Commerce.

The second tenet of this strategy is to exert indirect influence through the support of industry and consumer groups. Harley-Davidson maintains constant involvement with the world’s most influential motorcycle associations—evidenced by the fact the Tim Hoelster, Harley-Davidson’s Vice President of International Trade and Regulatory Affairs, is also the acting president of International Motorcycle Manufacturer’s association.

The influence brought by these strategies has made a difference for Harley-Davidson.

## Japanese Market Barriers

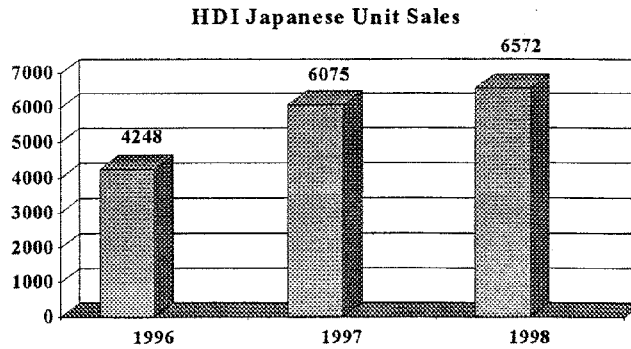
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- Complex Licensing Requirements for Unlimited Class (over 401cc) Motorcycles
- Tandem Riding
  - Restriction of seat capacity
- Limitations of Maximum Speeds on National Expressway (80km/hr)

In 1994, Harley-Davidson began an effort in conjunction with the United States Department of Commerce to petition the OTO Council on regulations and licensing issues for large class motorcycles. Because Harley-Davidson competes singularly in the large engine displacement category, these regulations create unnecessary disadvantages for our products. Utilizing the direct and indirect influence strategy previously described, Harley-Davidson was able to coordinate an effective intervention which resulted in the change to the licensing requirements in 1996. Although we continue our efforts to influence the tandem riding and maximum speed restrictions, this singular change on licensing has made an impact on the market. Without the combined influence of the United States Department of Commerce, and numerous industry and rider associations, these changes would likely not have occurred.

## Japanese Market Growth



Annual Growth Rate 96-97 = 43%

Due to the regulatory changes brought about by Harley-Davidson's efforts, the 651+ cc motorcycle market grew by over 73% in 1997 in Japan. Although the bulk of the growth was in the sport/performance segment of the market, which is dominated by Japanese manufacturers, the changes also created a 43% growth for Harley-Davidson in the same year.

Clearly, removing the licensing barrier benefited the entire industry. Harley-Davidson's ongoing strategy has been to open markets and allow competition to exist on the merits of the competitors. Although the intervention we sponsored in Japan created a larger dividend for our competition, it has continued to create the market structure to provide an open playing field.



## Opportunities

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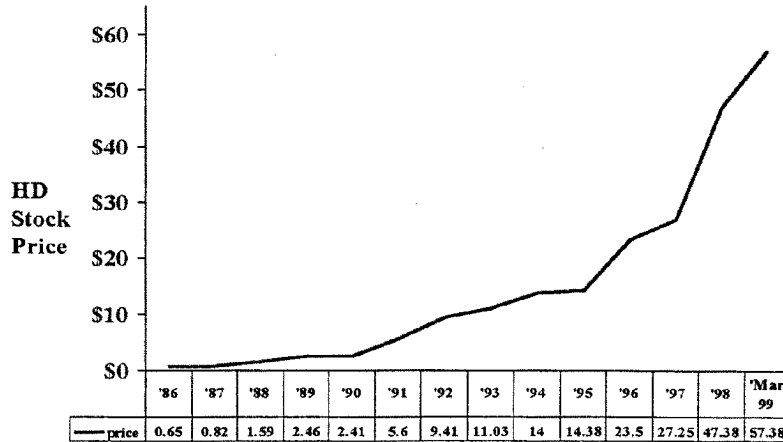
- Global Harmonization
- Why?
  - Harley-Davidson offers four basic engine platforms
    - 883, 1200, 1340 and 1450cc
    - There are 26 different models. Each model has to be made in 8 specifications
      - Emissions, noise, lighting, etc
      - EU, EPA, California, Japan, etc.
    - 208 variants instead of 26

In addition to our efforts to continue to influence the tandem riding and maximum speed restrictions in Japan, we have engaged in a strategy to support “global harmonization” in our industry. Contrary to the phrase, “global harmonization” does not imply that we are going to “buy the world a Coke.” In fact, it centers on providing common regulatory specifications for vehicles in the same categories across all global markets.

The absence of this creates significant cost to everyone’s products. For Harley-Davidson this creates a proliferation from 26 different models to 208 variants due to the eight different regulatory specifications that the industry is subject to across the various international markets.

Given the significant effort expended to simply change the licensing standard in Japan, global harmonization becomes an effort of significant proportion.

## The Harley-Davidson Business Proposition



I began this discussion by commenting on Harley-Davidson as a truly unique company. Wall Street has a way of valuing the success of a company's business proposition or model.

This graphic shows that for the last 13 consecutive years we have delivered sustainable growth. Our strategy that I have outlined in Japan represents an important part of that 13 year history—and more importantly represents the experience and strategies needed to sustain our future growth in international markets.

It's been a pleasure to talk to all of you this afternoon, and convey a little bit of the Harley-Davidson story. It's a work-in-progress that has been 96 years in the making.

Thank you.



Senator ASHCROFT. Thank you very much.

It is my pleasure now to call upon Ms. Jan Ray, who is the President of the International Trade Club of Greater Kansas City. I have to say that this is a unique organization, which I believe, has a membership of over 700. To have that kind of intense involvement in a community like Kansas City is a reflection of the fact that this community is interested in and focused on its ability to serve the world.

I am very pleased that you would come and be a part of this hearing, and would ask you to give your testimony at this time.

**STATEMENT OF JAN RAY, PRESIDENT, INTERNATIONAL  
TRADE CLUB OF GREATER KANSAS CITY, INC.**

Ms. RAY. Thank you, Senator Ashcroft. It is a pleasure to be here on behalf of the International Trade Club presenting to your hearing today under the topic of "Markets for the Millennium." I, ironically, have been out of the country doing international business, so have just returned, so have pulled together the best information possible to reflect on what the International Trade Club does in the Greater Kansas City area.

We are the oldest international organization in the area. We have been in business for over 55 years, starting out in 1944 through just a small group of Kansas City business persons, who were either interested in international trade or doing some international trade, and they just informally formed an organization. Of course, later the organization was formalized. Today—you are correct, Senator—we represent over 700 members and over 350 different companies in the Greater Kansas City area.

Our organization is comprised of both manufacturers and service organizations. Our goal for the International Trade Club is really quite simplistic, and we intentionally keep it that way. It is all based on our mission statement, and that is that our mission statement says that we are here to promote international business through focused commercial education and networking. So, therefore, I am going to share with you an idea of our educational programs and what we have done just so far this year.

So far this year, since January 1, we have conducted 18 different seminars and conferences on a variety of topics. I am just going to quickly go through the topics, which I think will give you an idea of how diverse our organization is.

On January 6, we did a breakfast meeting on the update of North America's Superhighway Coalition. On the 13th of January, we did an export documentation seminar; on the 15th, Security While Traveling Overseas. These seminars are open to both members and nonmembers of the International Trade Club.

On January 27, we began a three-part series on import, the import aspects, the first one being called Customs Compliance Assessment. On February 3, we did a seminar on globalization; on February 10, International Letters of Credit; on February 24, the second part of the import series; on March 3, Communications Across the Pond; on March 10, a report on the Jackson Hole Conference; on March 24, the third part of the import series; on April 7, China and Its Business Insights; on April 22, Current Events in Trans-

portation; on April 28, the fourth part of the import series; on May 5, International Agriculture.

May 18, is a premier event of the International Trade Club, in conjunction with the Greater Kansas City Chamber of Commerce and other international organizations, called our World Trade Week. This year, the theme was the European Union. All of the various countries involved in the European Union were represented, and our two keynote speakers featured Minister John Richardson, who is the Deputy Head of the European delegation to the United States in Washington, D.C., and also Ambassador Thomas Niles. Ambassador Niles is the former Ambassador to both the European Union and Greece and is now the President of the United States Council of International Business in New York City.

Then after that, we have also had another seminar on Business with Russia; another one on International Sales and Marketing; and then the end of this month, June 29, one on the "How To" of International Trade. So hopefully that gives you an idea of our members' interests in getting a broad base of information on the global marketplace. Ten of these seminars were offered in conjunction with the Greater Kansas City Chamber, so we very much try to partner with other international organizations.

The networking component of the International Trade Club is comprised of any number of meetings, receptions—and this year we started a new program called International After Hours, where anyone who is involved in the international marketplace is encouraged to come and to network with others.

The International Trade Club provides information to new members of the international marketplace, as well as veterans in the international marketplace. While we do not have particular statistics regarding our own members, for obvious reasons—many of them are very sensitive competitors to one another, if you will. But since our members are comprised of a broad base of both service and manufacturing, and are on both the Missouri side and the Kansas side, we feel very comfortable in using the Department of Commerce figures.

So, therefore, the figures that we use for the International Trade Club is that—and the most recent figures we have are the 1997 figures from the Department of Commerce, and that the export totals from the Greater Kansas City area were 3 billion 818 million. Those are broken out into various global regions. The NAFTA countries, Canada and Mexico, comprising the largest of 1 billion 190 million, going on down to Australia with the smallest export totals of 41 million.

As far as the product totals, in 1995, again, the latest figures that we have, the manufactured goods were 1 billion 425 million; the non-manufactured goods 1 billion 925 million. So that gives you an idea of the scope of the numbers that we deal with at the International Trade Club.

To also give you an idea of our organization and how we try to keep it open to, again, new persons interested in the international marketplace, as well as veterans, we try to keep our membership very, very low. For example, a corporation membership is \$300, and that entitles you to up to five members. An individual member-

ship is \$80; an educational membership, \$65. We have several students who are members at \$30.

We are more than happy to provide you with additional information on behalf of the International Trade Club for additional conferences, seminars, other aspects of our organization, but hopefully that gives you an idea of what we are about in the Greater Kansas City area. Thank you.

[The prepared statement of Ms. Ray follows:]

PREPARED STATEMENT OF JAN RAY, PRESIDENT, INTERNATIONAL TRADE CLUB OF  
GREATER KANSAS CITY, INC.

The International Trade Club of Greater Kansas City, Inc. is 55 years old and is comprised of a membership of over 600 members representing approximately 350 companies.

The foundation for the club through its over half a century rests with its mission statement: to promote international business through focused commercial education and networking to support individuals and businesses in the Greater Kansas City area.

The commercial education component of the mission statement is fulfilled through a number of seminars conducted annually. This year's seminars have included:

Jan. 6 Updates on NASCO & the Federal Highway Bill (North America's Super-highway Coalition)  
Jan. 13 Export Documentation Seminar  
Jan. 15 Security While Traveling Overseas  
Jan. 27 Import Series Part I—Customs Compliance Assessment  
Feb. 3 Globalization  
Feb. 10 International Letters of Credit Seminar  
Feb. 24 Import Series II—Fundamentals of Importing  
Mar. 3 Communications Across the Pond  
Mar. 10 The Jackson Hole Conference Report Seminar  
Mar. 24 Import Series Part III - Draw Back Regulations  
Apr. 7 China—Business Insights  
Apr. 21 Current Events In Transportation  
Apr. 28 Import Series Part IV—Custom Penalties & Prior Disclosure  
May 5 International Agriculture  
May 18 The European Union  
June 2 Business with Russia  
June 9 International Sales & Marketing  
June 29 The "How to" of International Trade

Ten of these seminars were offered in conjunction with the International Division of the Greater Kansas City Chamber of Commerce. A recent survey by the International Trade Club indicated a majority of our members are interested in specific countries and focused tactical seminars.

The networking component of the mission statement is fulfilled through a number of meetings, receptions, and other social gatherings throughout the year. At the request of our members for additional networking opportunities, we established a new program for 1999 entitled International After Hours, a bi-monthly reception after business hours for socializing. Anyone doing business or interested in doing business in the international marketplace is encouraged to attend. The response has exceeded our expectations.

Whether you are new to the international arena or a veteran conducting business globally, the International Trade Club offers opportunities to grow your business. Joint efforts with other Kansas City international organizations offer further additional international opportunities for our members.

While the International Trade Club does not have statistics for the international business activities of its individual members, we feel comfortable in the utilization of the export totals as compiled by the Department of Commerce for the Greater Kansas City area. Our membership base is representative of a broad spectrum of manufacturers and service providers doing business throughout the world. (See Attachment A)

An additional indicator of international activity utilized by the International Trade Club is via the Heartland International Business Index (HIBI). This index was started by the International Trade Club in 1996 in conjunction with Professor Ernie Goss of Creighton University in Omaha, Nebraska. The index is compiled for

the Heartland Alliance and is an economic indicator of international business with the nine member states: Missouri, Kansas, Iowa, Nebraska, Oklahoma, North and South Dakota, Minnesota and Arkansas. An index of 50 or greater depicts growth. The HIBI measures changes in the monthly export and import activities for the nine Heartland states and compares it to the United States average.

Heartland export orders moved up again in May but lagged national export order growth. Heartland orders reached 48.8 in May, up from April's 48.3. For the state of Missouri, the May export index reached 51.5. In comparison, the national export orders index rose to 52.4 in May from 51.6 in April.

The international Trade club offers its information, educational seminars and networking opportunities to both members and non-members.

Attachment A—METROPOLITAN MERCHANDISE EXPORT TOTALS TO SELECTED DESTINATIONS, 1993-1997  
(Dollars)

Metro Area	Market	1993	1994	1995	1996	1997
Kansas City, MO—KS:	NAFTA Countries	618,809,120	847,505,187	876,500,509	1,357,188,382	1,189,840,808
	Canada	293,854,580	339,084,694	367,111,902	367,877,533	428,549,412
	Mexico	324,954,540	508,420,493	509,388,607	989,310,849	761,291,396
	Caribbean & Cen. Am.	114,347,297	103,391,288	145,636,859	199,916,463	201,256,375
	South America	199,536,800	210,120,898	347,100,721	430,400,459	465,822,516
	Argentina	12,081,225	14,921,657	25,245,639	27,014,374	58,330,189
	Brazil	26,291,887	20,429,696	35,163,954	53,888,913	31,992,833
	Other S. America	161,163,688	174,769,545	286,691,128	349,497,172	375,499,494
	Europe	481,708,946	361,974,091	437,091,393	468,425,032	553,038,579
	Belgium	17,450,740	51,072,031	56,614,152	46,760,730	18,219,017
	France	21,239,285	21,051,989	33,384,156	21,155,256	43,694,308
	Germany	63,972,678	55,731,314	63,621,474	57,336,185	91,970,975
	Netherlands	28,956,352	26,196,421	31,459,253	50,819,745	34,553,953
	United Kingdom	44,725,101	60,977,867	51,585,236	76,226,784	83,449,763
	Turkey	11,821,220	1,632,025	4,189,802	19,017,620	78,912,939
	Former Soviet Rep.	184,320,230	38,248,835	51,514,030	53,601,755	37,835,754
	Poland	4,358,781	1,531,999	2,324,133	10,805,888	8,924,521
	Other E. Europe	49,601,412	26,304,802	11,521,377	21,287,319	19,580,823
	Other Europe	55,263,147	79,226,808	130,877,780	111,413,750	135,896,526
	Asia	444,915,091	639,106,772	1,150,334,518	1,120,338,531	997,262,380
	Japan	174,130,326	253,748,329	537,506,287	641,303,100	506,344,558
	China	24,355,050	43,284,423	53,823,085	61,331,086	94,858,679
	Hong Kong	12,580,443	12,015,611	20,093,584	14,233,688	14,073,400
	Taiwan	129,046,883	96,272,287	147,597,701	131,077,211	134,836,632
	Singapore	19,244,376	21,761,282	21,599,816	26,799,930	27,523,987
	S. Korea	31,103,316	60,701,207	225,709,254	142,680,787	88,397,567
	Indonesia	4,454,307	5,542,880	17,571,672	24,275,191	48,528,334
	India	2,560,371	6,877,798	4,110,614	5,892,277	11,653,882
	Other Asia	47,440,019	138,902,955	122,322,505	72,745,261	71,045,341
	Africa	137,178,912	154,512,708	151,044,462	146,603,884	138,942,401
	North Africa	95,519,079	106,907,239	67,657,516	57,752,552	77,359,227
	Rep. of S. Africa	26,363,882	16,467,488	40,076,825	17,296,692	11,649,485
	Other Subsaharan Africa	15,295,951	31,137,981	43,310,121	71,554,640	49,933,689
	Middle East	127,191,232	167,769,396	163,514,359	167,667,103	209,305,801
	Australia	24,719,571	41,746,231	34,652,697	63,037,728	41,364,482
Rest of World	77,493,573	52,433,249	44,294,047	31,494,979	20,803,523	
World	2,225,900,542	2,578,559,820	3,350,169,565	3,985,072,561	3,817,636,865	

Prepared by: Office of Trade and Economic Analysis, International Trade Administration, Dept. of Commerce  
Source: Exporter Location Series, Census Bureau

METROPOLITAN MERCHANDISE EXPORTS TO THE WORLD, BY PRODUCT SECTOR, 1993-1997

(Dollars)

MSA	Product Description	1993	1994	1995	1996	1997
Kansas City, MO—KS	Manufactured Products	1,091,733,254	1,347,718,649	1,425,258,895	1,503,492,234	1,910,850,976
	Food Products	238,162,931	265,968,846	272,592,351	263,017,143	322,198,192
	Tobacco Products	0	0	0	9,000	3,000
	Textiles & Apparel	32,301,376	38,498,541	55,432,534	79,740,201	111,787,875
	Lumber & Wood Products	13,566,986	14,728,566	14,728,035	13,535,749	14,306,412
	Furniture & Fixtures	3,294,598	4,139,051	3,825,995	4,474,742	6,658,105
	Paper Products	11,239,681	15,048,675	21,886,957	19,213,555	23,354,208
	Printing & Publishing	28,390,480	38,854,962	36,563,259	44,419,324	48,528,875
	Chemical Products	147,440,454	159,975,381	175,085,786	205,955,751	263,572,247
	Refined Petroleum Products	2,888,980	2,560,564	2,839,454	2,656,603	3,181,278
	Rubber & Plastic Products	20,473,488	26,269,201	30,064,647	25,126,297	31,514,467
	Leather Products	340,264	1,358,341	920,571	813,251	1,288,359
	Stone, Clay, & Glass Products	13,430,163	28,545,578	22,939,950	22,014,497	14,743,510
	Primary Metals	9,138,995	18,247,017	12,423,241	15,653,235	52,555,024
	Fabricated Metal Products	67,092,356	102,291,728	129,505,671	129,688,990	175,384,447
	Industrial Machinery & Computers	191,589,598	216,459,294	243,548,400	288,178,409	361,152,240
	Electric & Electronic Equipment	95,358,737	174,995,373	128,507,282	111,524,108	157,610,891
	Transportation Equipment	82,195,303	98,843,199	121,980,631	102,275,851	122,388,014
	Scientific & Measuring Instruments	122,795,399	116,047,629	129,138,245	145,991,282	168,372,423
	Misc. Manufactures	7,413,054	10,179,612	12,430,558	11,872,227	18,629,083
	Unidentified Manufactures	4,620,411	14,707,091	10,845,328	17,331,583	13,622,018
	Nonmanufactured Commodities	1,134,167,288	1,230,841,171	1,924,910,670	2,481,580,327	1,906,785,889
	TOTAL	2,225,900,542	2,578,559,820	3,350,169,565	3,985,072,561	3,817,636,865



Senator ASHCROFT. Well, we thank you very much. It seems to me that a person who goes to at least two out of three of their conferences should get a Ph.D. in about the span of 6 months.

Ms. RAY. We agree.

Senator ASHCROFT. What a tremendous array of informational conferences you hold.

It is my pleasure now to call upon a longtime friend, a personal friend and also a friend of this community. He is a farmer, a board member of the Missouri Farm Bureau. And given the fact that 40 percent of all agriculture in the country is exported, it really behooves us to make sure that we do not have barriers between that community and overseas markets—barriers either through our own inefficiency in the way we handle goods for export or barriers that we allow to exist overseas.

I have tried to focus on both of these categories of barriers in my legislative duties. Sometimes we have been very quick to impose embargoes, which make it impossible for our farmers to export. I think we have to review carefully these U.S. barriers.

I have also spent a lot of time recently in speaking to the effects of foreign barriers such as those the European community has against American agricultural products. Senator Baucus of Montana and I specifically called the Ambassador of the European Union to our offices to talk to him about their continued refusal to accept American beef and other agricultural products in spite of the fact that they have lost every WTO case and have exhausted their appeals.

So as we work together, I am delighted to have this opportunity to hear from someone at the production base of one of America's greatest industries, the agricultural industry. Mr. Blake Hurst is here to provide us with information on how we can understand better our capacity to help in agricultural export and production.

Mr. Hurst.

**STATEMENT OF BLAKE HURST, DISTRICT #1 BOARD  
DIRECTOR, MISSOURI FARM BUREAU, AND FARMER**

Mr. HURST. Thank you, Senator. I raise corn and soybeans, as you know, in Northwest Missouri, about two hours north of here, with two brothers and my father. My wife, Julie, and I also have a commercial greenhouse business where we raise bedding plants that are shipped to about four different states. It is my privilege to serve on the State Board of Directors of Missouri Farm Bureau, a farm organization representing 80,000 member families in the State of Missouri.

I want to thank you especially today, Senator, for your continued efforts to expand trade opportunities for our nation's farmers and ranchers. We appreciate your work to ensure that the world leaders discuss the biotechnology issue and the other non-tariff restraints to trade at the G8 meeting, your leadership in pursuing legislation in trade sanctions related to agriculture, and your attempt to make the customs service more efficient by standardizing international trade data.

As you know, U.S. agriculture has not shared in the prosperity associated and enjoyed by the general economy. These are trying

times in agriculture, and we must pursue every opportunity to enhance the demand for the products that we raise.

You know, I think back to the 1996 Presidential campaign. I think one of the most unfortunate metaphors that anybody, any candidate, used that year was Pat Buchanan's call for peasants to attack Washington with pitchforks—peasants with pitchforks—in protest against international trade, because you know the peasants that Pat was talking to have replaced that pitchfork with a skid loader made in Japan, and they paid for that skid loader with dollars earned from selling soybeans to Germany and Asia. We farmers are totally dependent on trade, and the troubles we have experienced in the last few years are largely a result of the economic turmoil in Asia, and of course the Russian troubles and trade barriers as we try to sell to Europe.

Three years ago we exported \$60 billion of farm products; this year we will only export \$49 billion. The U.S. Department of Agriculture has reported that stockpiles of U.S. soybeans could be the largest in 13 years, and stockpiles of corn the largest in seven. Of course, as you know, soybean prices are lower than they have been in 20 years. So there are three things I would like to bring up today that could perhaps help turn this agriculture situation around.

First, infrastructure must be in place for low-cost movement to U.S. borders. The agreements must be in place that allow fair competition in overseas trade, and mechanisms must be in place to enforce and resolve trade conflicts, as you pointed out in your remarks.

There are 6 billion people in the world today, 95 percent of which are outside our borders. About 1.5 billion people live a life of subsistence, and another 800 million people are so malnourished they cannot work. This is unacceptable, given the abilities of the American farmer to feed the world.

In 1996, U.S. agriculture exports, as I said, reached \$60 billion, about 30 percent of our sales. In 1997, Missouri agriculture exports totaled \$1.55 billion, again, almost 30 percent of Missouri farmers' sales. The loss of our export markets would erase demand for almost a third of our state's annual production.

The U.S. has been blessed with the climate and natural resources that make us the envy of the world. But it is frustrating that we seem reluctant to take advantage of these assets. We have an inland waterway that allows products to be shipped to and from ports in a cost-efficient and environmentally friendly manner. Missouri, Mississippi, and many other rivers are gateways to the world that must constantly fight government officials and environmentalists that seem to put the pallid sturgeon before farmers, and the least tern before the 800 million people that need to eat what we produce.

We have an aging lock-and-dam system on the Mississippi River that must be modernized; have a rail system that has been consolidated to a point that it is not uncommon for grain to sit on the ground waiting for shipment. This reduces quality and prices paid to producers. Rail movement is no longer seen by my fellow farmers as a dependable means of getting our grain to market.

Five, the very same environmental groups that are fighting navigation on the rivers also work to cut off funding for highway projects here in Missouri. Our concern with funding for rural roadways is well known, and we are appreciative, when you were Governor, that you kept in mind how important the farm-to-market roads are to farmers, because before the grain that leaves my farm can get to that intermodal transportation facility, it has to go down Route C and Route O and through Craig and Fairfax and Westboro. If we do not have the roads and bridges that allow us to do that efficiently, then our prices go up and we are not as competitive.

Increased transportation costs, for whatever reason, not only hurts producers in the rural communities, but also make our products less competitive in world markets.

Free and fair world trade will not happen on its own. The U.S. must remain the leader in pursuing international agreements that open new markets. Farm Bureau and farmers strongly support fast-track negotiating authority, and we hope the administration will work on that before the WTO talks start again.

I also believe it is important that agriculture be exempted from unilateral trade sanctions that do nothing more than penalize U.S. producers. A recent Farm Bureau trade mission to Cuba found a market desperately waiting access to U.S. farm products, a market that might amount to a billion dollars a year. Economic sanctions are costing the U.S. \$15 to \$19 billion in loss of exports in 1995. This translates into loss of more than 200,000 American export-related jobs.

Trade agreements are not worth the paper they are written on if they cannot be enforced. There must be a rigid dispute resolution process in place with specific time tables. Social policies and political concerns cannot replace sound science. Ongoing disputes with the EU are ominous reminders of the presence of politics. We cannot agree to actions that are ignored by competitors. If the beef hormone issue is indicative of the way the present dispute process works, then we need to change it.

Finally, increased trade will not simply happen. Our future lies in utilizing our natural resources in a manner that recognizes our competitive advantages and opening new markets to international trade agreements and vigorous enforcement and improvement of the dispute resolution procedures that govern present-day trade agreements.

Thank you very much.

Senator ASHCROFT. Well, thank you, Blake. You touched down on a number of very important points for us, whether it is infrastructure, which is fundamental to getting our goods to a place where they can be exported, or to trade agreements that may look good on paper, but if they are unenforceable, are useless. I was just stunned when the Europeans, having lost a protracted set of appeals regarding American beef, decided on May 13, the last deadline for compliance, to say, "We will not comply, regardless of the absence of any support for our position. The fact that we have lost—just start stacking on the penalties. We will not comply."

It is clear that we need to look carefully at that. I am very pleased that we are trying to revise in some way the dispute reso-

lution mechanisms of our trade agreements, because if we just resolve the disputes and we win the dispute resolution and then the other countries simply say, "Well, you get to call yourself the winner, but we are going to continue to make you the loser by not complying," it is obviously a very unacceptable situation.

Thank you for your testimony.

Ms. Mary Pyle is the Director of the Kansas City Chamber of Commerce Division on International Business Development. She is the Managing Director of the Kansas City World Trade Center. We have been able to work together on the I-35/I-29 corridor, and I believe it was with you and your organization that this grant that we worked to help achieve for the \$800,000 to study how this corridor transportation capacity can be better utilized in international trade would work.

So it is my pleasure to call upon you for your remarks at this time. It would be inappropriate for me to welcome you to Kansas City, but I welcome you to this hearing.

**STATEMENT OF MARY K. PYLE, DIRECTOR, INTERNATIONAL BUSINESS DEVELOPMENT AND MANAGING DIRECTOR OF THE KANSAS CITY AREA WORLD TRADE CENTER**

Ms. PYLE. Thank you, Senator Ashcroft, for the opportunity to speak with you today. On behalf of the Greater Kansas City Chamber of Commerce, it is an honor to be able to appear before this distinguished field panel hearing.

The Chamber has intense interest in international trade development that are longstanding and numerous. To summarize our priorities today, relative to this hearing, the Chamber and our membership strongly supports full funding for international trade data systems, a trade processing technology, and infrastructure that will simplify and reduce the cost of importing and exporting our goods.

We also support increased funding for the development of international trade corridors, such as I-29 and I-35 corridor; approval of normal trade relations with China this year and permanent normal trade relations for China; approval of fast-track authority for the President; and continued management of the Missouri River with priority for navigation.

Rather than repeat testimony or cover testimony submitted in writing for the record, the Chamber felt this might be a good opportunity for your limited time, too, to answer the most common question regarding inland trade processing; how would this work?

Our Chamber represents small business, so we thought we would take an example. Let us assume I am a small button-maker from Columbia, Missouri. I would like to take advantage of NAFTA. I have worked with the Missouri Department of Economic Development and I have identified a buyer for my product. Now I have to get it there. I will be shipping one container of buttons every other month to Monterrey, Mexico.

Right now, I must wade through various forms and paperwork required by U.S. agencies, as well as forms required by the Mexican government. I must identify a customs broker and a freight forwarder who will be able to represent my interests in Kansas City, in Monterrey, and also at the border in Laredo.

If there is any problem with my shipment, I must resolve it long-distance or by using my agent at the border. Because I have a small volume, I am not able to take advantage of competition in the rate for hauling my containers to Mexico. Railroads have difficulty accounting for such a small container, calling loads like mine "orphans," and discouraging their inclusions in trains. So I must ship by truck.

I would like to tell my customers when to expect delivery, but I can only tell them the date I have shipped my product. I have no idea when they will arrive, because processes at the borders can be so unpredictable. I am fairly confident in my company and the driver taking my container to the border, but I do not know who might be taking my load the rest of the way to Monterrey, where it needs to be transferred to a Mexican carrier, and it will be difficult to track that load. I worry about inventory control.

I am forced to pay an additional 6 percent overhead caused by processing, and I am swamped in paperwork and am at the mercy of freight forwarders and numerous people who I do not know. Because my deliveries are unpredictable, payment for them is also unpredictable, and I question cash flow.

I need help with international banking, with the customs brokering process, and with paperwork. I need help managing inventory and cash-flow. For six container loads per year, despite the prospect of increased sales, I decide it is not worth it for me to pursue this opportunity, and I have passed up an opportunity internationally.

Now, for example, let us envision the button export process with the Kansas City International Trade Processing Center already in place. I have worked with State and Commerce Department and have identified the opportunity in Monterrey, Mexico. I register as a user of the international trade data system and review the information I need to provide that will satisfy the regulatory entities in Mexico and in the U.S.

I still have a number of questions about banking, forms, tariffs, taxes, risks, and shipping options. But rather than going through the phone book, I can travel to the International Trade Processing Center in Kansas City and visit onsite with representatives of each of the organizations.

I find out I can provide all my trade data on a secure internet site, directly from my business. All parties involved in the inspection process will accept this information. I can prepay all my fees, all my tariffs. Having pre-filed, my load can be sealed and proceed directly to its portage in Mexico, without having to stop at way stations along the way. It can be processed in minutes, rather than days.

Because the trains are assembled in Kansas City that can go directly to Monterrey without being altered along the way, I now have the option of using truck or train. I find this competition reduces my shipping costs substantially. I also find I am able to track my inventory along the way, and I am able to tell my customer when to expect delivery.

My account receivables are a little more regular. When I experience a problem, I am able to address it through Kansas City, rather than people in Laredo or elsewhere. Not only have I saved on

shipping costs, but my other costs associated in getting goods across the border. I figure I am saving between 10 and 25 percent per shipment, which allows me to invest more money in business and also look at additional international markets.

This is obviously a dramatic and simplified answer of how the International Trade Processing Center envisioned for Kansas City would work. It assumes a fully functional trade corridor that includes Kansas City and a fully developed and staffed trade processing center. We believe this type of system could be up and running in Kansas City within the next 3 to 5 years if Federal resources were available.

We appreciate the efforts of the Commerce Committee to address this critical need for enhanced trade processing capabilities and maximum use of existing infrastructure. We very much appreciate your efforts, Senator, to be an advocate and a champion for international business and—that America could be much more competitive in the international marketplace.

Thank you for allowing the Chamber an opportunity to testify.

Senator ASHCROFT. I am very pleased that you would so testify. You left out one thing, and that is after this new millennial approach, the guy needs to go to the bank to deposit his profits—

Ms. PYLE. Details.

Senator ASHCROFT. Details, yes.

It obviously has great promise, especially for those businesses that have the scale that would allow them to, through the result of the mass of their enterprise, to be able to endure so many of these requirements.

[The prepared statement of Ms. Pyle follows:]

PREPARED STATEMENT OF MARY K. PYLE, DIRECTOR, INTERNATIONAL BUSINESS DEVELOPMENT AND MANAGING DIRECTOR OF THE KANSAS CITY AREA WORLD TRADE CENTER

#### BACKGROUND

The Kansas City region has been evolving as an international trade processing center since its founding as a trading post in the mid-19th Century. It has always been a critical component in the transcontinental movement of goods and services. Innovations have included providing the first permanent rail crossing over the Missouri River, the first paved runways and the initial construction of the nation's Interstate highway system. The concept of processing international goods at an inland site is a natural progression in the region's logistics development. Most recently, the iteration we're discussing today has its genesis in 1993 with the work of the Chamber's Inland Port Task Force. Since then we have undertaken with the Mid-America Regional Council two landmark studies to confirm the concept is feasible and practical. Those studies were the Intermodal Freight Strategies Study in 1995 that won the American Consulting Engineers Council's top award for an engineering project, and the Mid-Continent Tradeway Study completed in March of this year. Through the North America's Superhighway Coalition, we also worked with U.S. Treasury to identify Kansas City as the first international compliance center in a memorandum of understanding signed by Assistant Undersecretary John Simpson in 1996.

#### BARRIERS TO KANSAS CITY DEVELOPMENT OF INLAND TRADE AND PROCESSING

There have been essentially three barriers to Kansas City's development as an International Trade Processing Center that build on each other and perpetuate a negative cycle: (1) a mindset among policy-makers and government agencies that trade improvements, particularly infrastructure-related improvements, must be focused at traditional access and egress points such as deepwater ports and border crossings; (2) a lack of necessary funds to jumpstart the process of international trade processing at inland ports, necessitating an incremental approach; and, (3) a

lack of enthusiasm from shippers and carriers as potential users of the system caused by incomplete information, no national inland trade processing infrastructure and the fear that such a system, once developed, would be paid for on the backs of the transportation industry. These barriers, coupled with a robust domestic economy and a perception of a weak international economy have stifled any sense of urgency or passion for developing a trade system that works better.

Meanwhile, the U.S. government has authorized and spent hundreds of millions—even billions of dollars to add capacity at overwhelmed border crossings and deep-water ports, even agreeing to landfill part of the Pacific Ocean at Long Beach. All this has been pursued while relatively inexpensive technological solutions using existing and paid-for infrastructure at inland cities has been underdeveloped.

#### FEDERAL RESPONSE TO INLAND TRADE PROCESSING CONCEPT

The federal government has spoken much of developing a national freight infrastructure, an intelligent transportation system, and pursuing the notion of international trade corridors and inland ports. The true test of its resolve, however, is shown in the funding and implementation of such systems. The National Highway System is rarely discussed as a planning tool and is underfunded. Intelligent transportation systems technology is trickling out to the metro areas and includes no common architecture. International Trade Data Systems technology, developed jointly by the governments of Canada, the U.S. and Mexico, needed a small sum of \$19 million for full deployment. It received no funding recommendation initially and currently stands to receive somewhere between zero and \$5 million, when \$13 million is the minimum amount necessary to gain any benefit from the system for inland cities.

The final demonstration of the lack of any priority for development of non-traditional approaches to facilitating trade may be seen in implementation of TEA-21. For the first time, the nation's transportation program included a category for border crossings and international trade corridors. In its first year less than \$100 million was made available for all the states after the rest of the funding was taken off the top for traditional projects. In setting up its field hearings to determine how to spend even this small amount, FHWA held all of its hearings at border crossings or coastal cities, specifically canceling its one inland hearing originally planned in Kansas City. Not surprising, most of the projects identified in the hearings support a status quo approach, as does the final list of recommended projects.

#### NEEDS OF INLAND CITIES GENERALLY AND KANSAS CITY SPECIFICALLY

First, there needs to be a mandate from policy makers to the agencies stressing and rewarding innovations in developing the nation's trade processing system. If lawmakers continue to slant the playing field in favor of incremental and traditional approaches to dealing with the increased flow of trade, bureaucrats will do likewise.

Second, adequate resources and development of demonstration projects need to be made a priority in the pursuit of non-traditional and more efficient ways to maximize previous infrastructure investments in a holistic approach to the national and intercontinental trade systems. How can any rational person expect to see meaningful changes that would spur private industry to take risks on system innovations like ITDS that are funded with less than \$5 million for the entire nation? That is not a commitment to improvement as much as it is a token allocation to defer meaningful action.

Kansas City's needs include deployment of ITDS technology that is sufficiently funded. We will require additional allocations of funds to assist with development of what amounts to a pilot program and model for other cities for the implementation of a full-service international trade processing center capable of assisting inland traders as well as relieving and complementing the traditional border crossing systems. And we will need sufficient federal personnel from relevant agencies such as Commerce and Customs to ensure the success of our virtual processing center and other amenities. Finally, we will need champions in Washington committed to the success of inland trade processing and the proliferation of such a system on a national basis.

#### COMPANIES HAVE BEEN DISADVANTAGED BY LACK OF U.S. PARTICIPATION IN VARIOUS TRADE AGREEMENTS

While specific numbers are difficult to obtain because of the competitive nature of various companies and industries, we believe area companies of all sizes have been disadvantaged. In a recent survey of thousands of large and small businesses, as well as freight carriers in our 5-state region (MO, KS, IA, NE, OK), no fewer than 50 percent were engaged in international trade, while nearly 80 percent would

like to be so. More than 73 percent of those not pursuing international trade cited reasons related to the complexity of such trading and their inability to decipher the system. There has got to be an easier way to facilitate trade. Also, with Kansas City's reliance on an agriculture-rich economy, it has been clear that other agricultural powerhouses such as Canada and certain South American countries have benefited by the inequities faced by U.S. businesses trying to compete in numerous markets without the benefit of trade agreements. Farmland's written testimony addresses the impact on its business and its industry of the numerous trade sanctions being enforced by the U.S. government. It is ironic that we are engaged in more trade sanctions than trade agreements, even in our own hemisphere.

Unfortunately for regions like Kansas City, where more than 90 percent of all businesses employ fewer than 100 people, it is the small businesses that suffer as they lack the resources to overcome hurdles placed in international trade.

#### KANSAS CITY WOULD NOT BE THE ONLY INLAND TRADE-PROCESSING CENTER

We believe Kansas City is ideally situated and prepared to demonstrate that such a center can work and provide greater efficiencies in the nation's trade infrastructure. If Kansas City is the only one for long, however, it only demonstrates a lack of will and commitment to fully develop the potential of the nation's tremendous inland infrastructure, ignoring the vast potential of cities like Dallas/Fort Worth, Oklahoma City, Des Moines, Minneapolis, Columbus, Memphis and others. There must be a national architecture for trade processing and a network of cities that provide the greatest efficiency for shippers.

#### THE NEED FOR TRADITIONAL OPERATIONS AT BORDERS AND DEEPWATER PORTS REMAINS

The Chamber does not view inland facilities as competitors for business and growth at traditional ports. Rather, we see inland facilities relieving the stresses of ever-increasing imports and exports as the global economy expands. At ports like Long Beach, for instance, only about 60 percent of the goods entering the U.S. there have a regional distribution. The other 40 percent could be processed further inland, eliminating congestion, added expense and worsening traffic and environmental impacts. Similar statistics exist for most other ports. Still, the bulk of goods entering and leaving various ports and border crossings need to be processed at those points. Also, the traditional borders and ports provide an important front in the battle against the shipping of illegal drugs and illegal aliens. Without maintaining the discretion of agents at the borders to seize and inspect goods there, the nation would lose an important deterrent. There is no expectation nor is there a desire to eliminate the important processes that occur at the borders.

#### GREATEST BENEFICIARIES

The Chamber believes small manufacturers and shippers will be the greatest beneficiaries of the trade-processing center being advocated for Kansas City. These entrepreneurs have few options relative to how their goods must be shipped and pay a substantially higher percentage of the cost of transporting their goods across borders. According to Bob Ehinger, director of the U.S. Treasury Department's ITDS office, about 6 percent of the cost of shipping goods internationally is consumed at the border crossings. Six percent can make or break a small business with slim margins. By eliminating much of the paperwork, duplication and uncertainty surrounding the import and export of goods, we will help the small businesses that comprise the vast majority of businesses in the middle part of the U.S.

Senator ASHCROFT. Ms. Tiffany Newsom is the Executive Director of the North American Superhighway Coalition. I am delighted that she would come to share with us information on the way in which the right understanding of the potentials related to our highways and other modes of transportation can be integrated, so that we can have an improved trading capacity.

Ms. Newsom.



**STATEMENT OF TIFFANY NEWSOM, EXECUTIVE DIRECTOR,  
NORTH AMERICA'S SUPERHIGHWAY COALITION, INC.**

Ms. NEWSOM. Good morning, Senator Ashcroft and all esteemed guests.

I appreciate the opportunity to be here today to tell you about North America's Superhighway Coalition, or NASCO, and this incredible trade and transportation corridor which encompasses I-35, I-29, and I-94 to the Ambassador Bridge at the Detroit-Windsor border crossing. We call it North America's International Trade Corridor, and it is the only existing central artery that connects all of the NAFTA partners, as well as connecting to all major east-west interstate routes in the U.S.

NASCO is a non-profit, public-private corporation founded in 1994, whose membership has grown to include representatives from Missouri, Kansas, Texas, Oklahoma, Iowa, North and South Dakota, Minnesota, Canada, and Mexico. NASCO is headquartered in Kansas City because of its central geographic location and because of the international trade and transportation opportunities here.

NASCO's mission is to maximize economic opportunity and investment along the North American International Trade Corridor through advocacy and development of a seamless, efficient, intermodal trade and transportation system. NASCO is working very hard to build and promote our corridor as North America's premier trade and transportation corridor, and we have accomplished much toward this end.

NASCO was largely responsible for the creation of two new international trade corridor categories under the Transportation Equity Act for the 21st Century, the national corridor planning and development program and the Border Infrastructure Program. Those categories combined will receive \$700 million in funding over the next 5 years.

Last month, U.S. Department of Transportation announced that a project application facilitated by NASCO and submitted by the Missouri Department of Transportation would receive \$800,000 in Federal funding through the two new categories. This project, which is a \$1 million study involving intelligent transportation systems and commercial vehicle operations, will examine ways to apply and harmonize cutting-edge technology to improve the flow of people and goods along the corridor, which is from Laredo, Texas, to our northern borders in Detroit, Michigan, and Pembina, North Dakota.

NASCO strongly supports increased Federal funding for implementing ITDS technology. Turning the corridor into a smart highway will increase safety and efficiency and help minimize congestion at checkpoints and international borders.

It is important to note that this study will focus on ways that transportation technology can be harmonized corridor-wide so that international trade processing centers and intermodal systems in one city can easily interface with systems that will be online in other cities along the corridor. It is also critical that data for import and export movement be harmonized so that governments, carriers, and businesses alike can be assured that commodities are moving efficiently while maintaining a high level of security.

This is why NASCO supports the full funding of International Trade Data Systems, or ITDS, the only system that truly promises to reduce the time and effort it takes to get products to international markets safely and efficiently. NASCO urges Congress to fully fund and support the ITDS program.

As you will hear later, ITDS is a U.S. Government information technology initiative, creating an integrated government-wide system of electronic collection, use, and dissemination of international trade data. ITDS will standardize commercial based data, eliminate redundant and confusing processing, improve risk assessment, and create an integrated, inter-operable electronic environment. NASCO supports the use of ITDS technology at all international border crossings and at future inland international trade processing centers.

Plans for these processing centers are being developed in Kansas City, San Antonio, Dallas-Ft. Worth, Oklahoma City, and Des Moines. These centers will utilize an intermodal approach that takes advantage of rail, air, and highway facilities to move people, vehicles, and goods more efficiently than ever before.

NASCO supports making transportation infrastructure and technology improvements through environmentally sustainable policies. We currently have a memorandum of understanding with the Department of Energy, the U.S. Postal Service, the Texas General Land Office, and our coalition to work on the promotion of alternative fuels along the corridor and to develop alternative fuels re-fueling stations along the corridor.

NASCO is working to ensure that our corridor is improved in a way that suits those who use it as well as those who live on it. The coalition urges Congress to increase funding for the National Corridor Planning and Development and coordinated Border Infrastructure programs when the next Federal transportation bill is crafted in 2004. NASCO supports fast-track authority for the president as well as the full implementation of the North American Free Trade Agreement, particularly the provisions relating to transportation and trucking.

An aggressive approach to planning and coordinating corridor improvements is needed. The increase in export and import traffic resulting from growing trade between Canada, the U.S., and Mexico is placing our infrastructure under increasing stress. Highways, bridges, rail hubs and other facilities require expansion and increased maintenance. North America's Superhighway is a strong coalition of forward-looking leaders behind it working for these improvements. NASCO exists to convince government and business leaders at the highest levels that the I-35/I-29/I-94 trade corridor is this country's transportation backbone.

I want to thank you again for giving me the opportunity to speak here today.

[The prepared statement of Ms. Newsom follows:]

PREPARED STATEMENT OF TIFFANY NEWSOM, EXECUTIVE DIRECTOR,  
NORTH AMERICA'S SUPERHIGHWAY COALITION, INC.

Good Morning, Senators Ashcroft and McCain and all esteemed guests. I am Tiffany Newsom, Executive Director of North America's Superhighway Coalition, Inc. (NASCO). I appreciate the opportunity to stand before you today to tell you about our coalition and this incredible trade and transportation corridor which encompasses I-35, I-29 and I-94.

NASCO is a non-profit, public/private corporation founded in 1994 whose membership has grown to include representatives from Missouri, Kansas, Texas, Oklahoma, Iowa, North and South Dakota, Minnesota, Canada and Mexico. NASCO moved its headquarters to Kansas City, Missouri, last year because of the city's central geographic location and to take advantage of international trade and transportation opportunities here.

Originally, NASCO's main focus was to create some type of International Trade Corridor category in the ISTEA Reauthorization. With the passage of the Transportation Equity Act for the 21st Century, we accomplished that goal. Two new categories were created—the National Corridor Planning and Development program and the Border Infrastructure program—and those categories (combined) received \$700 million in funding over the next five years.

Now, our mission is to maximize economic opportunity and investment along the North American international trade corridor by promoting the I-35/I-29/I-94 Corridor as a seamless, efficient intermodal trade and transportation system. In other words, we want as much of the \$700 million as possible to go towards infrastructure and technology improvements along this critical corridor—a large portion of which is located in Missouri and Kansas.

As we stand together today at this facility it is critical that a cooperative effort continues to build and promote this corridor for the benefit of all. NASCO is a leader in this effort. Statistics indicate that unprecedented growth is continuing because of NAFTA and the general strength of our economy. The States of Missouri and Kansas are beneficiaries of this growth.

In 1997, the value of Missouri exports to Mexico grew by more than 19 percent compared to the previous year. Missouri's exports to Canada rose by 31.5 percent. Since 1994, Missouri's exports to NAFTA partners has increased 92.6 percent overall.

Today, Canada and Mexico are Missouri's leading and second-leading export markets, accounting for 53.5 percent of Missouri's total exports to the world.

In Missouri, approximately 57,900 people held jobs related to North American exports in 1996. In the year 2000, the number of people with export-related jobs is expected to reach almost 67,000.

In 1996, an estimated 33,821 Kansans had jobs that were directly tied to export trade with Canada and Mexico. In 2000, that number is expected to grow to more than 38,000.

Statistics like these are why NASCO is working so hard to build and promote North America's premier trade and transportation corridor. NASCO is involved with numerous major initiatives.

NASCO and a group of eight states (including Missouri and Kansas), the Canadian province of Manitoba and numerous private entities are now enjoying some of the success we've worked so hard to achieve. Last month the U.S. Department of Transportation announced that a project application facilitated by NASCO and submitted by the Missouri Department of Transportation would receive \$800,000 in Federal funding. This project—a one million dollar study involving Intelligent Transportation Systems/Commercial Vehicle Operations—will examine ways to apply and harmonize cutting edge technology to improve the flow of people and goods along I-35, I-29 and I-94 from Laredo, Texas to our northern borders in Detroit and Pembina, North Dakota. NASCO strongly supports increased Federal funding for implementing ITS technology—turning the corridor into a "smart highway" will increase safety and efficiency. Implementation of ITS items including ramp metering, HOV lanes, Traffic Operations Centers, etc. will help to partially alleviate congestion problems when adding lane capacity isn't feasible. Truck tracking while the transport vehicle is moving will also help minimize congestion at checkpoints.

It is important to note that this study will focus on ways that transportation technology can be harmonized corridor-wide so that international trade processing centers and intermodal systems in (for example) Kansas City can easily interface with systems that will be online in Dallas, Winnipeg and Monterrey, Mexico. It is also critical that data for import and export movement be harmonized so that governments, carriers and businesses alike can be assured that commodities are moving efficiently while maintaining a high level of security.

This is why NASCO supports the full funding of International Trade Data Systems (ITDS), the only system that truly promises to reduce the time and effort it takes to get products to international markets safely and efficiently. NASCO urges Congress to fully fund and support ITDS.

ITDS is a U.S. Government information technology initiative creating an integrated government-wide system of electronic collection, use and dissemination of international trade data. ITDS seeks to reduce cost and burden, enhance enforcement and compliance and improve the quality of international trade data. These goals can be achieved through standardization of commercial-based data, elimination of redundant and confusing processing, improvement of risk assessment, more convenient access to requirements information, improved data editing and validation, and creating an integrated electronic environment. NASCO supports the use of ITDS technology at all international border crossings and at future inland international trade processing centers. Delays at the border or at the processing center for clearance of goods and customs will be drastically reduced, as processing can be done while trucks and trains are moving. NASCO advocates development of a plan for ITPCs in each country—in the U.S., plans for international trade processing centers in Kansas City, San Antonio, Dallas/Ft. Worth, Oklahoma City, and Des Moines are at various stages of development. These centers will utilize an intermodal approach that takes advantage of rail, air and highway facilities to move people, vehicles and goods more efficiently than ever before.

NASCO supports making transportation infrastructure and technology improvements through environmentally sustainable policies.

We have a Memorandum of Understanding with the U.S. Department of Energy, the Environmental Protection Agency, and the U.S. Postal Service to develop an environmentally-conscious “clean” corridor and explore the potential use of alternative fuels.

To summarize, NASCO is working to ensure that this transportation and trade corridor is improved in a way that suits those who use it as well as those who live on it. The coalition urges Congress to increase funding for the National Corridor Planning and Development and Coordinated Border Infrastructure programs when the next Federal transportation bill is crafted in 2004.

The increasing amount of trade between the United States, Canada and Mexico is great for the economy. Businesses are growing and creating thousands of new, good jobs.

But the increase in export/import “traffic” is placing our infrastructure under increasing stress. Highways, bridges, rail hubs, airports and other facilities require expansion and increased maintenance.

The I-35/I-29/I-94 Trade Corridor is the *only existing main, central* artery that connects all of the NAFTA partners. No other Trade Corridor Route can boast the prime routing and strategically-located terminus points that the I-35/I-29/I-94 Corridor can. It connects to all major east/west interstate routes in the U.S. We must do all we can to promote the efficient use of this corridor.

It is a proven fact that highway construction and other types of transportation development boost local economies and create new, good jobs.

An aggressive approach to planning and coordinating corridor improvements is needed. North America’s Superhighway has a strong coalition of forward-looking leaders behind it working for these improvements.

The economy is good now. But to keep the economy moving in the right direction, markets must be grown. Just as important is making sure that commodities can get to those markets safely and efficiently. NASCO exists to convince government and business leaders at the highest levels that the I-35/I-29/I-94 corridor is this country’s transportation backbone.

I want to thank you again for giving me the opportunity to speak here today.

Senator ASHCROFT. I am very pleased to have your testimony.

The subcommittee on trade of the U.S. Commerce Committee, U.S. Senate, needs to work closely together with the committees on surface transportation. They are not distinct and separate or segregated areas of inquiry and understanding, and we need to have the right surface transportation and the right waterway transportation, right rail transportation. The whole package has to be right. Our understanding of these issues needs to be thorough and complete in order for us to work well with these other entities.

I thank you.

Ms. NEWSOM: Thank you.

Senator ASHCROFT. Mike Cook is the President of Necco Seeds and exports his farm output from his farm to the rest of the world. As a farmer, he has an ability to talk about the most fundamental level of production and sees both the opportunities and the barriers as they exist and as he encounters them in his particular endeavor. I am very pleased to have him bring his first-hand awareness of this situation to me.

Before you begin, let me indicate to all of you who are a panelist that the record of this hearing will be maintained as open for a couple of days into early next week, and if you want to supplement—it probably never happens to you, but frequently to me, as I am leaving the hearing, I am saying, Oh, I should have said—well, if that happens to you and you want to take the time to write it up and let us know about it. We are eager to include it in the record of the hearing.

I do not mean that to suggest any of you have left anything out, but if you come up with that kind of a thought, you should feel free to supplement with written remarks your oral testimony.

Mr. Cook.

**STATEMENT OF MIKE COOK, PRESIDENT,  
MARKETING DIVISION OF NECCO SEEDS**

Mr. COOK. Yes. Thank you, Senator Ashcroft, for this opportunity to testify this morning.

I am with Necco Seeds. I am the president of our marketing division and also a swimming producer and one of 2,000 members of the Missouri Swimming Association. I would like to give a brief description of our company's activities to give you an idea of my own and our company's perspective.

We work with U.S. producers and growers and what we call POCOs, producer owned and controlled organizations, throughout the Midwest, primarily in Kansas and Missouri. We preserve the identity of our crops we grow in order to turn them into products, whether it is a seed product our neighbor is planting or a tofu bean a Japanese tofu processor will be using to make tofu.

With commodity prices at all-time lows and the increase in competition in agriculture production from other countries around the globe, for the U.S. farmer to survive, they have to think in terms of, how can I differentiate my product from others?

It is the same concept we have all learned in Marketing 101 or Ag Econ 50. Can we differentiate our products? Definitely. Can we compete globally? Definitely. How can we better compete globally? That is why we are here today, to answer that question, how can we better compete globally?

Here are some points to consider in order to better compete globally. No. 1, like you said earlier, Senator, 96 percent of the world's population lives outside our borders. Moreover, global population 5.9 billion is projected to reach 8.5 billion by 2030. In order to share in this growth, U.S. agriculture producers must maintain and increase access to foreign markets. This can only be done through negotiating trade agreements, and we cannot negotiate these trade agreements unless the administration has fast-tracked negotiating authority.

No. 2, it is a very basic statement. Open markets—keep them open and let U.S. private enterprise do what they do best: provide value. No. 3, to always push for a fair playing field and to know the rules of play. Four, the accountability for commitments made, whether it be private companies or governments who made those commitments. We must know the deals that we make will be kept, regardless.

That is a fairly short testimony I gave this morning. I have left some time for any questions you might have, Senator. I want to thank you again for having me here this morning.

Senator ASHCROFT. Thank you for your testimony. I kind of like the way you got to the bottom bean right there: fast-track authority, open markets, and accountability. Those are very, very important items.

Before we just have a few minutes for questions, I would like to invite testimony from an outstanding small family manufacturer businessman who employs about three dozen Missourians or more and competes with the Canadians and other individuals for business abroad. Jan Klestinec is the president of the Dollins Tool and Die Company, I believe in Independence.

Mr. KLESTINEC. That is correct.

Senator ASHCROFT. Is interested in the world as a marketplace, and that is indicative of the kind of interest that has been shown by a number of Kansas City enterprises. It is my pleasure now to call upon Mr. Klestinec for his remarks.

**STATEMENT OF JAN KLESTINEC, PRESIDENT,  
DOLLINS TOOL, INC.**

Mr. KLESTINEC. Thank you very much and good morning, Senator Ashcroft.

Senator ASHCROFT. Good morning.

Mr. KLESTINEC. Thank you for the opportunity of being here, and I just want you to know that your leadership is very, important to small business, not only in Kansas City but I believe all over the United States.

For more than four decades, Dollins Tool has been manufacturing high speed, thin wall plastic injection molds. The primary industries we supply is the houseware items and food packaging. Since the company started in 1952, we have been in the same location in Independence, Missouri, and as you stated, we currently employ about 35 very highly skilled people, and put about \$2 million back into the Kansas City economy.

Middle America is small business and in order for this business to survive, they need to be exposed to international trade. Today our lives are exposed to so many different avenues of communications. These avenues should allow us to do business with companies all over the world. The difficult task is not communications, but of making yourself visible. This I believe is the biggest task in obtaining a market share in international trade.

As you are aware, Senator, the South American economy was on the rise and doing very well for quite a while. With the population of the people that many of these countries have, the opportunity for the plastic industry has been growing rapidly over the last three or four years.

Over 90 percent of our competition is north of the border in Canada. Our main competitor has been involved in the South American market now for almost three years. The Canadian government has been very involved for the past several years with helping Canadian businesses get their foot in the door. This definitely gives our competitors a step up on the competition in this particular market. For example, our main competitor from Canada claims publicly that one-third of their business is being done in South America today.

So therefore, by the time a company such as ours, Dollins Tool, makes itself visible, companies such as our competitors have already established themselves through the help of its government.

Our molds have created some of the most popular food containers found on grocery store shelves throughout North America but our market as well as many other markets are becoming globalized. In order for companies of our size to stay competitive, we must also venture into international markets. In order to do this, an established plan needs to be developed to help companies access these markets.

Last year, I had the opportunity to go on the Governor's Business Mission to South America. This was a small step in the right direction, but the experiences I had on this mission, were sometimes not as pleasant as others. Basically we found out that even the State of Missouri needs a better understanding of all the people who work abroad so they can represent us better when the time comes. I believe that there were also a few participants on this trip who believed our trip to Brazil was very poorly organized.

Middle America needs to establish a plan to help the small business of our areas secure a foothold in this ever-growing global market. In order for Kansas City to remain and grow as a city, we need to bring international trade to Middle America.

America was founded on small business. It is the backbone of this country and it has made this country what it is today. We are in an age where small businesses are in danger of disappearing. Please take the next couple of weeks and look at our President, Governor, and see how many articles, newspaper articles or television news, and see how many pictures of them you see with small businessmen.

Nothing against big business, but we small business people, work just as hard, and I believe we deserve some recognition.

Thank you very much.

Senator ASHCROFT. I want to thank you very much for being an eager competitor and a producer who represents the United States and Missouri very well.

We are running a little bit late, so let me just see if I can summarize some of the things that I have been hearing from you. I seem to have heard from many of you that we need to have the kind of access to markets that would be accommodated if we were to have fast-track authority. We try to sell some agricultural products in South America, to Chile for example, I believe they have an 11 percent tariff against U.S. goods. They have a zero tariff against Canadian goods. It is kind of hard for us to sell American goods when we pay 11 percent penalty going into the country and Canadian farmers have a zero penalty to pay.

That would make it hard for you to compete, would it not?

Mr. KLESTINEC. That is correct.

Senator ASHCROFT. So fast-track—is that a common denominator in terms of all of your recommendations?

Mr. KLESTINEC. Yes.

Senator ASHCROFT. In some of the hearings we held in Washington, we found out when we did the grain embargoes against Russia we ended up saving Russia about \$250 million, when we released them from their contracts to go buy grain on the world market and hurt American farmers substantially in the late seventies. It appeared to be that some of our sanctions efforts really hurt us more than they hurt our enemies. It seems as though this understanding would make us inclined to reverse such policy?

Mr. KLESTINEC. Yes.

Senator ASHCROFT. Finally we have this very serious problem with certain trading partners, especially the European Community, and I am glad the President has agreed to raise some of these issues at the G8 meeting. But I guess Blake mentioned it most aggressively, that even when the (EU) European Union loses the case in the GATT, the General Agreement on Trade and Tariffs, and they lose in the WTO, they still refused to live by the agreements.

Would all of you support the concept that we need to look carefully at the dispute resolution mechanisms so that when they are finally resolved we actually get compliance with the final order?

[A chorus of ayes.]

[The prepared statement of Jan Klestinec follows:]

PREPARED STATEMENT OF JAN KLESTINEC, PRESIDENT, DOLLINS TOOL, INC.

Good morning Senator: Thank you for the opportunity of being here, and I just want you to know that your leadership is very important to small business, not only in Kansas City but I believe all over the United States.

For more than four decades, Dollins has been manufacturing high speed, thin wall plastic injection molds. The primary industries we supply is the houseware items and food packaging. Since the company started in 1952, we have been in the same location in Independence, Missouri, and as you stated, we currently employ 35 very highly skilled people, and put over \$2,000,000 back into the Kansas City economy.

Middle America is small business and in order for these businesses to survive they need to be exposed to international trade. Today, our lives are exposed to so many different avenues of communication. These avenues should allow us to be able to do business with companies all over the world. The difficult task is not the communication, but of making yourself visible. This I believe is the biggest task in obtaining a market share of international trade.

As you are aware, Senator, the South American economy was on the rise and doing well for quite a while. With the populations of people that many of these countries have, the opportunity for the plastic industry has been growing rapidly over the years.

Over 90% of our competition lies north of the border in Canada. Our main competitor has been involved in the South American market now for almost three years. The Canadian Government has been very involved for the past several years with helping many businesses get their foot in the door. This definitely gives our competitors a step up on its competition in this particular market. For example, our main competitor from Canada claims publicly that 1/3 of their business is being done in South America today.

So therefore, by the time a company such as ours, Dollins Tool, makes itself visible, companies such as our competitors have already established themselves through the help of its government.

Our molds have created some of the most popular food containers found on grocery store shelves throughout North America but our market as well as many other markets are becoming globalized. In order for companies our size to stay competitive we must also venture into international markets. In order to do this an established plan needs to be developed to help companies access these markets.



Last year I had an opportunity to go on the "Governor's Business Mission to South America." This was a small step in the right direction, but the experiences that I had on this mission, were sometimes not as pleasant as others. Basically we found out that even the State of Missouri needs a better understanding of all the people who work abroad so they can represent us better when the time comes. I believe that there were also a few participants on this trip who believed our trip to Brazil was very poorly organized.

Middle America needs to establish a plan to help the small businesses of our areas secure a foothold in this every-growing global market. In order for Kansas City, to remain and grow as a city, we need to bring international trade to middle America.

America was founded on small business. It is the backbone of this country and has helped make this country what it is today. We are in an age where small businesses are in danger of disappearing. Please take the next couple of weeks and look at our President and Governor and see how many newspaper articles or television news shows have these gentlemen with any small businessman.

And nothing against big business, but we small business people, work just as hard, and I believe we deserve some recognition.

Thank you very much.

Senator ASHCROFT. Well, we are going to take a short break. When we come back from that break we are going to hear from the Federal authorities. I wanted to hear from the Missouri interests first, but the individuals from the Washington side of things are going to be here to talk about their ideas to try and address some of these challenges.

Again, let me indicate to you that if you have additional items that you would like to submit, if this light went on and intimidated you, do not hesitate to provide it in writing, because we want to get the full wisdom before the Senate Commerce Committee's subcommittee on trade which I chair. We need that information and would look forward to hearing it from you.

With that in mind, I think we will take about a 10-minute break and come back and be eager to hear from those authorities and individuals who have come from the administration in Washington.

(Whereupon, a short recess was taken.)

Senator ASHCROFT. I apologize for my having to extend the break a little bit, but the news industry has expressed substantial interest in what you are here to talk about, and I wanted to make sure the people of Kansas City knew that you had come to be a part of this, and I am grateful. So the meeting will now be resumed.

I want to express my appreciation, again, publicly, to these officials of the U.S. Government whose interest and commitment to the capacity of America to be an effective competitor in the world marketplace has been reflected in outstanding service in the development of ways to facilitate trade. So I will call upon these individuals, and then we will have a chance to discuss their testimony.

First is Mr. Bob Ehinger. He is the director of the International Trade Data System project office in the Department of Treasury. The International Trade Data System is new to many Americans, and it is a system about which I need to learn more. The idea of integrating the information and the requirements and the ability of individuals to comply with the trading system is an idea whose time has at least come, if it is not overdue. Some of the members of the first panel indicated such a need.

So I am very pleased that Mr. Bob Ehinger, who is the director of that International Trade Data System project office, has come to Kansas City, and I would call upon him to outline briefly what the

International Trade Data System is and to give us his assessment about the potential of such a system assisting in an arena of trade opportunity like the heartland of the United States.

Mr. Ehinger.

**STATEMENT OF ROBERT EHINGER, DIRECTOR,  
INTERNATIONAL TRADE DATA SYSTEM, U.S. DEPARTMENT  
OF THE TREASURY**

Mr. EHINGER. Thank you, Senator Ashcroft.

I especially want to recognize your leadership in this area. Your team here, Tonya McLarty particularly, and others have been very helpful to us, as well as Senator Bond's office. Tracey Hinkey has been very effective in helping us along the way, and the MARC organization, Ron Achelpohl and David Warm, and Doug Luciani and Mary Pyle of the Chamber of Commerce, as well as Tiffany Newsom from NASCO.

This is the kind of Federal, state, and local cooperation that it is going to take to help us get into the 21st century and have effective and efficient trade.

I have offered a statement to Mr. Latham for the record and hope it can be added there.

Senator ASHCROFT. It will be added and as with the other panel, if at any time you come to the conclusion during this proceeding that you want to offer additional statements, we will keep the record open until say, Tuesday evening, so that you can add additional information.

Mr. EHINGER. Here in the heartland of America as well as throughout our country, international trade, no question about it, is the growth engine of the late 20th century economy, and as we approach the 21st, it is not the growth engine, it is the lifeblood. It will be our survival or our failure.

From 1997, international trade grew nearly four times faster than the GDP, when measured in 1992 dollars. Exports and imports have increased from 11 percent of GDP in 1970 to now 25 percent.

If we intend to maintain our lifestyle—and we have heard this so eloquently from our first panel—all businesses need to board the trade train. That trade train better operate in the most effective and efficient way that we can find to have it operate. That does not happen to be the case today. Why is that?

Well, we have 225 years nearly under our belt of administrative history in international trade. We do not have a central authority in our government as many governments do have for international trade. It is spread among, as we have found in our work, over 100 entities of the Federal Government: the departments, the agencies, the commissions, and boards. There are that many different institutions that touch, feel, smell, affect, put regulations and requirements on, establish data, and so forth for how international trade is handled.

I am not suggesting in any way, Senator, that we take on the job of trying to create a new department of international trade. One of the worst possible results of what we are doing here is creating another bureaucracy. Let us not do that. However, we can make the ones that we have work more efficiently.

These people are well-intentioned, but if left to their own devices, they create what my dad would call, back in the days when we were farming together—a dog's breakfast of requirements. There is every kind of new requirement, form, manual, procedure, and in many cases what we have done is add automated systems on top of these requirements without ever streamlining the original procedures that have accumulated over these many years.

Indeed, it has been said and was quoted recently in the New York papers that the Federal Government regulation in the international trade process is probably one of the greatest untapped sources of productivity improvements we have left. Producers, farm producers, manufacturers, and so forth have wrung essentially every dime and dollar and half cent that they can out of the process. Most of them feel totally helpless when it comes to changing, as individual organizations, the way government does business.

So what is the problem here? We have totally non-standard data among these agencies and commissions of the government. They all feel as if they are entitled to create them individually. We have redundant forms, most of which ask the same questions over and over. We find in many cases that indeed, these requirements are just growing and growing.

When we went to do the evaluation of the requirements for international trade that exist today on the books, paper reduction acts and so forth, we had over 602 forms in the Federal Government for registering data on international trade, and they comprise 10,000 fields of separate information. That is a stunning and unacceptable conclusion that we have reached in developing these systems.

What do businesses say about this? Well, in evaluating these processes, as was done recently in the trade study here in Kansas City, the ETC Institute asked traders, mostly small traders, what they thought was the importance of international trade and why they did or did not participate. Most of them said the processes are too time-consuming. They have tried it. But it is just something they could not possibly address in their day to day business. It was too expensive to compete overseas. There was excessive paperwork, inconsistency of regulations from one department and agency to the other, and too much risk was involved in addition to the bottlenecks they put up with at the borders.

What we are proposing here is in fact a very simple vision. We are simply saying it is time for the government to reinvent itself. We have heard that term over and over again. It is time to stop talking about it, and in fact do it in an area that is most vital to our economic future in the 21st Century.

The vision is very simple. Mary Pyle laid it out for you. There was not a clearer way to state it than she stated it. We ought to be able to have one set of information. We ought to be able to operate electronically from our businesses, our farms, our factories, and our locations of business. We ought to be able to give this to the government. The government agencies ought to be able to share this information. They ought to be able to reduce the number of individual and repetitive pieces of information they require and the time it takes them to process them. We ought to get this down to as cheap and as efficient a process as possible.

The United Nations and the University of Pennsylvania and other organizations studying the effect of government regulation and requirements on international trade estimate that between 4 and 6 percent, a very conservative estimate, is consumed on the value of international trade on an annual basis in satisfying government regulations. That is mostly a processing burden.

That 4 to 6 percent, if applied against 1.6 trillion in trade, in the latest estimates, is a staggering figure. We need that money put on the profit line of businesses and taken off from the cost line. That is what ITDS is about. This will require cooperation among government agencies. We are beginning this process and I sit with two gentlemen here at the table who represent departments that are cooperating fully with this effort as it exists today.

It is, however, getting minimal resources and minimal attention. We need essentially three things: we need more visibility. Efforts as you are extending today, Senator, are helping us achieve that. The visibility of raising these issues up top—we need persistent and consistent work between the Administration and the Congress to address issues such as information sharing among departments. There are probably statutory changes we estimate that will be necessary for this, and some realignment of authority for some of the organizations in government.

There are competitive forces. I am not going to sit here and tell you that everybody gets along well on the Administration side among the departments and agencies on this business. It does take a lot of arm-twisting and a lot of consideration. But we do not have a lot of time left. We really do not. Either the United States is going to develop a model for this and we are going to show the rest of the world how to trade more efficiently, or we are going to follow along in some halting, expensive way, or wait for someone else to develop the model that we will be expected to follow.

I suggest that we take this up now as the world's largest trading nation. We could do this, we estimate—in our cost benefit analysis and our implementation plan, within 3 to 4 years, nationwide. Develop a fully electronic means so that the button maker that Mary was talking about could sit at her dining room table with her PC and through e-commerce and one set of information she could satisfy the government's requirements. More than anything else, she'd be able to move her goods efficiently, rapidly, and with the greatest productivity and with the greatest profit to an American business.

That is what we are trying to achieve here. I very much welcome your support and efforts that the Senate might make to consider our resources that we have asked for in the budget, as well as some additional resources that if available, could be useful. In addition, I ask you to address some of the issues of contention that sometimes arise among the organizations of the government.

Thank you for your time.

[The prepared statement of Robert Ehinger follows.]

PREPARED STATEMENT OF ROBERT EHINGER, DIRECTOR, INTERNATIONAL TRADE DATA SYSTEM, U.S. DEPARTMENT OF THE TREASURY

International trade will be the most significant economic driver of growth and prosperity for the United States in the 21st Century. This is true even for areas that traditionally have not participated in international trade, and have thus not experienced trade's benefits—areas such as Kansas City in the heartland of Amer-

ica. However, the full potential of these benefits and prospects will not be realized unless Government changes in some very fundamental, yet feasible, ways. Government can and should be doing more to open up, expand and simplify international trade.

International Trade is an area of opportunity and growth for American business—especially for small & medium enterprises (SMEs). Trade agreements and free trade policies have reduced duties and eliminated some of the barriers to international trade, but government processes have largely remained the same. In 1996, for example, 43% of all imports into the United States were duty-free. Through April of 1999, that number is now 58% duty-free.<sup>1</sup> However, the Government has failed to keep pace with the shift from revenue collection to non-revenue collection goals and interests such as health and safety.

Old, paper-based non-coordinated processes impose what amount to non-tariff barriers on importers and exporters. Imposing barriers of any kind on exporters is counterintuitive and counterproductive. A study performed in 1994 by the United Nations Conference on Trade and Development (UNCTAD) showed that the estimated total cost to the trade community of meeting Government's international trade regulations requirements was 4% to 6% of the value of traded goods. This cannot continue if the United States wishes to remain competitive in the global marketplace. Reduction of the costs associated with Government processing in international trade is one of the only remaining untapped sources for productivity gain for U.S. businesses.

Here in Kansas City, as in other areas in the heartland of America, there are several organizations and individuals who are working very hard to realize the potential of "free trade." Despite the enormous efforts of organizations such as the North America Superhighway Coalition (NASCO), the Mid-America Regional Council (MARC), the Kansas City Chamber of Commerce, and individuals and the people of Kansas City, the positive effects of free trade will be greatly reduced by one single overarching feature—that is, the Government continues to process international trade as if modern communications measures and practices did not exist.

A study in July of 1998, conducted by the ETC Institute, in association with TranSystems Corporation, documented some compelling reasons for the lack of participation of Kansas City Area companies in international trade. The survey determined that, "a majority of freight carriers and large and small businesses surveyed would like to increase their international trade." The survey identified some of the chief reasons for not participating in international trade.<sup>2</sup> These are:

- Processes are too time consuming
- Too expensive to compete overseas
- Excessive paperwork
- Inconsistency of Customs regulations
- Too much risk is involved
- The bottleneck at the border crossing in Laredo, Texas

A program that directly addressed these and other similar impediments was the North American Trade Automation Prototype (NATAP). NATAP endeavored to standardize the data collected for international transactions, and to collect that data electronically. NATAP also made use of leading edge technology, such as dedicated short-range communications technology (DSRC) to provide arrival and departure notification for trucks. NATAP was the proof of concept for the International Trade Data System (ITDS).

#### ITDS

ITDS is an inter-agency initiative designed to standardize and streamline international trade data processes within U.S. government agencies, at our borders, with our two North American trading partners (Canada & Mexico), and eventually to standardize and expand the trade process internationally. ITDS is an innovative, cross-agency initiative that aims to bring Government procedures more in line with current actual business practices, without compromising the need to enforce laws and collect duties.

More specifically, the ITDS concept is very simple. Traders will submit one commercially-based, standard electronic data record to the ITDS for imports, exports and in-transits. ITDS will distribute this standard record to the concerned federal

<sup>1</sup>United States Customs, Office of Information Technology Briefs, June 4, 1999.

<sup>2</sup>*Kansas City International Trade Processing Center Study Stakeholder Interview Summary Report*, Conducted for Mid-America Regional Council and The Greater Kansas City Area Chamber of Commerce by ETC Institute, in association with TranSystems Corporation, July 24, 1998.

trade agencies for their selectivity and risk assessment. Through one electronic message from ITDS, the trader and the port will be advised of the status of the shipment. ITDS simplifies trade. Imports and exports will be handled in the same manner and with the same data. ITDS eliminates the need to submit redundant information to multiple agencies so that businesses will no longer need to maintain complex, redundant systems for reporting trade activities and statistics to the Government. In standardizing the process, ITDS removes the confusion and complexity of international trade enabling more U.S. businesses to broaden their markets to buy and sell globally. For the Government, ITDS will provide more current and accurate information for revenue, public health and safety, enforcement activities, and statistical analysis.

The reality is that the current Government processing environment for international trade does not support the vision of a seamless global economy. It is a barrier to trade and effectively a tax on international trade that costs consumers, businesses, and government billions. Our "system" of processing goods at U.S. borders presents importers and exporters with a gauntlet of complex, confusing, and redundant requirements, forms, and reporting systems. For example:

**Effecting an international trade transaction today takes more than a buyer and seller! On average, it takes:**

- 27-30 different parties
- 40 documents
- 200 data elements (30 of which are repeated at least 30 times)
- Re-keying of 60-70% of all data at least once

*Source: Report to the Economic Leaders 1996, APEC Business Advisory Council, at 22 (October 24, 1996)*

- Traders are required to send the same data electronically or via paper forms (or both) to multiple government agencies
- Traders are often unable to determine which agencies require data for a given import or export transaction
- Traders are often confounded by incompatible data exchange methods, where electronic processing exists

ITDS is an integrated, government-wide system solution to these and other problems. It would standardize trade data requirements and processes, clarify and streamline reporting requirements, and implement the centralized electronic collection, use and dissemination of international trade data within government. ITDS would be implemented first within the United States, and over time, could serve as a worldwide model, and as a new standard through which "digital government" facilitates international trade and e-commerce, and provides reliable international trade service at our borders. Implementation of ITDS would result in tremendous savings for multinational traders and the consumers they serve. It would eliminate many of the inefficiencies in the current system; improve the speed of clearance processes; and improve compliance with import and export laws and regulations. It is estimated that by 2005, net benefits of ITDS for the United States could reach \$2 billion, a return of \$9 for every dollar spent.<sup>3</sup>

<sup>3</sup> *Cost Benefit Analysis for the International Trade Data System*, September, 1998.

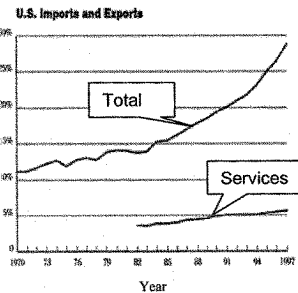
**INTERNATIONAL TRADE PROCESSES ARE IMPORTANT BECAUSE GLOBALIZATION AND INTERNATIONAL TRADE ARE INCREASINGLY IMPORTANT FACTORS IN THE U.S. ECONOMY**

In the United States international trade is growing faster than the domestic economy. Competition in global markets will be stiff and those countries, industries, and companies that have developed the infrastructure to support global trade will prosper while those that have not will suffer economically. Winners and losers in the global economy will be determined by success in establishing an environment that builds international competitive advantage through better and more efficient supply chains. This requires investment in transportation infrastructure (ports, harbors, roads, and rail), information technology, and financial systems, and supportive government policies which encourage trade and reduce risk, thereby driving costs down.

Governments have tremendous influence over the competitiveness of their economies and companies—they make the investment decisions in transportation, technology, and communications infrastructures; define the domestic policies that shape financial and banking systems; and define the rules that control imports and exports. Collectively, those decisions and policies determine whether or not a country is a desirable locale for trade and investment and affect the success of their firms in the global marketplace. Governments are in the middle of all international supply chains, with opportunities to facilitate or disrupt, or sever supply chains on either side of every international border.

**IN THE U.S., TRADE IS GROWING FASTER THAN THE ECONOMY**

- Between 1970 and 1997, U.S. imports and exports grew three and a half times faster than GDP in 1992 dollars
- U.S. exports and imports have increased from 11 percent of GDP in 1970 to 25 percent in 1997



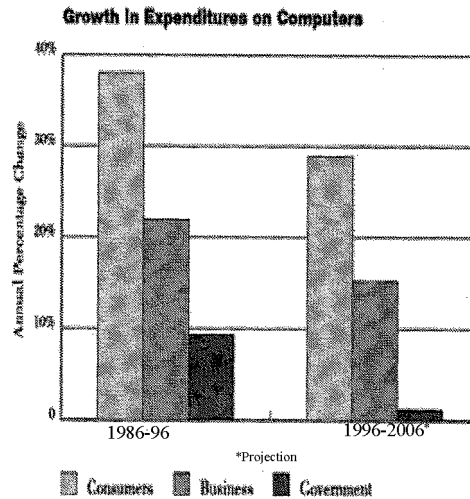
Source: The New Economy Index: Understanding America's Economic Transformation, pg. 11 (Progressive Policy Institute, November, 1998). Hereafter, New Economy Index.

U.S.-based multinationals recognize the increased importance of improving global supply chains and reducing international logistics costs. There are four major impediments to improving the free flow of commerce among trading nations:

1. Inefficient processes and antiquated systems.
2. Increasing regulations related to health, safety, food, and environmental issues.
3. Deliberately protectionist policies.
4. Inconsistent and non-standard data (information) requirements

**FAILURE TO INVEST IN MODERNIZED, 21ST CENTURY STANDARDS,  
PROCESSES AND SYSTEMS**

While the capabilities of modern information systems have been exploding in recent years, governments have failed to invest sufficiently in information technology, and upgrade business processes. In the U.S., between 1986 and 1996, business and consumer computer purchases increased by 22% and 38% per year, respectively. In that same period, government computer expenditures increased only 9.4% per year. Further, over the next decade, government computer purchases are expected to increase at an annual rate of only 1.2%, a rate that is 12 times slower than that predicted for business and 25 times slower than that for consumers.



Source: New Economy Index, Pg. 32.

Failure to invest in government information technology to support processing of goods at the nation's borders has a direct impact on business, consumers, and government. For businesses, complex, slow, redundant, or manual processing substantially increases supply chain and transaction costs and inhibits the development of just-in-time inventory and lean manufacturing systems. For consumers, it means less choice and higher costs for products. For government, it means higher costs, lower compliance, and missed opportunities for capturing better information about the international trade in which our country is engaged.

The cost of catching up and rebuilding infrastructure, and the danger of failure of the existing systems is increasing each year. The existing system that serves U.S. importers is 15 years old, has exceeded its life expectancy, and is in danger of collapse if it is not upgraded or replaced. Work on systems modernization and replacement is not enough.

In today's digital world, government and industry, manufacturers and suppliers, and buyers and sellers, are connected and interdependent. Witness the Y2K concerns, and the need for governments and businesses to ensure that not only are their own systems Y2K compliant, but that those of their partners are as well. Failure to recognize this interdependency and to act now to invest in the future will jeopardize U.S. leadership and competitiveness, increase costs for consumers, and raise the bill for repair in the future.

**WORTHWHILE BUT INEFFICIENT BORDER REGULATION**

Global trade and uncertain international conditions have raised an array of new national concerns about the quality and use of imported goods in developed as well as developing economies. These concerns have led governments, industry, consumers, and special interest groups to press for enforcement of a growing array of



restrictions on goods for export and import. These requirements involve many different federal agencies that have the potential and ability to disrupt supply chains and to increase transaction costs for exports and imports. The national interests involved are broad in scope, and great in diversity and number.

National Interests Enforced at the Border					
Traditional Revenue	Duties	Health and Safety	Food safety	Prohibited Transactions	Drugs, narcotics & controlled substances
	Taxes		Drug & medical device safety		
	Fees		Consumer goods safety		
Entry Controls	Quotas		Animal disease		
	Dumping		Plant disease		
Supplemental Revenue Generation	Immigration		Genetic safety	International Safety	Anti-terrorism
	Additional special taxes & fees		Vehicle safety		
Environmental Protection	Highway use & border fees		Communications Systems		
	Insect/pest control			Radio wave compliance	Weapons of mass destruction (nuclear, chemical & biological)
	Toxic wastes			Labor Protection	
	Production inputs/ processes	Prisoners	Intellectual Property		
	Manufacturing emissions			Trademark	
Endangered species			Copyright		

These national interests are legitimate issues of sovereign governments. But if not implemented efficiently, the regulatory environment deployed to protect these interests can become a significant burden on the global trading system. Moreover, these burdens are even greater in countries with governments that simply cannot cope with the increasing volume of trade and the need for safeguards without disruption in the flow of legitimate commerce.

Historically, even the most conscientious of Government agencies have believed that a choice must be made between facilitation of trade and enforcement of laws at the borders. Some governments will use the growing volume of trade and concerns over relatively recent issues such as the environment, food safety, genetically engineered agricultural products, and hormones in beef products as a cover for deliberately protectionist policies. The reality is that the only way to cope with exponentially increasing workloads and achieve improvements in compliance with the laws at the borders is by adopting modern business practices and the new tools of information technology. ITDS will use these new tools to collect a standardized and streamlined set of information while satisfying the needs of the various agencies.

ITDS will improve the enforcement of each agency's trade-related mission by providing data in advance that will allow for the use of sophisticated, agency-specified risk assessment techniques. Using the standard data set, ITDS will facilitate information sharing among Federal agencies. Many of the federal agencies have no automated capabilities today. With ITDS, agencies will be able to access virtually all the transaction information necessary to assess compliance with legal requirements in one place, ITDS.

In short, ITDS can significantly reduce barriers to trade while protecting government's legitimate interests at international borders. The principles under which ITDS was developed (standardized international data elements, universal communications protocols, common practice business processes, single interface to meet all government requirements, and the substitution of information for intrusive inspections) are equally applicable to developed and developing economies. Indeed, increased efficiencies achieved through closer collaboration and electronic sharing of standardized data will enhance the Government's abilities to carry out its critical missions with a minimum of disruption to legitimate trade flows.

**IMPLEMENTING ITDS DOMESTICALLY WOULD CREATE A MODEL FOR DIGITAL GOVERNMENT THAT IS BOTH EFFICIENT AND EFFECTIVE**

ITDS will redefine the trade environment at U.S. borders for industry and the government by enabling the vision of a seamless international buy/sell transaction.

This transaction is conducted electronically between importer and exporter, and government requirements on both sides of the international border are satisfied by an integrated electronic transaction. ITDS will accomplish this by:

- providing a single electronic access point for industry with government through which to meet all requirements for international trade
- standardizing and eliminating the duplication of data requirements to support all government agencies involved in international trade
- linking all government processes with international exporters and carriers upstream, and brokers and importers downstream, to create an integrated international supply chain for complying traders in which electronic government processes are transparent to the trading community

**ITDS WILL IMPROVE  
GOVERNMENT EFFECIENCY BY:**

- Streamlining the processing of goods at U.S. borders by using pre-arrival/pre-departure information.
- Reducing the costs of international supply chain management.
- Increasing compliance with national and international laws.

- reducing the cost of processing international trade transactions for both the trade community and the government
- improving the enforcement of and compliance with government trade requirements, despite an ever-increasing volume of trade
- providing access to more accurate, thorough and timely statistics and data about international trade for government and business
- providing a basis for expanding the same approach to U.S. trading partners and other countries around the world

TDS is an enabling system and approach that will transform government agencies into information-based organizations, fundamentally transforming their basic processes, linking government systems to those of international traders and governments around the world, and shifting performance expectations higher.

GOVERNMENT SYSTEMS AND PROCESSING AT BORDERS: CHANGING MODELS FOR PROGRAM PERFORMANCE			
PROGRAM ACTIVITY	OLD MODEL	TRANSITION	NEW MODEL
Processing	Manual, transaction based, tactical	Some automation, some account based	Information and account based, strategic
Automation	Limited	Extensive but of old processes	Fully electronic for government & industry, reengineered processes
Intelligence	Intuition, manual lookouts	Selectivity, transaction based	Risk management, account based, full automation, by company, country, industry, and commodity
Interagency Cooperation	Separate, unique, uncoordinated	Some joint systems and shared information	Shared and integrated systems; shared data bases
International Standards and Data Elements	Limited or unaware	Increasing awareness and some compliance	Worldwide leadership and full compliance
Measurement	Activities, by agency	Outputs, by agency	Outcomes, government wide
Industry Relationship and Communication	Agency by agency, one way, country by country, sovereign	Cooperative, still national	Collaborative, integrated, international
Process Integration	Separate processes for government and industry	Some alignment and interface between government processes and industry/ government processes	Full integration of government processes with industry processes to achieve goals of compliance and facilitation at reduced costs

#### EXTENDING ITDS INTERNATIONALLY

As American businesses trade among more and more countries, the problems encountered when importing and exporting compound. Companies trading in a dozen or more countries may think globally, but soon learn that "all customs is local." Seamless international supply chain management is exposed as a myth when the problems found at U.S. borders are mirrored by the different, unusual, and non-standard requirements and systems at each foreign border crossed. In each country, the multinational trader will encounter systems, forms, data elements, and requirements that are unique to that country. The multinational trader soon discovers that there is no "system of international trade" but rather a patchwork of similar but unique border barriers that must be addressed individually rather than through the application of a global solution. Due to their resources, multinational companies have better adapted to this environment but at a high cost that is passed on to consumers.

Among the problems faced by companies engaged in international trade are:

- An inability to institute integrated international supply chain management systems and the associated impact on just-in-time, lean manufacturing, and enterprise resource planning systems
- An inability to substitute information for inventory
- Billions of dollars in annual unnecessary transaction costs caused by unique and inefficient customs and government formalities at international borders

Reform will require a partnership of world organizations, such as the World Trade Organization (WTO) and the World Customs Organization (WCO), international financial institutions, and global business organizations such as the International Chamber of Commerce (ICC), working with governments and business to effect change and standardize the process. Changing deeply embedded and culturally based systems will be difficult. In addition to a high level coalition of international organizations, these changes will require leadership, leverage, and a model.

ITDS can provide the model, and the United States the leadership. But we should start at home—carefully consolidating and downsizing our own government requirements, and applying experiences and successes in improving government services.

## WHAT NEEDS TO BE DONE TO MAKE ITDS A REALITY

The development of ITDS is based upon concepts proven under NATAP, and updated and improved in ITDS. There are three key priorities for action, to move from concept to implementation.

*Leadership.* We need focused, effective, and sustained leadership—from leaders in the Administration and Congress. ITDS depends on major change in the way government does business, which hasn't come easily and ultimately will not happen without clear, effective, and sustained leadership—from leaders in the Administration and in Congress.

The government has created, reinforced, and perpetuated these problems, and it is only the government that can resolve and overcome them. (Neither the business community nor taxpayers can change stovepipe approaches of multiple government organizations and systems. Legislative action will also eventually be required to sanction and institutionalize more efficient government information collection and sharing processes.)

Focused leadership is also important because the challenge of changing government's approach is especially great. ITDS depends on transforming our government's approach from that of multiple stove-piped agencies, to a single, coordinated approach—managed on behalf of all agencies by an independent, interagency Board of Directors. This is new, cheaper, and more effective government.

Leadership is also justified because the US has traditionally been a leader in reducing barriers to international trade, and as the largest trader in the world, has the most to gain from further reducing barriers for our companies to export into foreign markets.

*Urgency.* This leadership is needed now, because the costs of the current environment are big, and the opportunities to build exports and competitive advantage for our country and businesses of all sizes, is great.

The cost of the current environment on American business, consumers, and taxpayers is so great that it demands immediate attention. The current environment is a big, frequently fatal, barrier for SME's that want to export to foreign markets. It is a major tax on all trade. It presents the risk that our country and our businesses will lose our position of leadership in international trade, ceding opportunities to build trade processing centers and provide intermodal transportation services to our neighbors to the north and south, and losing our opportunity to gain competitive advantage in global markets.

It is equally clear that the principal challenge here is not technology. The technology can be done quickly, as we see from business operating at internet speed—where the progress of new systems and companies is measured in months, not years and decades. Although much progress has been made in ITDS over the past 5 years, and we are on the brink of beginning operational pilots with Canada and Mexico, these won't happen without leadership. It would be unfortunate (and completely unnecessary) for us to let the timeframe for completing this work drift into years and possibly another decade.

*Resources.* Finally, resources are also needed to complete development of the pilot and implementation of the program. Fortunately, the required funding is tiny compared with the opportunities—the cost benefit analysis shows a minimum 10:1 return on every dollar invested. The Administration has supported resources of \$5.4 million, which is sufficient to maintain the project office, but not to complete development and begin implementation of the pilot. For these purposes, an additional \$7.6 million is required in FY-2000, for a total of \$13 million.

## CONCLUSION

ITDS represents an important innovation in government and technology support for global trade. It will speed and improve government performance, reduce burden, and cut costs. It will offer major operating and competitive advantages to those countries and governments that embrace it, benefiting consumers and industry. For consumers, it will remove layers of government inefficiency that amount to a significant tax on international goods, reducing sources of supply and raising prices. For international traders, ITDS will significantly lower barriers to importing and exporting, by simplifying identification of and compliance with international trade requirements, and enabling effective global supply chain management.

Senator ASHCROFT. Thank you, Mr. Ehinger, from the U.S. Treasury Department. It is a pleasure to have you here.

Vision is the thing we really need in this country, and the vision of a trading system that will release and enhance the capacity of

our producers to do well is very important. I appreciate the fact that you are looking down the road to see how it can be done.

I am glad, as well, that you are joined by Michael Copps—that is the correct pronunciation?

Mr. Copps: Yes, sir.

Senator ASHCROFT: —from the U.S. Department of Commerce. I am very pleased to welcome you to the state of Missouri. Obviously, the Department of Commerce links up with the Commerce Committee in the U.S. Senate, and as the chair of the subcommittee, jurisdiction over which I have of trade, I am very pleased that you would be with us here and pleased to know of the Secretary's interest in the state of Missouri and in expanding trade. I hope that he will some day in the near future be able to visit Missouri, and I think we would love to be able to help him plan a day here to see what the potentials are in our great state.

But thank you for coming, and I would invite you to make your remarks at this time.

**STATEMENT OF MICHAEL J. COPPS, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE**

Mr. COPPS. Mr. Chairman, thank you for inviting me here today to talk about the need to encourage American exports and about how working together, we can grow those exports for Missouri, for America. I am going to take a line from your presentation earlier and abbreviate my statement. I have already thought of something I want to add at the end, so I am going to cut out some of the material from the formal statement, but I would ask that it be included in the record.

Senator ASHCROFT. Sure. The entire statement—written statement will be included in the record.

Mr. COPPS. Thank you. Let me thank you, at the outset, on behalf of Secretary Daley, for your leadership in our trade efforts, and particularly your very active participation in the President's Export Council, which I think is one of the higher visibility and more effective forums that we have going.

In the past 6 years, America's role in global trade has grown very dramatically. Since 1993, Missouri's exports have grown by more than 44 percent, to over \$7 billion. Its industrial and high-tech and service industry exports go to diverse destinations such as Canada, the EU, Australia, Brazil; even China is among your top 10 markets. Here in Missouri the number of firms exporting has shot up by a phenomenal 76 percent since 1992, from 2,674 in 1992 to 4,702 in 1997.

Let me use the few precious minutes I have to tell you a little bit about how we at the International Trade Administration of the Department of Commerce are trying to promote and grow U.S. exports and suggest some ways how all of us might work together. ITA, I think, is very well organized to help Missouri exporters sell their goods and services overseas. I often liken ITA to four legs supporting a table. One leg is the U.S. and Foreign Commercial Service—I will just call it the Commercial Service—which is a globe-spanning operation dedicated to helping U.S. businesses, particularly small and medium-sized enterprises, export.

Here at home, the Commercial Service has 105 export assistance centers around the country. There is one right here, as you know very well, in Kansas City. There is another one in St. Louis. Their job is to reach out, primarily to small and medium-sized enterprises, tell them about the resources available—and there are substantial resources in the Federal Government to help them export. Often they partner up with USDA or the Small Business Administration, or the U.S. Export-Import Bank.

Overseas, the Commercial Service has 140 offices, and they can help arrange visits for small business men and women who do not have a lot of time to go globe-trotting when they are looking for business. They have businesses to run right here in Kansas City, so any way we can facilitate their overseas setting up meetings, by giving them market analysis, by providing interpreters for meetings, by going with them to meetings: that is the function of the Foreign Commercial Service overseas.

My shop, Trade Development, is the second leg of the ITA table, and it is a unique place in government. We are the industry sector experts, running the gamut from basic industry through high-tech through increasingly important service industries. When Ms. Barshefsky, our U.S. Trade Representative, goes out to negotiate a trade agreement on aerospace or automobiles, she looks to us to support those negotiations. So that is one of the very important things we do.

Our primary clientele and our constituency is the private sector. We work with the companies. We work with the trade associations. We work with the private sector to grow exports. We are also the home of the Advocacy Center—and maybe we can talk about that a little bit more in the question and answer period—but I am proud of the work that the Advocacy Center does. This is something the government never did before, and I say that in a non-partisan way.

I have been in Washington for 30 years and I have seen Republican administrations come and go and Democratic administrations come and go, and maybe it was the Cold War—I do not know what it was—but we never wanted to get into doing what other governments were doing, supporting their businesses overseas.

That is all changed now. We have an Advocacy Center that coordinates the work of all the different agencies of government. When a Cabinet member—not just Secretary Daley, but any Cabinet member goes out, they have a list of commercial projects, private-sector projects that they are supposed to advocate for. Other governments have long stood shoulder-to-shoulder their business. Now we, too, fight for our businesses and level the field of play. In the 6 years of the existence of that little Advocacy Center, business credits us with being a decisive influence in 450 competitions, translating into \$60 billion of U.S. content and hundreds of thousands of U.S. jobs.

We also run, in our Trade Development shop, the Trade Information Center. If a small or medium-sized businessman has no idea of where to go, they hear me come through and say how wonderful international trade is, then they say, What do I do now? If they do not know where their export Assistance Center is or if they do not know where to turn, they can dial up 1-800-USATRADE. They will

get a bright young person who can answer their questions or put them on the road to where they need to go to get those questions answered.

We have a third ITA unit called Market Access and Compliance. There has been a good bit of talk here this morning about the necessity of enforcing trade agreements. Nothing is a higher priority for Secretary Daley or Under Secretary Aaron. They have set up a new Compliance Center whose job is, first of all, to put on-line all of the trade agreements of the United States, to work with the private sector, identify instances when those trade agreements are not being lived up to and then to work through our own resources and if necessary, with those of the United States Trade Representative, to get those problems fixed.

The fourth leg of ITA is the Import Administration. I will not go into that a lot today, but it is kind of like the traffic cop on the beat. They are the folks who are involved in administering our anti-dumping, countervailing duty laws. They have been front-and-center in the steel cases. You have all heard about these cases. They assist domestic industries in determining whether there is sufficient evidence to petition for anti-dumping or countervailing duty actions.

At the core of what ITA does is a commitment to involve small and medium-sized business in the world of global commerce, and there is some good news.

We have used for years the figure that there are 112,000 firms in the United States that export. Those were 1992 figures. A couple of weeks ago the 1997 figures, which we were eagerly awaiting, came out, and they show that that 112,000 U.S. firms exporting has shot up to 209,000. That is a 97,000 increase. Ninety-four thousand of those 97,000 are small and medium-sized enterprises. Ninety seven percent of the firms who export in this country can be categorized as small and medium-sized enterprises.

That is impressive, but it is only a trickle of what we need to have if we are to really succeed for small business in the global economy. It is not a question of whether we are going to participate in the global economy or not, it is whether we are going to do it well or do it poorly.

I want to conclude with two thoughts. One, I want to emphasize public sector-private sector partnership. There are so many opportunities out there in the world of exports and in the world of trade development, but neither the public sector nor the private sector working alone can take full advantage of those. I have worked in government for 20 years and I know that without the expertise and the creativity and the good judgment of the private sector, government cannot get the job done.

I have worked in the private sector also, running a Washington office for a large corporation and as a senior executive of a leading trade association, and I know that in a world where market access decisions are often made by foreign governments, commercial climates are determined by foreign governments, foreign governments are backing their business, the private sector cannot get the job done by itself either. So if we are going to succeed in the global marketplace, it is going to be because we find more innovative and

creative ways to work together. My job is to work with the private sector to get that done.

My final thought—I applaud you for taking those few extra minutes to talk to the press outside. They are gone now, but I think you got the message across. But you know, we are all in this room, and we are talking to one another, and we all pretty much believe the same thing. A lot of Americans do not. All the polls are going south on this issue. I go around and talk and say exports and someone will say, Yes, I know what you want to export. You want to export my job.

It is frustrating to see the consensus for trade eroding. We have to work—everybody in this room has to work so that we educate our employees, that we educate our communities. I applaud you for the outstanding job you do in this, but I think our private sector and all of us as government spokesmen really have a tremendous challenge here to turn America around on this. Our future is, as you said, in the global marketplace. Small and medium-sized businesses future is in the global marketplace.

But we have got to reach the American people on the importance of trade so that they understand how important exports are to them.

At the Commerce Department, we are in the arena. We are knocking down trade barriers and opening the way for U.S. business, and I think we are beginning to win more than our fair share of competitions. We have got a lot of problems but a lot of opportunities out there, and we look forward to working with you, working with the Subcommittee, the full Committee, and the Congress. This has got to be a collective effort: public sector, private sector, and all of us pulling together. If we do that, I think we can get the job done.

Again, my thanks for the opportunity to be out here today with you.

[The prepared statement of Mr. Copps follow:]

PREPARED STATEMENT OF MICHAEL J. COPPS, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman, Thank you for inviting me here today to talk about the compelling necessity to encourage American exports and about how, working together, we can grow those exports. And let me thank you, at the outset, for your leadership in this effort, and for your active participation as a member of the President's Export Council.

In its early days, the Clinton Administration developed and began implementing a coordinated National Export Strategy in pursuit of increased exports. The National Export Strategy is continuously updated by the interagency Trade Promotion Coordinating Committee, which was given new life and vitality by the Clinton Administration to improve coordination and consistency among government export programs. Secretary of Commerce William Daley chairs this important group. The TPCC combines the resources of some 20 Cabinet, independent and White House organizations to initiate new export promotion programs. This effort is not just desirable, it is imperative to counter the aggressive export promotion programs of other countries, programs targeted to put U.S. exporters—here in Missouri and across the country—at significant disadvantage and put U.S. workers out of jobs.

This National Export Strategy is working for America; it is working for Missouri. Since 1993, Missouri exports have grown by more than 44 percent, to nearly \$7 billion last year. Its industrial, high tech and service exports go around the world, and its top ten markets include such diverse destinations as Canada, the European Union, Australia, Brazil and even China. Here in Missouri, the number of firms ex-



porting has shot up by a phenomenal 75.8 percent since 1992—from 2674 businesses to 4702 last year.

Let me use the few precious minutes that I have to tell you about how we at the International Trade Administration of the U.S. Department of Commerce are trying to promote and grow U.S. exports, in the process suggesting ways in which your exporters and our Department can expand an already productive relationship. The Commerce Department is the lead agency in carrying out most of the export promotion elements of the National Export Strategy, with the notable exception of the large agricultural export program.

I believe ITA is well-organized to help Missouri exporters sell their goods and services overseas. I often liken the Commerce Department's International Trade Administration to four legs holding up a table. One leg is our U.S. and Foreign Commercial Service—a globe-spanning operation dedicated to helping U.S. businesses, particularly small and medium-sized businesses, export. Here at home, the Commercial Service's 105 Export Assistance Centers counsel U.S. firms on the steps needed to enter the export market and to succeed in it. These are "one-stop shops"—that is, they offer access not only to the resources of the Department of Commerce, but to those of the Small Business Administration, the U.S. Export-Import Bank, and a range of other U.S. government agencies. They work with, and often are located near, state and private groups with the same mission. In Missouri, there are U.S. Export Assistance Centers located in both St. Louis and right here in Kansas City.

Overseas, the Commercial Service has 140 international offices, strategically located in markets that account for 95 percent of American exports. The commercial officers stationed abroad advise U.S. companies on opportunities; help them in project bidding and trade disputes; collect valuable market information; set up meetings with foreign government and business officials whose decisions may be key to the success of a proposed venture; and even locate distributors and other contacts.

My shop, Trade Development—a second leg of the ITA table—is a unique place in our government that deals day-in, day-out with the private sector—with U.S. companies and trade associations—to identify opportunities for the full range of U.S. businesses and to develop and implement strategies to grow U.S. exports. We make sure that America is putting its best foot forward—the coordinated strength of the private and public sectors—in a world where other countries seem to have learned this lesson long before we did.

Trade Development's industry expertise, found nowhere else in government, covers the spectrum from basic industries to high tech to services and e-commerce. We are also home to the Advocacy Center, which is really a hallmark of the National Export Strategy. Your government and mine, far more than ever before, is directly and aggressively advocating for U.S. exports in the face of foreign government competition. This Administration realized early-on that the international business lost to American firms was far too important to write-off and that our traditional non-interventionist policy was equivalent to unilateral disarmament in the global competition. The job of our Advocacy Center is to deploy the power and prestige of the U.S. government to help U.S. businesses win contracts overseas. The Center works continuously with the private sector and with the other agencies of the TPCC to ensure that American firms have full support in their bids on global competitions.

Make no mistake: the Advocacy Center represents a dramatic change in attitude. For years, Administration after stood blithely off on the sidelines while government leaders from other nations aggressively promoted their home companies and walked off with the deals. U.S. business suffered; U.S. jobs were lost. No more. Nowadays, from the President on down through the Cabinet and ambassadors, everyone is hitting the advocacy road, and the results are plain to see. Over the five years of its existence, the Advocacy Center counts some 450 competitions in which our efforts assisted U.S. bidders to win contract awards. These awards represent \$60 billion in U.S. content and hundreds thousands of U.S. jobs. In this time of soaring trade deficits, deploying the strongest possible advocacy effort makes more sense than ever. Again, it's not just desirable—it's essential.

Also located in Trade Development is our Trade Information Center, whose mission is to improve small companies' access to both general and country-specific counseling and information. The TIC, as we call it, features both an 800 number and newly-upgraded websites. During FY 1998, TIC trade specialists responded personally to about 85,000 telephone, e-mail, letter, fax or visitor inquiries, 86 percent of which were from small businesses, and we responded to nearly half a million inquiries. The TIC's number is 1-800-USA-TRADE.

Market Access and Compliance is another leg supporting the ITA table. This is where the Department focuses on identifying and eliminating trade barriers. Its mission is to see that market obstacles holding back U.S. exports are removed, and that the benefits of U.S. trade agreements are actually made available to U.S. firms

and workers. Its regional and country focus on barriers is unique in the U.S. government, and its understanding of the policies and tactics behind foreign barriers is an essential component of the National Export Strategy.

A cardinal tenet of the National Export Strategy is that trade agreements exist to be observed and enforced. This Administration is proud of the more than 240 trade agreements it has negotiated—but the success of these agreements hinges upon their implementation. As long as our markets are open to others, their markets must be open to us. We have also made it abundantly clear that we will not stand by and allow U.S. workers, communities and companies to bear the brunt of other nations' unfair trade practices.

Secretary Daley and ITA's Under Secretary David Aaron have made compliance with trade agreements their high priority. Whenever we discover restrictions on our access to a foreign market, the Administration moves aggressively. Our new Trade Compliance Center at Commerce is charged with tracking our trading partners' compliance. This Trade Compliance Center works closely and carefully with the Department's industry analysts and country specialists, as well as with the Trade Enforcement Unit at the office of the U.S. Trade Representative, and with numerous industries. We try to achieve trade compliance and market access short of dispute settlement wherever possible, and we strongly support USTR efforts when dispute settlement cases become necessary. Nor do we hesitate to seek enforcement either through the World Trade Organization or through the use of U.S. trade laws.

The fourth leg of the ITA table is the Import Administration, and its purpose is to keep the playing field of international commerce level for America's industries. IA enforces laws and agreements to prevent unfairly traded imports. The most prominent recent example has been the determination that certain countries were dumping rolled steel products, and that countervailing duties should be imposed to safeguard the U.S. steel industry.

The Import Administration not only makes those determinations, but assists domestic industries, especially small businesses, in determining whether there is sufficient evidence to petition for anti-dumping and countervailing duty investigations. IA also works with the USTR in negotiating fair and transparent international rules for such investigations; participates in negotiations to promote fair trade in specific sectors such as steel, aircraft and shipbuilding; and implements the laws concerning foreign trade zones.

At the core of the National Export Strategy, and at the heart of ITA's organization, is a commitment to involve America's small and medium-sized businesses in the world of global commerce. Small and medium-sized firms are central to building economic opportunity, and involving them more in global commerce is central to our strategy. This is as it should be. SMEs are the lead engine in creating jobs, and if America's future is in the global marketplace, we must make sure that our small businesses are competing and prospering in that marketplace.

There is some good news. The number of U.S. exporting companies grew from 112,000 in 1992 to 209,000 in 1997, the last year for which the figures are complete. Of this 97,000 increase, 94,000 were small and medium-sized firms. SMEs comprise 97% of our exporting companies. Nearly 30 million Americans work for firms that export. But we must involve many, many more such businesses in global commerce. We know that America is destined to live in a world of global business. It is not a question of whether we will participate or not. It is a question of whether we will participate well or poorly.

Our commercial officers, our industry specialists, our mission organizers and trade promoters, our advocates, our Trade Information specialists, our compliance experts are, all of them, dedicated to this important mission of growing exports for America's small business exporters and the millions of workers dependent upon these firms for their livelihood. More than half of the U.S. companies that have received direct support from the Advocacy Center that I described earlier are small or medium-sized businesses. Hundreds more have benefitted from its services as subcontractors and suppliers on large-scale infrastructure projects.

Mr. Chairman, I want to "talk up" public sector-private sector partnering. I want to talk it up because it works. Neither sector can get the job of trade development done alone. I have worked in government and I know that without the expertise and creativity and good judgment of the private sector, government cannot get the job done by itself. But I have worked in the private sector, too, running a Washington office for a major U.S. business, and as a senior executive of a major trade association, and I know that the private sector cannot open the doors of global commerce by *itself* in a world where market access and procurement decisions and commercial climates are so often determined by governments, and wherein our competitors combine all their resources, public and private, to win the competition. I am a believer that if we are to develop America's tremendous trade potential, it will be because

we find constantly more creative ways to work together and to leverage off each other's particular strengths and access. My job is to work with the private sector to make it happen.

There are many opportunities out there, even given the troubled global financial climate we have encountered over the past two years. And we—this Administration, the TPCC, the Department of Commerce—are developing new ways to accomplish our goals. In this era we can video-conference, we can use the Internet, we can help U.S. exporters understand and take advantage of such developments as the creation of the Euro. We are also enhancing the TPCC's cooperative activities with state and regional export development groups and with the National Governors' Association.

Time precludes my going on, but I think you get the flavor. I hope you can tell that I am a believer, a true believer, in what we are doing. We do have a strategy—a National Export Strategy—and we are implementing it in a way that makes sense and makes progress. Surely I am not here to suggest that the implementation is perfect. We depend upon constant review and upon the oversight of Subcommittees such as this, and on the creative input of our private sector partners, to critique our performance on an ongoing basis.

In the meantime, we are, as Teddy Roosevelt said, in the arena—knocking down trade barriers and opening the way for U.S. businesses as they venture out into the world, always looking to reach agreement, but ready to protect and fight for their interests if necessary—and winning more than our share of confrontations.

I believe we have, in all, mounted a strong, vigorous and effective program. We are a committed group of people doing an increasingly effective job—day by day, month by month, year by year—of advancing the cause of U.S. commerce in the world arena. Working together, the Executive Branch, the Legislative Branch, our states, cities and localities, and the private sector, we can, and we will, ensure America's continued leadership in global commerce.

I thank the Chairman and the Subcommittee for your attention, and I would be pleased to respond to your questions.

Senator ASHCROFT. Well, Mr. Secretary, I appreciate it. It is an honor to have the Assistant Secretary for Trade Development in the Department of Commerce come to Missouri. You are right about the fact that we need to work together. I liked what Mr. Ehinger said, that if the growth engine of the nineties was international trade, it will be the life blood of the next century. That maybe means, though, that for Mr. Grueff, our next participant, is that we will be able to do everything except export turnips, because we know that you cannot get blood out of a turnip.

But I think that when we look at all the sectors of America's great economic engine. There is a sector that is very distressed, the agriculture sector, but it is also a sector that relies heavily on the international markets.

So I am very pleased to welcome to our discussion this morning the Assistant Deputy Administrator for International Trade Policy at the Department of Agriculture, and to say how much I appreciate the fact that you have taken time to come. I do not know of any more qualified or talented individuals to speak and address these very issues than those of you who have been willing to come. I thank you.

Mr. Grueff, if you would at this time, share your remarks with us.

**STATEMENT OF JAMES GRUEFF, ASSISTANT DEPUTY  
ADMINISTRATOR FOR INTERNATIONAL TRADE POLICY,  
FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF  
AGRICULTURE**

Mr. GRUEFF. Thank you, Mr. Chairman. It is a pleasure to appear before you on the theme of "Markets for a New Millennium" to discuss U.S. trade policy that will make our farmers and ranchers more competitive. I would like to focus my brief remarks today on a crucial challenge and opportunity that lies before U.S. agriculture. That is the upcoming negotiations of the World Trade Organization, the WTO, beginning in Seattle later this year.

The previous negotiations at the WTO, the Uruguay Round, have illustrated what a successful negotiation can do for U.S. agriculture. Every WTO member agreed in the Uruguay Round to reduce the import tariffs on every agricultural product. In addition, the United States was able to achieve specific agreements, such as persuading the Japanese to lower their protection against pork imports. This particular agreement has resulted in a significant increase in U.S. pork exports to Japan.

We used the Uruguay Round negotiations to achieve the first-ever limits on the use of agricultural export subsidies by the European Union, which is by far the world's largest user of these subsidies. Our current estimates are that the European Union currently uses at least 90 percent of all the agricultural export subsidies that are expended around the world today.

Also, we were able to institute for the first time into international trade rules the principle that countries can prohibit or hinder agricultural imports if they have health-related concerns, but they must have a sound, scientific basis for doing so. This principle, as embodied in the WTO sanitary and phyto-sanitary agreement allowed us to successfully challenge the European ban on imports of U.S. beef.

Now, let me say, Senator, I very much understand and share the frustration expressed here today about the fact that the European Union has not rescinded their ban on our exports of U.S. beef. However, I guess it is good to keep in mind that before the Uruguay round results, we did not even have a means for challenging the European Union on this ban and on similar issues at the World Trade Organization. We are now at least in a situation where if they continue to maintain the ban, we will be able to at least take some measure of retaliation against them.

This sanitary and phyto-sanitary agreement has proved to be particularly important for trade in livestock products and other high value products.

The Uruguay Round also gave us a trade dispute settlement process that works. Now again, let me say, based on today's discussion, that I understand the frustration expressed here today about this process. The process, as it currently exists, is slow. It has its deficiencies. But again, before the Uruguay Round results, we essentially had no process. It was so easy for other countries to block any challenge that we would make on an agricultural issue. But the process, from our point of view, was completely ineffective.

So now the new negotiations—they give us the opportunity to go further. This time we want to completely eliminate the use of agri-

cultural export subsidies. This would be a very important step in moving toward a level playing field with the European Union. We also will insist on disciplines on agricultural state trading enterprises, the foremost example of which is probably the Canadian Wheat Board.

We want to see significant further reduction in agricultural import tariffs, and we want to again specifically pursue U.S. interests, as we did with Japan on pork, in markets of particular importance to us. We will strive to achieve further reductions in the levels of domestic subsidies that distort production and trade. In fact, our 1996 farm legislation has put us in an excellent position to pursue this particular issue because of the decoupling of support from production.

We want to address the issue of trade in agricultural products produced through biotechnology. This is likely to be one of the most important and most difficult sectors of the negotiations. We will need to deal with the question of food security in the sense that many importing countries will probably not be willing to agree to open their markets further unless they are sure that the major agricultural exporters of the world are going to be reliable suppliers. We believe that the United States will be in a position to do this.

In conclusion, the upcoming WTO negotiations are much too important to U.S. agriculture to not take full advantage of this opportunity. Yourself, Senator, and a number of others have pointed various statistics to show the importance of exports to U.S. agriculture. One other way to look at it is according to our data for the non-agricultural sectors of the economy, of total revenues, about 11 percent come from exports. For agriculture, we see that as about 26 percent coming from exports.

Private sector, as Mike Copps was saying—private sector input is very important in this process. We are using our private sector advisory group structure at the Department of Agriculture to get this. We are also in the midst of a series of 12 outreach sessions around the country where we are explaining to audiences what we want to do in the negotiations, and we are listening to their statements about what their interests are and what their objectives are for the negotiations. But we already know that the growth and prosperity of U.S. agriculture clearly depends on exports.

We must be ambitious in this negotiation and we intend to be ambitious. Thank you.

[The prepared statement of Mr. Grueff follows:]

PREPARED STATEMENT OF JAMES GRUEFF, ASSISTANT DEPUTY ADMINISTRATOR FOR INTERNATIONAL TRADE POLICY, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the subcommittee, it is a pleasure to appear before you with Assistant Secretary for Trade Development Michael Copps of the Commerce Department and Director of the International Trade Data Systems Project Office Bob Ehinger of the Treasury Department to discuss U.S. trade policy that will make our farmers and ranchers more competitive in the new millennium.

THE WORLD TRADE ORGANIZATION

Last year, in Geneva, at the 50th anniversary of the world trading system, President Clinton commented on the importance of open and fair trade for all nations. He also highlighted the need for the World Trade Organization (WTO) to provide a transparent and open forum where business, labor, environment, and consumer

groups can provide regular and continuous input to help guide further evolution of the WTO. The United States Department of Agriculture (USDA), in conjunction with several other federal agencies, is doing just that through a series of listening sessions around the country and consultations with private sector advisory members from the agriculture industry. In doing this, USDA will use industry's valuable input to shape our agricultural trade policies for the new round of negotiations under the WTO as we enter the new millennium.

As you are fully aware, while our national economy has been booming, it has been a year of struggle and hardship in many parts of rural America. We at USDA recognize that much of agriculture is going through a very difficult period right now. At USDA we are marshaling all of our resources to address this economic situation. We are making sure that emergency economic relief gets to producers as soon as possible, that strengthening the farm safety net is at the top of the agenda, that the consolidations and mergers sweeping agriculture are subject to proper scrutiny and that we continue to press to open new markets for our exports in the new millennium. In order to address these issues, we need to focus on: (1) the critical role that exports already play for agriculture; (2) the role that trade agreements have played in obtaining the current level of agricultural exports; and (3) our goals for the upcoming WTO round of negotiations.

#### EXPORTS ARE CRITICAL FOR AGRICULTURE

U.S. agricultural exports reached \$53.6 billion in 1998. Agricultural exports support nearly 750,000 jobs here in the United States. Products of nearly 1 of 3 harvested acres are destined for overseas. Even in the current economic downturn, about 25% of agricultural sales are export sales, compared with 10% on average for the rest of the economy. The vast majority—96%—of potential customers for U.S. products, including agricultural products, live outside the United States. We must work to increase our opportunities to sell into these global markets in the new millennium. Access to customers in foreign markets is a key factor to the health of U.S. agriculture. Compared to the general economy, U.S. agriculture's reliance on export markets is higher and projected to grow faster. Agriculture is already more reliant on exports than the economy as a whole.

#### TRENDS IN AGRICULTURAL EXPORTS

Other factors point to the increasing importance of exports. First, the overall trend has been one of increasing exports for American agriculture. U.S. agricultural exports climbed to nearly \$60 billion in 1996 up from \$40 billion at the beginning of the 1990s. Exports were down last year and will likely be slightly down for 1999 as well, due to record world-wide crop production, the Asian financial crisis, and the strong dollar—agricultural exports in 1998 were \$53.6 billion, and we project exports of \$49 billion in 1999. However, when the global economy rebounds as we are beginning to see in the Asian economies, the trend of increasing exports is predicted to continue, and exports will account for a larger percentage of farm income.

Second, the 1996 Farm Bill increased the market orientation of agriculture and so to be prosperous in an increasingly competitive market, we must increase our exports in those areas where we have the comparative advantage. A number of agricultural sectors are already exporting more than 60% of production with export sales over the \$1 billion threshold annually for a number of food and agricultural products.

Third, U.S. agricultural productivity is increasing while domestic demand for agricultural products is growing slowly. We must therefore develop new overseas markets for our products now and in the new millennium. Another factor pointing to the importance of exports to agriculture is how closely the level of our farm equity has tracked the level of exports over time. Expanding export markets, while certainly not the only tool, is a very important resource for leading us out of the slump in agriculture. We must however be realistic, exports are projected to decline again in 1999 to \$49 billion. It is estimated that 45% of the world economy outside the United States that is now suffering recession or depression is just showing signs of revitalization—until the global economy turns around we will not immediately increase our global customer base. But as a long-term strategy, expanding our export markets in the new millennium is critical.

#### TRADE AGREEMENTS THAT OPEN MARKETS INCREASE EXPORTS

A key to expanding export markets for the new millennium and increasing our access to customers outside the United States is through trade agreements that are good for American agriculture. We would not be at the level of exports we are at today if we had not negotiated trade agreements such as the WTO or the North

American Free Trade Agreement (NAFTA). Trade agreements such as these have boosted exports. Soon after the implementation of the Uruguay Round, U.S. agricultural exports reached their highest levels. Now many factors, including exchange rates, factor into rises in exports. But almost all economists agree that lowering trade barriers through trade agreements has been a critical factor to boosting U.S. agricultural exports.

Of course, trade agreements are a two-way street and we must reduce our own barriers as well. However, because the U.S. already has one of the more liberalized markets, we have very little to fear and much to gain from a new international agreement reducing trade barriers. We are an efficient, competitive agricultural producer both domestically and abroad. It is estimated that in 2005 exports including agriculture will be \$5 billion more annually than they would have been without the Uruguay Round agreement. Other trade agreements will provide similar benefits. It is estimated that in 1994 we sold \$1.29 billion more beef and citrus to Japan than we would have without the trade agreement we successfully negotiated with the Japanese. For export growth to continue, we must move forward with our strategy for opening markets through trade agreements in the new millennium.

NAFTA is also fulfilling its promise for agriculture. Our NAFTA partners, Canada and Mexico, have become more important destinations for U.S. products, now accounting for over 25% of U.S. exports sales, surpassing our sales to the European Union (EU). We estimate that in the first three years, NAFTA can take credit for 3% additional exports to Mexico and 7% additional exports to Canada. The 10% growth from 1997 to 1998 in exports to Mexico and Canada was especially welcome as overall exports fell 6%, thus helping to offset the sales declines to several of our leading Asian markets during the economic downturn in that region.

We recognize that although we have achieved many benefits for agriculture from recent trade agreements, the playing field is far from level and there is much work to be done. The U.S. tariffs, on average, are much lower than those of our major trading partners. When it comes to export subsidies, we must work to eliminate the high EU export subsidies. Further, we must continue to work for adequate and accurate health and safety measures that do not act as disguised protection, but are based on science. A major part of our strategy to level the playing field for agriculture is to be successful in the upcoming WTO round of negotiations. The U.S. wants both a free and fair global trading system, and we will continue to pursue that goal in the upcoming WTO and new millennium.

#### URUGUAY ROUND AND THE WTO

The most important existing trade agreement for agriculture—because it covers trade among 134 member countries—is the Uruguay Round Agreement. The upcoming round of talks must continue and improve on the progress made in the Uruguay Round. While we in the Administration are engaged in many market opening endeavors, now and in the new millennium, the upcoming WTO Round is the centerpiece of our efforts.

To understand where we are going in the WTO, it is important to understand where we have been. The General Agreement on Tariffs and Trade, the GATT, was established in 1948 and set the basic rules for international trade. A number of multilateral GATT negotiations, or “rounds”, took place between 1948 and the present, with the most recent round—the Uruguay Round—concluded in 1994. The Uruguay Round established the World Trade Organization, or WTO, which is basically a continuation of the GATT system. The Uruguay Round Agreements opened a new chapter in agricultural trade policy, committing countries around the world to new rules and specific commitments to reduce levels of protection and support that were barriers to trade. Agriculture finally became a full partner in the multilateral trading system.

For the first time, countries had to make across-the-board cuts in agricultural tariffs. For the first time, export subsidies had to be reduced, and internal support policies that distort trade were capped and/or reduced. New rules set a scientific standard for measures that restrict imports on the basis of human, animal, or plant health and safety. And a new dispute-settlement process was adopted—one that the U.S. has successfully used in a number of cases. The option that the WTO provides for solving disputes in a formal, legal setting has been valuable in achieving tangible gains for U.S. agriculture and has also acted as a deterrent—our trading partners know that we have this option if they do not live up to their agreements. For example, we recently won dispute-settlement panels against the EU’s ban on beef from cattle treated with growth hormones, against the EU’s banana import licensing regime, against Japan’s restrictive quarantine requirements for fresh fruit, and Canada’s dairy policy on subsidies. We now must maintain a firm line to ensure

that the banana and hormones decisions are carried out so that U.S. exporters have the access determined to be their legal right.

The Uruguay Round agreement was a good start. It has already contributed to increased U.S. agricultural exports and higher farm incomes as American producers have taken advantage of newly opened markets and new opportunities. But the Uruguay Round was just a start, the first important steps in global agricultural trade reform. We are now planning for the next major step—the round of WTO agricultural trade negotiations.

#### NEXT ROUND OF MULTILATERAL AGRICULTURE TRADE NEGOTIATIONS

The next round of WTO negotiations will be kicked off at a ministerial meeting in Seattle, Washington from November 30-December 3rd of this year. The ministerial meeting will be a major event with representation by most of the 134 WTO-member countries. We also expect and encourage strong private sector attendance. The actual negotiations will start early in 2000. The final scope of coverage of the negotiations is yet to be determined, but agriculture and services will undoubtedly be included. The general expectation is that the negotiations should last 3 years with implementation of the agreement beginning in 2004. In setting the agenda for the agriculture negotiations, we will build on the Uruguay Round accomplishments that yield substantial benefits to our nation's farmers and ranchers. Tariffs were reduced in the Uruguay Round, but they are still too high. Some countries maintain average agriculture tariffs of 50%, while the U.S. tariffs average about 8% on all agricultural products. It is our goal to negotiate the further reduction of tariffs. We also want to expand market access under tariff-rate quotas by increasing the quota amount and decreasing the tariff outside the quota. We also want to see the reduction or elimination of export subsidies, especially for the EU. The EU has outspent the U.S. by more than 20 to 1 on export subsidies \$7 billion to \$100 million in 96/97).

Another problem in agricultural markets are state trading enterprises or STEs, government entities that act as monopolies. When a STE has government authority and monopoly power they are able to price-pool by pricing their products artificially low and unfairly increasing their market share. It is important that we develop stricter WTO rules to ensure that STEs operate in a fair and transparent manner. Trade distorting domestic support is being reduced under the WTO rules, but the job is not yet complete. A comparison of the levels of such support shows that globally, including the United States, but particularly in Europe and Japan, domestic support remains high. Our goal for the next round is to make sure that the assistance other governments give to agriculture is provided in ways that do not interfere and/or displace commercial sales of agricultural commodities in world markets.

#### GOALS FOR THE NEXT WTO AGRICULTURE NEGOTIATIONS

Trade reform through the WTO provides the biggest bang for the buck. In one agreement, for example, we can get 134 countries to cut tariff barriers on exports. But getting all these countries to agree on major reforms will take a lot more time and effort. It clearly won't be easy. The United States has already completed much preparatory work in Geneva, where the WTO is located. We are using the WTO Committee on Agriculture to identify places where current rules and commitments don't go far enough to open up markets for our exports. At the same time, we are using a less formal process to build a consensus and prepare the ground for the tough negotiations to come.

The Administration is working with industry to make sure their concerns are met as well, as they are critical both at this early stage and in the long-term of the negotiating process. The views and concerns addressed by local farms groups to state government representatives in the legislature or the executive branch is just one of our means to obtain such advice. Other sources of industry information come from our Agricultural Trade Advisory Committees and producer panels at trade hearings on Capitol Hill. In all our activities, we want to send a clear message to the rest of the world that agriculture is a top priority for the United States and that we remain fully committed to fair trade and open markets both now and in the new millennium. The Administration will continue to seek support and advise from the American farmers and ranchers to ensure that trade agreements continue to work for them and for U.S. agribusiness as a whole.

Mr. Chairman, everyone in this room knows the importance of trade to U.S. agriculture. In the past year, we've been sobered by a global financial crisis that devastated many of the emerging Asian economies and thus softened demand in other countries, many of which are important markets for U.S. agriculture. While we now see some strengthening in the Asian economies we continue to face a global over-



supply of many commodities that sent prices plunging to their lowest levels in years. We have learned that our efforts to reform world agricultural trade must continue if our exports are to expand in world markets in the new millennium.

As President Clinton said earlier this month in Chicago, "We ought to continue to expand trade. We ought to enforce our agreements more vigorously. But I do not believe that a country with 4.5 percent of the world's people can maintain its standard of living if we don't have more customers. We did it for a year last year, but we can't do it over the long run."

To realize the potential of the global marketplace, we have a lot of work ahead of us. We must construct a world trading system where every producer gets a fair shake, where all products, goods and services are traded freely across oceans and continents.

The next round of WTO negotiations later this year will be a turning point in this effort and we will be working hard to help American agriculture realize that potential. This concludes my statement, Mr. Chairman. I will be happy to answer any questions.

Senator ASHCROFT. If you do not mind, I would like to ask several questions. I was struck by the idea that our 1996 Farm Bill puts us in a better position to argue against European subsidies. I think that would be clearly the case. And you say it is your ambition in the Seattle Round to abolish export subsidies.

If you were successful, what impact would that have on U.S. farm exports and prices, and what would happen in the United States if the Europeans were to end their subsidies?

Mr. GRUEFF. Yes. We do not really have any quantitative analysis now that could put a good number on that. The most direct impact would come if we can agree to a complete phase-out of export subsidies. We think there would be—it would put us in a significantly better position in many markets around the world.

On the use of domestic subsidies, perhaps less of a direct impact, but the—we are in such a strong position because we have de-linked production from support. The European Union is still very much dependent on it. So we are in a—we have a lot of leverage on that issue and we expect, later this year, to have some good quantitative analyses of what exactly this would mean in terms of—certainly we know it will be in the billions of dollars of additional trade, but we have agencies such as the Economic Research Services who are now focusing on this particular question.

Senator ASHCROFT. Yes. I was struck by Secretary Copps' statement that people are distrustful of trade and of trade negotiations. I think part of it is that we negotiate agreements, we have the enforcement procedures, and we win the dispute resolution, but then we get sort of stiffed on the remedy.

We have gone through such a history with GATT and WTO dispute settlement. Some of our trade partners discriminate against our products for one reason and then they lose all the dispute resolution procedures. As soon as the U.S. wins, they run to get another reason to discriminate against our goods. Would you agree that we must try and to find ways that give the American people a basis for believing that we can get some enforcement that makes a difference?

Mr. COPPS. I agree 100 percent. Right in our own house, as I indicated, at the Department of Commerce, we have organized the Compliance Center so that business has a responsive place to go and American workers have a responsive place to go to remedy infractions or violations of our trade agreements. We do need to increase the comfort level of the American people with the WTO.

There has always been historically in this country a suspicion of international organizations.

So these procedures have to be open. They have to be transparent. We have to know what is going on in those dispute resolution panels, so that there is not the feeling in the American people's mind that this is all being done behind closed doors. So I agree very strongly with that, but I also think there is this other dimension.

When those who are perhaps being adversely impacted by trade—and there are some who have been adversely impacted by trade—they seem to have a little easier time of getting the attention of the media, or they seem to know how to go about it better than we do.

I was in a state the other day giving a talk and all the headlines of the newspaper were filled with one sector that was encountering a problem. Now, it was a real problem with imports, but yet this was a state whose exports had grown 45 or 50 percent in the last 4 or 5 years. Their people were benefiting enormously from trade, but they were not being told. Now, the media does not rush out and tell a story by itself unless someone tells them.

Big business has to do a better job of talking to its suppliers, and talking to their employees about trade. Many workers in this country make components that go into cars or airplanes or computers that are exported. A lot of people making those parts do not have the foggiest idea that what they are building is going into an export.

So I think if we can figure out a way to inform the American people of the facts of life and the reality of trade, then we can turn this around, but that is going to take a proactive and a very extensive effort. As I say, Secretary Daley, who is very much hopeful that he can come out here and be with you very soon, is trying to do this around the country.

Senator ASHCROFT. Very good. Part of what we are up against is the bad news is more news than good news is.

Mr. COPPS. Right.

Senator ASHCROFT. You just cannot imagine seeing a headline that says, "X number of workers keep their jobs this week."

Mr. EHINGER, we heard about the International Trade Data System. We heard that you are sort of an architect of it.

Would you just give me a thumbnail sketch of that system and could you give an idea of whether you think that system is border specific. Or could that system be made to work at an inland, heartland site, if we were to have new thinking about trade. It seems as though inland sites—those not on the borders and not susceptible to some of the jam-ups of the borders—are being accessed for trade.

Mr. EHINGER. As a matter of fact, that is exactly why I mentioned the working relationship we have with your constituents here in Kansas City. Part of the concept of the International Trade Processing Center, an absolutely essential part of that concept, is that you must have sites and centers of activity that are actually processing locations. In these places, information, electronic processing and electronic systems can be integrated to draw the information from the businesses in that area, bring it into the system,

create the transactions and the information necessary for the government. Take Mary's example of the button-maker. I love it. She did a beautiful job with this—that in fact, the transit time between Kansas City and the border going to Mexico can be used to interface, through this one electronic process with the government. We are not going to continue to do business agency by agency and duplicate all this anymore. It is going to be a fully e-commerce process.

We can get the information to the government agencies. They can decide what they want to do with these shipments, what additional information they may need, or whatever the situation is so that by the time the goods reach the border, we do not have 5, 7, and 8 mile back-ups at the border waiting for goods to enter another country.

Through negotiations, particularly with our contiguous neighbors, Canada and Mexico, which comprise such a huge portion of our trade, we are rationalizing the requirements for international trade, so that it is less difficult to get your goods into Mexico. They will use the same data that we use in this country. They will accept an electronic transfer of information, and the goods can flow more freely. This is where we will pick up 4 to 6 percent of the cost of doing business and move that to the profit line.

Senator ASHCROFT. I am interested—the study you said was UN/UPIN.

Mr. EHINGER. Right.

Senator ASHCROFT. —four to 6 percent? Was that the transactional cost, or was that the amount of our trade deal that is surplus cost that we can squeeze out if we were to do things properly?

Mr. EHINGER. That is the amount that we could squeeze out—

Senator ASHCROFT. Oh, my goodness.

Mr. EHINGER. —if we were able to do this.

Senator ASHCROFT. So beneath that is some rational cost of doing things right?

Mr. EHINGER. Absolutely.

Senator ASHCROFT. So we are actually penalizing companies. Do you know what the rational cost of doing things right is?

Mr. EHINGER. The rational cost of is somewhere around 1 to 1½ percent—

Senator ASHCROFT. Wait a second. Then you are telling me that if we have got 6 percent over—even if we went to 2 percent, if we have 6 percent more than that, we are paying a 300 percent penalty?

Mr. EHINGER. That is right.

Senator ASHCROFT. When I say we are paying it, that means that our producers are, and that kind of penalty is attached to every job—

Mr. EHINGER. That is right.

Senator ASHCROFT. —that is designed for export.

Mr. EHINGER. That is right. 10,000 fields of data is a lot of information.

Senator ASHCROFT. Yes. Does that mean—I wrote that down here because I was afraid it might be on the quiz at the end of the day.

Now, when you say 10,000 fields of data, does that mean that you have to make 10,000 answers?

Mr. EHINGER. Yes.

Senator ASHCROFT. So on the 602 forms, there must be about 1,500 answers per form?

Mr. EHINGER. Fifteen hundred separate pieces of information that go into comprising it.

Senator ASHCROFT. Per form?

Mr. EHINGER. That is right.

Senator ASHCROFT. That takes you to 10,000?

Mr. EHINGER. That is right.

Senator ASHCROFT. Wow. Now, what occurs to me is that we have this penalty of about 300 percent that accommodates an inefficient governmental system—with 100 plus boards and agencies. You have described the savings to the culture and to the business community of going from a total of say 7.5 percent of the total cost of exports to a transactional cost of 1.2 percent.

Is the amount of money that government spends in doing all this stuff repeatedly wasteful to the government as well?

Mr. EHINGER. Yes.

Senator ASHCROFT. Are there long-term savings both to the culture at large and to the private sector, and are there a long-term savings for government in moving away from its old processes to a new process? That is where I am going.

Mr. EHINGER. We have a cost-benefit analysis that I will be glad to offer to you as an amendment to my submission for the record. And that is the area where we have done most of our work because it is the most easily quantifiable, and we did in the cost-benefit analysis to this process. We have estimated that it is somewhere around \$2.5 billion to \$3 billion a year that the government would save alone, in its own costs.

Senator ASHCROFT. Now, in moving to that annual savings, are there costs greater than that are the startup costs that get you to the point of the savings?

Mr. EHINGER. Yes—no, not greater than this. Certainly not greater than this, because—

Senator ASHCROFT. So it takes less than \$2.5 billion to implement the changes?

Mr. EHINGER. The total cost of constructing this environment and making the government systems interfaceable, reducing the amount of information that is duplicated in the system is somewhere around \$268 million—

Senator ASHCROFT. So basically, over—

Mr. EHINGER. —over 5 years.

Senator ASHCROFT. OK. So that is 1/100 of the first year's savings to government—

Mr. EHINGER. That is right.

Senator ASHCROFT. —is the first year cost to government?

Mr. EHINGER. That is right.

Senator ASHCROFT. That really argues strongly in favor of considering this very seriously. Win-win is usually the matrix we look for, to win in the private sector, to win in the public sector. It is a win big on both fronts.

Mr. EHINGER. I am afraid you are right.

Senator ASHCROFT. —and—

Mr. EHINGER. These people would like to get rid of this burden, I am sure.

Senator ASHCROFT. Well, I am very eager to—this has been a very important learning experience for me. I had a remote awareness of this, but this argues very strongly—now, when you talk about the savings to the private sector, you are talking about how much is saved when you can just simply go into your computer instead of driving to one of these centers or to some other place.

Mr. EHINGER. That is right. What happens here is, this is a simplification on consolidation process. We actually took these 10,000 fields of information and reduced it to what we find to be 138 pieces of information, total on a transaction, from 10,000. Senator, it is very simple. Each one of these folks asked the same questions.

If you are the button-maker and I am the buyer in Mexico, you know who you are as the shipper and seller, I know who I am as the buyer. We know how many buttons there were, what we called them as a definition, how much each they were, what the total was, and so forth. It is the same information produced over and over and over for each agency, only they ask for it in a little different context. So it has to be adjusted. It has to be corrected.

We have huge numbers of people just repeating information over and over again. Basically, the cost saving here is just the destruction of duplication of government requirements.

Senator ASHCROFT. Yes. Reduction and redundancy.

Mr. EHINGER. Absolutely.

Senator ASHCROFT. I really thank you all for your kindness to come and to participate in this hearing. I always have a fear that I will, in my questioning, not be as fair as I should be to what you have said. So I would like to offer each of you 120 seconds to summarize, correct some misstatement, or whatever I have done. So if you all take your time in 6 minutes, this hearing will be over.

But I just want to do that to make sure I have not prejudiced in some way what you have meant to say or prejudiced the truth in something that I have said.

Mr. EHINGER. Well, for me, Senator, this has been a very worthwhile experience. I do not normally like to spend my Saturday away from home. However, this has been very useful and I thank you again and your staff for their leadership and for your attention to these details.

It does make a difference, but we do have to get going and I think that is what has been expressed here today, and so much better by your own constituents than I could, that I do not think I need to take more of your time.

Thank you.

Senator ASHCROFT. Thank you.

Secretary Copps.

Mr. COPPS. The only dimension I would add that I gleaned from our experience earlier this morning and our tour, is to compliment the exceptional teamwork that I see in Kansas City, and I surmise that is a characteristic of the state and I know it is from the work that we have done with the state. That is the most important element, when you look to growing exports. Can we get the Federal Government, the state government, the export development agencies, the private sector, everybody working together? I saw an en-

thusiasm in Missouri's sense of teamwork this morning, which I think is laudable and stands this city and this state in good shape.

I think Missouri is about 24th or thereabouts in exports. I think working together, we can build that up considerably.

Senator ASHCROFT. Good. Thank you very much for coming.

Mr. GRUEFF. It was quite interesting for me, Senator, to hear the comments of some of the panelists on the first panel about their frustrations with WTO, dispute settlement, and so on. I would like to tie this in with something that Mike Copps said.

I think that in agriculture, one of our foremost challenges is informing and educating that trade agreements have done a lot for U.S. agriculture in terms of exports. There is the potential to achieve a lot more through trade agreements and as you said, often people focus on the bad news and what is not working. But we really have to make sure that people understand what has been done and what is at stake through these trade agreements that we are involved in.

Thank you for the opportunity.

Senator ASHCROFT. Well, my appreciation goes not only to these excellent servants of the public from the departments, but to all of you who care enough about promoting tomorrow and making sure we approach it properly to do it effectively.

My staff has indicated to me that I should announce that the record will remain open for 10 days. We should be able to get some encyclopedic comments from you all in 10 days, and that strikes a little note of fear in me. But just to prove that—well, I think that is a good idea, and we will maintain the record as open for that period of time, and welcome anyone's contribution to this record who wants to be heard.

I want the record to be complete, because, frankly, I have learned something from every participant here today, and it is helpful to me. I look forward to working with you.

Thank you very much.

[Whereupon, at 12:55 p.m., the hearing was concluded.]