

**Testimony of
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Nonproliferation and Trade
“The Export Administration Act: American Jobs and Security in the 21st Century”**

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The International Association of Machinists and Aerospace Workers (IAM) represents several hundred thousand active and retired workers in North America. Our members work in a variety of industries including aerospace, manufacturing, transportation, woodworking, shipbuilding, defense and electronics. Given the nature of these industries, the IAM truly understands the importance of exports. We are troubled, however, that our nation's export strategy has yet to embrace policies that ensure the creation of jobs here at home.

We are particularly concerned that our current system of export controls fails to incorporate detailed employment impact analysis into its decision making process. Among other things, comprehensive and detailed employment impact analysis is not undertaken when transactions are reviewed that could involve outsourcing to other countries, specifically the transfer of technology and production to current and potential competitors. Given the current jobs crisis, the importance of export controls, and suggestions concerning the reauthorization of the Export Administration Act, a discussion of how the current export system can be improved to include consideration of impact on domestic employment is critical. We welcome the opportunity to appear before you today to share with you our views on these critical and timely matters.¹

It is no secret that U.S. workers and the communities where they live, are in a crisis. Over five million jobs have been lost since December 2007. The unemployment rate has surged to 9.4% with many economists predicting that it will grow higher in the coming months. Industries like aerospace, electronics, machine tool, shipbuilding, textiles, and many others that were once the bedrock of our nation's economy are barely shadows of what they once were.

Our economic security diminishes with the loss of these basic industries and the jobs they provide. It is no coincidence that our nation's current economic crisis coincides with this massive loss of jobs. Jobs and the economy are intertwined: the economic crisis leads to a loss of jobs and the loss of jobs leads to an economic crisis. After all, without a strong economy who can stay in business and employ workers? In turn, without good jobs that earn decent pay, who can afford to buy the goods and services that fuel our economy?

¹ Portions of this testimony are directly taken from my paper, *Offsets and the Lack of a Comprehensive U.S. Policy: What Do Other Countries Know That We Don't?* EPI Briefing Paper No. 201, April 17, 2008. A copy of this paper has been attached to this testimony.

Supporting domestic jobs is not only about restoring our economic health: it is also about preserving our national security. Without a strong manufacturing industry, and without a strong defense industrial base, our nation becomes more vulnerable to present and future dangers. As jobs and the skills needed to perform them disappear and as our defense capacity dwindles, we will become less able to defend ourselves should the need arise.

As the nation grapples with the current economic crisis, Congress and the Administration must explore new measures to ensure that our overall export strategy supports the creation of jobs here at home. We cannot presume that any policy that promotes exports is good for U.S. workers and the long-term growth of domestic jobs. Attention must be paid to export programs and unregulated outsourcing arrangements that can and do result in the loss of U.S. jobs.

The Validated End-User Program (VEU) is a classic example of an export control program that neglects meaningful employment impact review. In its announcement of the VEU program, the Bureau of Industry and Security (BIS) claimed that, “The steps we are taking today are good for American exporters and jobs...The increased trade with China will help to keep high paying, good quality technology jobs in the United States.”² In its announcement, BIS cited the approval of VEU status for “Boeing Hexel AVIC I Joint venture (BHA) composites manufacturing facility”.³ The facility “produces composite parts for secondary structures and interior applications for commercial aircraft, including the Boeing 787.”⁴

IAM President R. Thomas Buffenbarger disputed the contention that approval of the program would be good for U.S. workers. As he stated in a letter to the Undersecretary of Commerce, Mario Mancuso:

“Given the massive loss of jobs that we have experienced in the U.S. aerospace industry over the past 20 years, the increase in aerospace production in China in general, recent announcements that China is planning on entering the large commercial aircraft industry, and China’s continued use of transferred production and technology from the U.S. aerospace industry enabling it to accomplish these tasks, we find it very difficult to believe that your actions are ‘good’ for U.S. workers or the U.S. economy. The work involving composites could be performed in the United States by U.S. aerospace workers instead of being outsourced to China. This is just one more example of how U.S policy actually costs workers jobs and opportunities here at home.”⁵

For this reason, as well as for national security concerns described by the Wisconsin Project on Nuclear Arms Control, Buffenbarger requested that the program be suspended.

² Bureau of Industry and Security, *New BIS Program Changes Export Rules on Targeted Products For Select Companies in China*, press release, October 18, 2007.

³ Ibid.

⁴ Ibid.

⁵ Letter from R. Thomas Buffenbarger to Mario Mancuso, Undersecretary of Commerce, January 4, 2008.

Another example where employment impact reviews are much needed involves a virtually unregulated category of outsourcing that presents a serious threat to U.S. workers, our economy and our national security: a little known arrangement referred to as “offsets”. Offset activities involve the transfer of technology and production from the U.S. to another country in return for a sale. While offsets are virtually unregulated in the United States, other countries have well established policies that are feeding the development of their own industries and employment by bringing U.S. productive capacity and technology to their shores.

Traditionally, offsets have been divided into two categories, direct and indirect. Direct offsets involve technology and/or production directly related to the purchased product. For example, the production of part of a fighter jet is transferred to another country in return for that country purchasing the fighter jet. Indirect offsets involve transfers of technology, production or other innovative schemes unrelated to the product being purchased. For example, in return for an agreement by one foreign government to purchase a jet fighter made in the United States, the U.S. producer of the fighter agrees to find someone in the United States who will purchase a totally unrelated product from a company in the foreign country.

While government definitions of offsets refer to the defense industry, offsets and offset like activities also occur in the commercial industry. Given the complexity of offsets, their growth, and the nature of dual-use technologies, it is not always easy to distinguish between the effects of offsets in the defense and commercial industries.

While more precise information is needed regarding offset transactions, what we do know about offsets in the defense and commercial industries is disturbing, particularly in terms of its direct impact on U.S. employment and our security. While virtually no government reports are required for the commercial industry, the U.S. government does gather some information regarding offsets in the defense industry. These reports indicate that offsets are significant and increasing.

Over a 15-year period, 1993 to 2007, U.S. companies reported over 9,200 offset transactions, valued at \$45.73 billion to 48 countries.⁶ A previous U.S. government report concludes that, “16,323 work-years annually associated with the offset transactions completed in the period 2002-2005” were lost.⁷

While it is not easy to estimate the number of jobs that have been directly lost due to offset deals because there is no requirement that they be reported, anecdotal evidence suggests a serious impact. For example when the offset with respect to the F-15 program in Korea was announced several years ago, news accounts reported that it would create

⁶ *Offsets in Defense Trade* (Hereinafter referred to as “Department of Commerce”), 2008,

⁷ *Offsets in Defense Trade, 2007, Section 3-3*; The Report concludes however that on balance more jobs “were maintained by defense exports associated with offset agreements” during the same period. The methodology used by the Bureau of Industry and Security (BIS) to conduct the study was subject to serious criticism, including fundamental assumptions concerning certain factors, such as relying on the supposition that value added per employee was based on 100 percent U.S. content; see discussion in *Offsets in Defense Trade, 2007*, and *Offsets and the Lack of a Comprehensive U.S. Policy*, supra at fn. 1, for further elaboration on flaws in BIS employment impact calculations.

several thousand jobs in South Korea involving work that was once performed by workers in St. Louis.⁸

Other countries recognize the value of a comprehensive offset policy for their country's employment and take offsets seriously. Europe has lead the way in establishing comprehensive offset programs and over 20 European countries have offset agreements. The size of their offset demands can be enormous. As reported by the U.S. Department of Commerce:

“The average offset percentage demanded by the 17 European countries involved in offset activities during the eleven-year reporting period (1993-2003) was 101.2 percent of the export contract values...the average offset percentages for Europe have exceeded 90 percent in each year since 1999, reaching a peak of 148.8 percent in 2003, up from 94.3 percent in 2002.”⁹

In addition to the direct loss of jobs, offsets have a deep impact on industries in the long term as prime contractors ship work offshore. Suppliers located in the U.S. are especially hard hit as it appears that their work is often the first to be transferred to another country. At the same time, other countries develop powerful industries that come back to compete fiercely with U.S. based companies, causing further job loss.

This trend will become even more problematic in the future as advanced industries like aerospace spin off to other countries and opportunities for U.S. development of new technologies are lost. Moreover, technologies that have supported multi-billion dollar markets will likely relocate to other countries, further disadvantaging the United States and its workers.

As offset arrangements have grown and become more creative and difficult to track, national security concerns have emerged involving three different but related matters: 1) As offsets foster greater offshoring and increased foreign competition, our manufacturing sector is eroded, threatening our defense industrial base; 2) National security is further threatened when technology that is intended purely for commercial use is part of an offset to another country and ultimately ends up being used for defense purposes; and, 3) The decimation of our skilled workforce presents a serious danger if a situation occurs in which a rapid build-up of defense production is required.

In view of the national economic and security interests that are threatened by offsets and other offshoring arrangements like the VEU program, export control policy must be improved to ensure that it, in fact, assists in the creation and maintenance of jobs here at home. Policy proposals for achieving this task include:

- *Shining a light on current export policy to determine with precision its employment impact on the domestic work force.* The federal government should adopt, develop, and implement employment impact statements that would be

⁸ See, Dine, Philip. 2002. “Sub-assembly deal with S. Korea may hinder future Boeing sales; ‘set-aside’ work was done here.” *St. Louis Post Dispatch*, May 22.

⁹ U.S. Department of Commerce 2005a, Section 4-3.

completed prior to consideration of matters concerning export controls. For example, companies seeking export licenses subject to current restrictions should be required to report if the export in question involves the transfer of production or technology to another country and whether this transfer will result in the direct loss of jobs here at home. The employment impact statement should also include an analysis of how many jobs will be created or maintained in another country by the arrangement and whether the transfer could foster growing global competition that could result in the loss of U.S. jobs in the future. The completed statement should then serve as a major consideration in reviewing the matter.

- *Strengthening offset reporting requirements so that agencies like the Bureau of Industry and Security apply meaningful employment impact analysis to all offset deals which come under its jurisdiction.* BIS should make every effort to determine how many jobs have been lost due to offsets and what employment impact offsets will have in the future. It should also review how foreign countries have used offsets with U.S. firms to contribute to employment in their countries. In addition, BIS should analyze the impact that offsets have had on the demise of several manufacturing industries, including shipbuilding, aerospace, and machine tool.
- *Undertaking efforts to eliminate offsets and offset like activities.* These efforts should be made a priority by the U.S. in a variety of international forums, including the WTO, trade negotiations, investment agreements, and strategic economic dialogues.
- *Forming a national commission to review export policy and its impact on U.S. employment.* Making certain that determinations concerning export controls include consideration of domestic employment is only one element of strengthening our economy. A comprehensive effort must be undertaken across the government to ensure that our export policy is being utilized to the fullest extent possible to assist in the creation and maintenance of jobs at home. Experts from industry and labor, joining with representatives from academia and government will be a vital component in this effort.

As the nation grapples with the current economic crisis, and what it means for our future, we must adopt new approaches to export controls that will have a meaningful impact on U.S. workers and their communities. Incorporating strong measures that will make certain our export policies assist in the creation and maintenance of good jobs here at home is crucial if we are to succeed in building a strong, vibrant economy and in preserving our nation's security.