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Chinese Govt. Shipping Company Representative Sits On Customs' Industry Advisory Committee

An economic and trade policymaking infrastructure in Washington, D.C., which is dominated by importers, retailers, foreign producers, foreign-owned shipping companies and the many legal and lobbying firms that represent them, is working against the interests of U.S. domestic manufacturing.

The U.S. Customs and Border Protection's (CBP) industry advisory committee that is in involved in major policies related to manufactured imports, has a roster of 20 members, none of whom represent U.S. industry or American manufacturing workers.

CBP's Advisory Committee on Commercial Operations (COAC) has been instrumental in shaping policies that have direct economic impact on domestic producers. The group has been given even more power since the 2006 passage of the Security and Accountability For Every (SAFE) Port Act.

COAC members exclusively represent the interests of importers and foreign shipping companies. One member of COAC, Christopher Koch, is president of the World Shipping Council. He is former chairman of the Federal Maritime Commission and former chief of staff to Sen. John McCain. The World Shipping Council says it represents 90 percent of the global liner vessel capacity in the world. Its board members include Sun Jia-Kang of COSCO, the China Ocean Shipping Co., which is owned and operated by the Chinese government. Other members of the World Shipping Council's board represented by Koch on the U.S. government CBP advisory committee include executives from foreign-owned shipping companies with headquarters in Hong Kong, Germany, France, Israel, Denmark, Singapore and Japan.

Another member of COAC, Earl Argon, is vice president of APL Global Transportation, which is described on its Web site as being "a wholly-owned subsidiary of Singapore-based Neptune Orient Lines." Other members include representatives from the country's largest importers and retailers: Wal-Mart, Hasbro, Hewlett-Packard, Limited Brands, Sears Roebuck, Boeing and Pfizer.

These domestic and foreign companies have early access to information and occupy a prominent seat at the U.S. government table for setting national policies. Every quarter, senior officials from Customs and the Department of Treasury provide COAC members in-depth briefings

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DOD Introduces Major Policy Aimed At Enemy Infiltration Of Defense Supply Chains

The Department of Defense has issued a sweeping revision of its policy to ensure the thousands of high-tech components in its weapons systems are not infected with bugs put in them by foreign adversaries. A newly issued "Critical Program Information (CPI) Protection" directive is intended to "minimize the chance that the Department's warfighting capability will be impaired due to the compromise of elements or components being integrated into DOD systems by foreign intelligence, foreign terrorists or other hostile elements through the supply chain or system design."

The DOD "instruction," issued on July 16, 2008 by James Clapper, Undersecretary of Defense for Intelligence, aims to address the growing unease in the national security community over the shift of the U.S. electronics industry offshore. It is directed at every DOD operation, from the military departments and services, to the Office of the Chairman of the Joint Chiefs of Staff, to the Combatant Commands, the Office of the

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Offshore Outsourcing Impacts Highest Value Services: R&D, Product Design & Innovation

Companies are starting to outsource some of the most valuable and proprietary aspects of their operations to overseas contractors, according to Booz & Co. and Duke University's Offshoring Research Network. The offshore outsourcing of back-office operations, call centers and transactional IT operations to China and India has been underway for years. But multinational companies are now quickly ramping up the offshore outsourcing of high-value added work associated with research and development, engineering, new product development and knowledge-intensive analytical services. Only a few years ago companies considered these functions "too proprietary or close to the core" to send offshore, says Duke University. Not any more.

The Duke researchers found that a primary reason for this change is the lack of scientists, engineers and inventors that "are in short supply even in Silicon Valley, the Research Triangle and innovation hub cities in Europe," according to a new study entitled "Offshoring the Brains as Well as the Brawn." The Duke University and Booz researchers claim that outsourcing of high-tech, high value-added corporate functions "is no longer a labor arbitrage strategy; it is a game changer, enabling the necessary transformation of multinational organizations into nimble, global competitors."

Companies have no choice but to pursue such a strategy because "the world economy's center of gravity [is migrating] to the emerging markets of China and India and to a lesser extent Russia, Brazil and South Africa."

Large companies have to do whatever they can to utilize the engineers and scientists in these countries because the "highly skilled talent pools in these regions...swamp those of the industrialized economies," claims the Duke University center, which is funded by firms such as American Express, Cisco, Amgen, PricewaterhouseCoopers, Procter & Gamble and Wachovia. "Fortunately, the enterprising service providers we surveyed for this study are springing up all over the planet to fulfill these companies' needs for innovation and knowledge work," says the study. "The magnitude of this cultural shift, not to mention the magnitude of the organizational transformation, cannot be overestimated; this new operating model upends most companies' fundamental sense of who they are and how they operate. Major multinationals must act like octopi stretching their tentacles in every direction to grasp the necessary skills and capabilities."

Companies are now experimenting with new forms of global organizational models to work with foreign contractors "as privileged collaborators in achieving a company's growth objectives — even if a given service provider sells to a competitor," according to the study. In the new global corporation, decision-making authority has to move out of headquarters and to where the best talent and information reside globally.

The first wave of outsourcing services is now maturing and is becoming commoditized, with recent price declines for such services as maintenance of IT applications, finance, accounting and call centers. This industry "has become as old as outsourcing janitorial services," says the Duke/Booz study. "Going forward, the only sustainable way to make money on these transactional services — from the service provider's perspective — will be to invest in end-to-end process reengineering capabilities to deliver significant improvements in efficiency." Companies utilizing these foreign services are requiring greater training and higher quality. They are integrating them into their own operations.

Companies providing these services are moving toward areas in which they can earn higher margins, making R&D, engineering, design and legal services the "hot" sectors of offshore outsourcing. "In fact, innovation services are now the second most prevalent set of services offered by providers (after) IT," says the study. They are growing at such a fast rate because companies are having a hard time finding engineers and scientists trained in programming, code development, prototype design, advanced materials and processes, testing, simulation, CAD drawing, drafting and modeling, among others. Even the consumer sensitive area "credit analysis" is in demand.

These technical skill sets "are not as easily or rapidly commoditized and they command a premium" for the overseas service providers, says the study. These services also "drive the highest savings to clients. In fact, so significant is the benefit to clients, our survey indicates that service providers actually underestimate the savings they generate for clients in these service areas."

The first wave of service providers have grown large, but the second wave focusing on advanced skill sets is primarily made up of small companies that have a network of expert contractors able to specialize in high-tech niches. Few of these firms do call-center type of work. They can recruit Ph.D. candidates in a matter of six weeks, as compared to 14 weeks needed by larger service providers.

"Large competitors will find it difficult to duplicate the advantage of small firms in this space, even if they acquire them," says the study. These overseas service providers will be competing directly with multinational companies for talent. Finding and managing this talent "is becoming the single biggest issue (and source of competitive differentiation) for clients and service providers alike," says the study, which concludes with these two sentences: "The prospect of achieving the globally distributed enterprise is daunting. It is also undeniable."

The Great American Exodus: U.S. Industry Gives Up On Federal R&D Enterprise

When it comes to science and technology, American industry has turned its back on the federal government.

Or maybe vice versa.

The "National Science and Technology Summit" was held in Oak Ridge, Tenn., on Aug. 18 - 19. The intention was to "examine the health and direction of the United States' science, technology, engineering and mathematics enterprises." The event was sponsored by the White House Office of Science and Technology Policy (OSTP), and was mandated by an act of Congress.

The vast majority of the 250 attendees at the "summit" were from federal agencies, national laboratories that rely on the federal government for funding, and universities and non-profit research groups that also depend on federal funding.

U.S. industry did not attend.

The summit's full title was, "Science, Technology and American Competitiveness: Progress and Direction Forward." If top U.S. government officials wanted to gauge the direction of the U.S. R&D enterprise, they need to look offshore, because that is where U.S. industry has gone.

Only 23 of the 250 conference attendees were classified as being from "industry," and six of those individuals were speakers at the event. Excluding them, the people from their companies who they brought with them, and attendees who work for foreign companies (Siemens and Michelin), the only leading American-owned corporations voluntarily sending attendees to the federal government's R&D "summit" were Cray Inc., United Technologies, Whirlpool and Burns and Roe.

That was it.

But two of the four "industry" representatives in attendance — Cray Inc., and Burns and Roe — do a majority of their business as federal government contractors.

So of the 250 attendees at the federal government's science and tech "summit" only two — 0.8 percent — were from large industrial companies in the private sector. There was no one from General Motors, Ford, Intel, Motorola, General Electric, Northrop Grumman, Cisco Systems, Google, Microsoft, Alcoa, Boeing, Kodak, Goodyear or any other American industrial or technological giant.

In going through the attendance list, about 100 of the 250 attendees worked for the federal government. At least 60 represented universities. There were more people attending the conference from the embassies of Japan (three) and China (three) than there were from any non-invited major American corporation. The French, Korean and British governments all sent representatives.

Two of the industry speakers said that the federal government's R&D enterprise has gone amiss — that it was fine for the last century, but it no longer works in an era of globalization. Like the American workforce, the federal government is stuck in the United States, but industry is not.

The federal government can fund all the R&D it wants, but if the United States innovation system discourages an invention from being produced into a commercial product, then American industry will not generate the taxes "that fund the federal investment in research," said Susan Butts, senior director of external science and technology programs at Dow Chemical Co.

There is a big difference between research and development and innovation, said Butts in a paper accompanying her presentation. The federal government is focused almost entirely on basic research that advances knowledge. But research is neither invention nor is it innovation. "Innovation is, quite simply, an invention that gets out into the world," Butts told the federal officials.

This distinction has been lost on U.S. policymakers and government program managers. A noisome and tedious ideological debate about the proper role of federal investment in R&D that avoids the creation of economic wealth has made the federal research enterprise irrelevant. As a result, the private sector, which funds 70 percent of the nation's R&D, is moving quickly to places that have no such reservations about supporting and rewarding invention and innovation.

For the last half of the 20th century, the United States had all the ingredients needed for success: the world's leading scientists and engineers; cutting-edge research; state-of-the-art research equipment; protection of intellectual property; public-private partnerships to turn research into invention; favorable tax, trade, employment and environmental policies; and access to savvy customers that demanded new products with innovative features, said Butts.

But while other countries emulated these practices, the United States innovation enterprise did not innovate. A cavalier U.S. Congress has not extended the R&D tax credit, which expired at the end of 2007. Does it matter? It does to industry, which can easily leave the United States to conduct research where there are tax benefits.

"As we look ahead to the 21st century, the United States will face growing challenges to retain its industrial base due to the rapid growth of foreign markets and the increasingly favorable business and innovation climate developing in other parts of the world," said Butts. In choosing the location of a new research facility, the two most important considerations are its proximity to highly qualified R&D personnel and to a growing market of demanding customers. Both conditions exist in China

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DOD Policy Will Protect Its Supply Chain...

(Continued from page one)

Inspector General and most other DOD entities. The policy also applies to most DOD contractors "performing work...that require[s] the contractor to protect Critical Program Information." The policy directive says there needs to be "an assessment of the supply chain related to critical program information to determine if an adversary has the capability and intent to affect it in a manner that compromises the military effectiveness of the given platform, weapon system or network."

Critical information includes "technology that would reduce the U.S. technological advantage if it came under foreign control," says the document. It "includes elements of components critical to a military system or network mission effectiveness," as well as information about "applications, capabilities, processes and end-items."

The document states that it will be DOD policy to "provide uncompromised and secure military systems to the warfighter by performing comprehensive protection of critical program information through the integrated and synchronized application of counterintelligence, intelligence, security, systems engineering and other defensive countermeasures to mitigate risk." If any operation within DOD or the national security community does not protect critical program information it may result "in the impairment of the warfighter's capability and DOD's technological superiority."

The policy "puts in place a formal requirement that major defense and information system acquisition programs identify areas vulnerable to compromise of information technology or components that could cause significant degradation to systems," according to a statement from the DOD Office of Industrial Policy. "It provides a framework for addressing concerns related to the semiconductor supply chain, the increased potential for tampering and the unfortunate occurrences of counterfeiting."

The policy will require all research, development and acquisition system programs that include critical information to develop "program protection plans" (PPPs) to assure that military weapons, communications and computing systems are not infected with foreign bugs. These PPPs will be "risk-based, comprehensive, living plans to protect critical program information that is associated with a research, development [or] acquisition program," says the policy directive. The protection plans will include foreign threats to critical information, vulnerabilities of critical information and potential countermeasures.

The Under Secretary of Defense for Intelligence will be in charge of a variety of new programs aimed at protecting critical information and to assess whether foreign intelligence operations are "targeting" U.S. military and security systems. A new database will be created "to track critical program information for horizontal protection, compromise and analysis purposes," says the policy document.

The directive tells the Under Secretary of Defense for Acquisition, Technology and Logistics to start monitoring potential foreign abuse of critical information in all of its R&D and procurement activities. A new program will be launched to train personnel "regarding the identification and protection of CPI," says the policy instruction. It will also require contractors to start producing their own program protection plans.

The Under Secretary of Defense for Policy will "establish policy and exercise oversight regarding the export and disclosure of CPI to foreign governments and international organizations in support of international research, development and acquisition," says the policy directive.

DOD's Chief Information Officer is directed to "identify minimum security requirements for contractor owned and operated information systems for the protection of critical program information." The Inspector General is told to develop new programs for oversight, inspection, evaluation and law enforcement activities to assure compliance with the policy. It will also "develop a uniform system of periodic inspections using existing DOD component inspection process, for research, development and acquisition organizations' compliance with applicable issuances concerning critical program information."

The heads of all DOD agencies are instructed to create policies, plans, programs and procedures to deal with all issues related to assuring the protection of critical information.

The plan is part of a broader strategy that is being developed in cooperation with industry "to mitigate system assurance risks," says the Office of Industrial Policy. The National Defense Industry Association (NDIA) is putting together its "Assurance Guidebook." DOD is also working with the Aerospace Industries Association's "Counterfeit Parts Integrated Project Team" to formulate "practices and standards to address these risks throughout the supply chain," says the Office of Industrial Policy, which is working on its own plan to assure "trusted" sources of supply for military systems.

"It is also expected that DOD program offices will identify as CPI other types of integrated circuits (and other components) that may be vulnerable to tampering or counterfeiting," says a statement from the Office of Industrial Policy, in response to an inquiry from *Manufacturing & Technology News*. Critical program information includes "program elements and components that if compromised could cause significant degradation in mission effectiveness, shorten the expected combat-effective life of the system, reduce technological overmatch, significantly alter program direction, or enable an adversary to counter, copy, or reverse engineer the technology or capability."

The directive (DODI 5200.39) is located at http://www.dtic.mil/whs/directive/corres/pdf/520039p.pdf.

Information about the NDIA System Assurance Guidebook is located at http://www.ndia.org/Template.cfm?Section=Systems_Engineering&Template=/ContentManagement/ContentDisplay.cfm&ContentID=24186.

Customs Committee... (From page one)

on proposed government policies that impact dozens of import-related security and commercial programs. At its May 9, 2008, meeting held in Washington, D.C., the group received a briefing from Brenda Smith, executive director of trade policy and programs at CBP, on the agency's proposed "Trade Strategy." As explained in the minutes: "The Trade Strategy had not yet been sent to Office of Management and Budget or Treasury for review..."

The COAC charter states that its members should be drawn from the trade and transportation community, including importers "and their agents" but that it should also include "other groups whose members are affected by Customs' commercial operations." This would presumably mean U.S. producer-related organizations or companies that are being impacted by cheap and many times illegally imported products into the United States. There are no such groups on the advisory committee. The charter also calls for members that represent "public interest organizations." There are no such members on COAC.

In response to questions submitted by *Manufacturing & Technology News* to Customs and Border Protection, the agency said that every two years a notice of recruitment runs in the Federal Register seeking COAC member applications from interested parties. The Department of Treasury then selects the board members from the applicants.

In selecting the current roster of industry representatives, "maritime security was a Departmental priority issue," according to CBP spokeswoman Lynn Hollinger in a written reply to the *MTN* inquiry. "Consequently, ensuring adequate representation from the liner shipping industry would be a factor in choosing a member such as Chris Koch of the World Shipping Council...for these particular items."

But the group has jurisdiction over more than 20 different customs and import functions, many involving the financial aspects of paying and collecting duties on imported goods. COAC provides CBP and the Treasury Department with input into country-of-origin markings, the sufficiency of bonds posted by importers to ensure payment of duties owed, and the issue of "deemed liquidation" for imported merchandise subjected to countervailing duties. COAC members are also involved in providing advice on ensuring the safety of imported food and toys, and determining the value of imports.

According to COAC's charter, the group is involved in supply chain security involving the safe movement of containers throughout American ports. In the SAFE Port Act, COAC was also given an oversight role in the "Reorganization of Customs Revenue Functions," as well as in the creation of the International Trade Data System. Many of these programs directly or indirectly impact the U.S. manufacturing community.

At its May 2008 meeting, COAC received briefings on import surveillance and import safety. According to the minutes from the meeting, CBP Commissioner Ralph Basham told the group: "We can't inspect our way out of this — partnership and better information are critical." The group learned about the "Importer Self Assessment" program, and the "Medical/Pharmaceutical Safety document."

Even some of the government officials overseeing the COAC in both Customs and Border Protection and the Department of Treasury seem to think the group is not representative of industry. For instance, a COAC subcommittee that is developing recommendations on intellectual property rights enforcement was told by Theresa Randazzo, CBP director of intellectual property rights policy and programs, that "the subcommittee needs broader participation to include more sectors of the industry." The property rights subcommittee presented 20 recommendations to the CBP on IPR enforcement issues. But Randazzo recommended "expanding the participation to non-COAC members to provide more diverse input." According to the minutes of the meeting, Tim Skud, deputy assistant secretary for tax, trade and tariff policy at the Department of Treasury, told the IPR subcommittee: "When we go outside to non-COAC members [it is] important to get those who would be affected by the rules to make sure the rules designed are balanced. We need to find some small- and medium-sized companies for participation."

Being on COAC gives importers, retailers, foreign producers and shipping companies early access to information that they can then use to shape public policy in their favor.

Members of COAC did this to great effect and to their own benefit by raising congressional opposition to the Customs and Border Protection's proposal to change the way duties are assessed on imports. In January, Customs proposed changing its so-called "first sale" rule to the "last sale." Such a change would have been beneficial to American producers competing against dirt-cheap imports because it would have raised the level of duties on imported products.

Currently, duties on imports are assessed on the value of the product as it leaves an overseas factory — the "first sale." Customs said that first-sale value is difficult to verify and was not in line with world practices. The "first sale" value does not include the costs of middlemen and logistics, so importers can declare that their products have lower value than they would if those costs were included in a "last sale" value determination. Lower-valued goods means less duties to pay. Customs wanted to close down a legal construct that allowed importers to reduce duty payments, and it knew the proposal would be controversial.

Members of COAC went nuts over the proposal.

Sandler & Travis, one of the most powerful customs legal advisory firms in the country representing foreign producers and importers in Washington, D.C., has an executive on COAC: Samuel Banks. He was formerly assistant commissioner of Customs. Sandler & Travis immediately organized the "Save First Sale Coalition." Sandler & Travis was the law firm that was originally responsible for litigating the creation of the first-sale rule in 1988. The rule has saved importers having to pay the federal

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Members Of The Bureau of Customs and Border Protection's Advisory Committee on Commercial Operations (COAC)

Earl Argon, Vice President, APL Global Transportation, Oakland, Calif. "APL is a wholly owned subsidiary of Singapore-based Neptune Orient Lines, a global transportation and logistics company engaged in shipping and related businesses," according to the APL Web site.

Samuel Banks, Executive Vice President, Sandler & Travis Trade, Washington, D.C. Banks spent more than 28 years at the U.S. Customs Service, having served for four years as deputy commissioner and one year as acting commissioner. After leaving the Customs Service, Banks worked as a consultant to Lockheed Martin and United Parcel Service. Sandler, Travis & Rosenberg describes itself on its Web site as "an international trade and customs law firm concentrating in assisting clients with the movement of goods, personnel and ideas across international borders."

Christopher Koch, President of the World Shipping Council, Washington, D.C. Koch is the former chairman of the Federal Maritime Commission from 1990 to 1993 and was former chief of staff to Sen. John McCain. The council's members "represent over 90 percent of the global liner vessel capacity and transport approximately 100 million [20-foot container equivalents] TEU annually," says the organization on its Web site. Among the members on the World Shipping Council's board are:

- Sun Jia-Kang of COSCO, the China Ocean Shipping Group Co.;
- Rodolphe Saade, of CMA-CGM, the world's third largest container shipping firm, based in the Marseilles, France;
- Adolpf Adrion, Hapag-Lloyd Container Line based in Hamburg, Germany;
- Philip Chow of the Orient Overseas Container Line based in Hong Kong;
- Thomas Crowley, Crowley Maritime Corp., a maritime shipping logistics service firm based in Jacksonville, Fla.;
- Doren Godder, Zim Integrated Shipping Services, based in Haifa, Israel;
- Klaus Meves, Hamburg Sud (Südamerikanische Dampfschifffahrts-Gesellschaft KG), part of the Oetker Group of Hamburg, Germany;
- J.W. Park of Hanjin Shipping, Korea's largest shipping carrier which owns 200 vessels;
- Knud Pontoppidan of Moller-Maersk, based in Copenhagen, Denmark;
- Ron Widdows, CEO of container carrier APL, which is part of the Neptune Orient Lines based in Singapore; and
- Masakaza Yakushiji, Mitsui O.S.K. Lines, Tokyo, Japan.

Curtis Spencer, President, IMS Worldwide, Webster, Texas; The company says it helps companies manage their customs taxes "creating additional profits." It consults companies about locating in foreign trade zones, as a means to import parts and assemble them into finished products thereby reducing duty rates. "The FTZ program allows a manufacturer to import parts or components (for example, at a 5 percent duty rate) assemble the parts into a finished product (which, if imported directly, would have a 1 percent duty rate), and claim on the Customs Entry the part's value multiplied by the finished goods duty rate (a savings of 4 percent on the value of the part)," according to an article entitled "Manufacturing vs. Distribution" written by Trey Boring of IMS Worldwide, posted on the company's Web site.

Peggy Rutledge, Vice President, Maritime Solutions for GreenLine Systems Inc., Arlington, Va. Rutledge's bio notes that she has worked at Hapag-Lloyd and Hamburg-Sug, and P.P. Moller/Maersk. The company says it "delivers software and services providing supply chain stakeholders the ability to identify, evaluate and respond to the operational and financial risks associated with the movement of goods across borders."

J. Michael Zachary, Tompkins Associates, Lakewood, Wash. The company "designs and integrates global end-to-end solutions for companies that embrace supply chain excellence," the company states on its Web site.

Adrienne Braumiller, Attorney/Partner, Braumiller Schulz & Co., Dallas, Texas. Braumiller Schulz describes itself as a law firm that deals with CBP and other government agencies. On the Braumiller Schulz Web site, Braumiller's bio states in the second paragraph that she was appointed by Secretary of Treasury Henry Paulson and Secretary of Homeland Security Michael Certoff to serve a two-year term on the COAC. "In this role, Ms. Braumiller will serve as one of several members representing the interests of importers and their agents."

Jevon Jamieson, Manager, Administration & Customs Compliance, ABF Freight Systems Inc., Fort Smith, Ark. ABF Freight Systems describes itself as "one of North America's largest and most experienced motor carriers." It specializes in less than truckload shipments of general commodities freight.

Anthony Barone, Director, Global Logistics Policy, Pfizer, Peapack, N.J.

Bruce Leeds, Senior Export/Import Advisor, Boeing Co., Long Beach, Calif.

Barry O'Brien, Director, Global Trade & Customs, Hasbro Inc., Providence, R.I.

Geoffrey Powell, Vice President of Operations, C.H. Powell Co., a United States-based customs broker.

Alison Reichstein, Projects & Systems Manager, Hewlett Packard Americas Customs Operations, Chester, Penn.

Bethann Rooney, Manager, Port Security, The Port Authority of New York and New Jersey, New York, N.Y.

Lisa Schimmelpfenning, Vice President, Direct Imports Administration & Logistics, Wal-Mart Stores, Bentonville, Ark.

Leigh Schmid, Vice President International Trade and Customs Compliance, Limited Brands, Columbus, Ohio;

Carol Sheldon, Vice President, Customs & Regulatory Compliance North America, DHL, Southfield, Mich.

Bradley Shorser, Manager, Customs Compliance, Sears, Roebuck and Company, Huffman Estates, Ill.

Customs Advisory Panel...*(From five)*

government perhaps hundreds of billions of dollars in duties.

According to the minutes of the COAC's meeting held on February 13, 2008, in Tucson, Ariz., COAC member Adrienne Braumiller, an attorney with Braumiller Schulz in Dallas, Texas, "asked CBP to withdraw the issuance" of the first-sale proposal and said that "COAC will send a letter/comment requesting withdrawal." She complained that COAC was not notified of the proposed change.

According to the minutes, Barry O'Brien, director of global trade and customs for Hasbro, said that if changes in the first-sale rule were approved "it would distort the price index for U.S. Census for the past five years."

Not long after that, 52 members of the House of Representatives, and 18 members of the Senate magically wrote letters to Customs and Border Protection demanding that it rescind the proposal. Shortly thereafter, in the first piece of legislation that had a chance of passing, a provision appeared in the Farm Bill scolding CBP for even considering the rule change and derailing any action until 2011.

What was so wrong with the proposal that it led to

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Summit Is A Bust...

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and India.

Wayne Johnson, director of worldwide strategic university customer relations at Hewlett-Packard, told the summit that the situation might be even worse than they realize. Research being sponsored by the United States government is now benefiting foreign corporations. "Global competitors benefit immensely from R&D performed in the U.S. as well as related business and design models developed within the United States," he wrote in a paper that accompanied his presentation. "This is further complicated by the fact that we in the U.S. find ourselves in competition not only with individuals, companies and private institutions, but also with governments and mixed government-private collaborations."

The United States faces challenges in every facet of its R&D and innovation system, said Butts. "The impending workforce gap in the U.S. is a disincentive to new R&D investment here," she noted. The federal government needs to increase funding for doctoral students in the physical sciences and engineering by increasing federal funding for research in these fields. It should change immigration laws to enable qualified U.S.-educated foreign scientists to remain in the U.S.

Companies don't want to fund research at American universities because universities "assert ownership and strong control" over inventions that result from the work, said Butts. Foreign universities "readily assign ownership and/or control of inventions to the corporate sponsors. The less favorable access to inventions is a disincentive to engage in research partnerships with U.S. universities and encourages research investment in countries with more industry-friendly policies and practices for sponsored research."

The federal government has changed its policies with regard to companies having access to state-of-the-art research equipment such as the Department of Energy's synchrotron light sources. Those changes "could diminish" the benefit of public funding of this equipment, said Butts.

Public-private research partnerships that involve high-risk, high-reward technology are on the wane in the United States. There are numerous areas of technology development that a single company cannot pursue on its own. "Many governments in developed economies provide direct research and development funding to companies or consortia awarded on a competitive basis," said Butts. But the United States has effectively killed its only modest program in government aimed at improving the competitiveness of U.S. industry, the Advanced Technology Program. It has done this just as Europe is ramping up its $50-billion Seventh Framework initiative.

The tax and business climate in the United States is no longer conducive to doing research. "The U.S. is one of the few nations concerned with R&D that does not have a permanent and significant R&D tax credit," Butts noted. "The uncertainty of the current tax credit, which has been allowed to expire nine times since first enacted by Congress in 1981 negates the incentive value of the credit. An uncertain benefit will not foster future investment." The U.S. R&D tax credit, which expired nine months ago, is also not very effective, providing a small benefit compared to what other countries offer. It is based not on total R&D expenditures but on an increase over the previous year's investment.

"Companies will take all of the factors in the innovation climate into account in deciding where to conduct R&D," Butts told the government attendees at the summit. "The balance used to favor research investments in the U.S. However, innovation barriers that have developed in the U.S. and advances in other parts of the world are tipping the balance toward investment offshore."

Johnson of Hewlett Packard used the event as yet another opportunity to implore the federal government to start going to bat for U.S. industry. Foreign companies are being provided assistance to gain competitive advantage over U.S. industry. They are adopting technical standards that lock out U.S. firms "and thwart market entry by non-national interests," Johnson said. "Many other non-trade barriers exist which stifle competition. Many times, private U.S.-based interests find themselves in direct competition with foreign governments themselves and they have little recourse when aggrieved. U.S. policy makers need to better understand the consequences of these activities and the ways such barriers stifle global innovation while at the same time eroding U.S. competitiveness."

Editor's note: The lack of participation of industry in the White House summit is a clear indication that the private sector has given up on trying to get the federal government to act. Industry organizations have issued countless major reports over the past five years describing the problems at hand along with recommendations on how to avoid an economic meltdown. The Defense Science Board, the Council on Competitiveness, the Alliance for Science and Technology Research in America, the United States Business and Industry Council, dozens of industry trade groups such as the American Electronics Association, and even President Bush's own Council of Advisors on Science and Technology have issued stern and alarming reports on the deteriorating competitiveness of U.S. industry and its economic implications. The National Academies issued its study "Rising Above The Gathering Storm" in 2005. Literally nothing has been done. The federal R&D enterprise is sitting alone in its own sandbox with its expensive toys, and the "gathering storm" arrived.

The federal government's August 2008 R&D "Summit" should serve as an embarrassing wake-up call. Two people showed up from industry. Why pursue R&D if American companies are no longer there to take advantage of it or, worse, if the R&D is benefiting foreign competitors whose governments are then helping those companies undermine U.S. industry?

Fritz Hollings On How To Make Government Work

(For American Manufacturers)

Retired Sen. Fritz Hollings (D-S.C.) speaks as if he is still a member of the Senate, talking in the present tense about his desire to see the institution regain its ability to govern. If anybody should know how dysfunctional the institution has become it is Hollings, having spent 38 years there starting in 1966 before leaving in 2004.

So he wrote a book. "Making Government Work."

Hollings is an amazing person. He is funny, thoughtful and charming — a man of fortitude and candor. He is among the rare breed of people who took a serious run for the presidency of the United States (in 1984) and, as a fiscal conservative with military toughness, he would likely have been an excellent head of state.

He is rare among senators. He fought hard for American manufacturing when few others cared. He single-handedly created and every year sought continued public support for the Manufacturing Extension Partnership (MEP) program, which now carries his name.

Hollings stood up for Americans on trade and repeatedly scolded newspapers for being bought off by their advertisers, virtually all of whom were retailers that benefit from cheap imports at the expense of U.S. manufacturers. Over the past 25 years, Hollings was the rare politician who raised the issue of the media's complicity in trade deals being signed by the federal government. He now marvels at how the "free press" is in a death spiral, given that it lost the eyeballs of its working-class readers by worshipping at the altar of free trade.

Congress has also eviscerated itself at the altar of money — campaign contributions, which makes it beholden to corporate interests. Hollings' book lays out what it will take to change this important dynamic of a dysfunctional system.

But alas, Hollings is neither acerbic nor ostentatious — as evidence by the title of his book. He spoke recently with *Manufacturing & Technology News* editor Richard McCormack.

Q: Throughout the 1990s, manufacturers were focused on Six Sigma, lean, best practices, total quality management. Now they are consumed by trade, and many of them are still wondering what happened.

Hollings: In the United States Senate under the Constitution you cannot introduce a trade bill. It's been interpreted by the Supreme Court that trade effects revenues — tariffs — so any kind of trade bill has to originate in the House. So I had to wait, and in 1968 they had a cranberry bill come over and I buddied up with [Sen.] Norris Cotton [R-N.H.] from the northeast and we married together the northern and southern textile industry — ATMI — and we passed a protectionist trade bill with 68 votes. But Lyndon Johnson was in the White House and he panicked and got [Chairman of the House Ways and Means Committee Rep.] Wilbur Mills [D-Ark.] to kill it.

So then I got another chance with our friend Jimmy Carter and I thought for sure I had me a sure shot. But he was more interested in the Council on Foreign Relations and prevailing in the Cold War. So he shouted "free trade" and vetoed our bill.

Our friend Ronald Reagan vetoed two of them. George Herbert Walker Bush vetoed another one. After a good 30 years I thought I'd hit pay dirt when I got Bill Clinton in. But it was 38 years because he instead went for NAFTA. We had the votes [to oppose NAFTA] on the Senate side. We had them on the House side but Clinton gave [Rep.] Jake Pickle [D-Texas] a cultural center; another congressman got two C-17s; golf matches with two California congressmen; and 23 votes got changed around.

NAFTA with Canada is all right because we have the same standard of living, but Mexico was a sell out.

Then we got PNTR [permanent normal trade relations] with China and corporate America was forced to outsource because if your competition goes to China you either go to China too or you go bankrupt.

Q: Why didn't people in the government negotiating the trade agreements listen to the concerns of U.S. businesses and workers that would be impacted?

Hollings: It is the politics of money. It's corporate America — the Wall Street crowd, the Business Roundtable, National Association of Manufacturers, Retail Federation and United States Chamber of Commerce.

Q: When do American politicians realize that without an industrial base, there is nothing left to stimulate with $150-billion in stimulus checks?

Hollings: It's now. They see it. Look how both Republicans and Democrats are frustrated with both the President and the Congress. The President's approval ratings are down to 23 percent, but the Congress is down to 11 percent.

Q: Congress and the President obviously don't care what the public thinks.

Hollings: The only way you're going to get them back to work on the needs of the country instead of on their own needs is to limit spending on campaigns. Now we did that in '71 and '74 under President Nixon, and he signed both [bills]. They took the '74 law to the Supreme Court in Buckley vs. Valeo [1976] and the Supreme Court amended Madison's Free Speech Amendment. They measured speech with money, namely the contributors — as speech is now measured at $2,300.

It's a foul ball. It was a five-to-four decision. [Former Sen.] Jon Corzine [D-N.J.] spent $50 million of his own money; [Sen.] Dianne Feinstein [D-Calif.] spent $38

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million of hers getting into the Senate.

We got frustrated and finally in the 80s we put in a resolution to just a one-line constitutional amendment that Congress is hereby empowered to limit or control spending in federal elections.

I had 12 votes on the Republican side at one time but we ran out. [Sen.] Phil Graham [R-Texas] ruined me. He said when the Democrats give up labor we Republicans will give up the money.

Now Obama and the Democrats think they can out-money the Republicans. Ha, ha. It will never happen. And it goes up, up and away. They've already spent $2.5 billion and they're going to spend another $2.5 billion. It's a disgrace.

When I got to Washington in 1966, [Sen. Mike] Mansfield [D-Mont.] held a vote at 9 a.m. on Monday morning — a must vote to make sure he had a quorum. We worked 'til 5:00 on Friday afternoons. Now they don't do any work on Mondays and Fridays. They're out on the West Coast with fundraisers. Tuesdays, Wednesdays and Thursdays they've got windows for fundraising at lunch time, evening. They try to get out late on Thursday to get back to the West Coast for fundraisers. We've married Lincoln's birthday with Washington's. Instead of having the Freshman Senator read [Washington's] Farewell Address at 12:00 o'clock on the 22nd, we take 10 days off for fundraisers. And on and on and on and on and on. That's all we're doing. It's amazing.

We cancelled policy meetings because you can't call for money from your own office. You go over to the party headquarters and the little gals are saying [on the phones], "We've got to take back the Senate. We've got to take back the Senate." And you sit there for two hours eating a sandwich and calling for money. And that's all you're doing.

Q: How does the average Joe get engaged and change the way this is working?

Hollings: Before the Iowa caucuses in early January the *New York Times* ran a full page for Republicans and a full page for Democrats on eight different issues. They didn't even include the economy. They didn't include jobs and they didn't include outsourcing. They had everything else.

They came down here for the primary in Columbus, S.C., where we'd had a net loss of 94,500 manufacturing jobs as of the end of last year. They never mentioned jobs or outsourcing. They went up to Michigan for the primary where they've lost 400,000 automobile jobs and have got a 7.5 percent unemployment rate, and the still never mentioned jobs or outsourcing. But when they finally got to Pennsylvania, Ohio and Indiana they started talking about NAFTA and how they're going to re-write NAFTA. It isn't about re-writing NAFTA, by God, it's about competing. With globalization it's about competing.

Ford Motor is going to build the Fiesta in Mexico because they can take their profits and don't have to pay taxes on them down in Mexico. [Sen. Byron] Dorgan [D-N.D.] and I had an amendment to change that tax benefit so that it applies to domestic manufacturers. We couldn't get it passed. I think you could get it passed now if you could get it up for a vote.

Q: Is there a lack of will in our Congress to address these issues?

Hollings: No. They know, they know. Everybody knows, but the media goes along with the money. In my book I outline those things that Republicans and Democrats would vote for. If you got a bill, they'd have to vote. They couldn't explain why they're financing outsourcing and why they're not financing insourcing — manufacture in the country.

Q: Why can't those bills get to a vote?

Hollings: Because the majority of them on both sides tell their leaders don't call them up because they don't want to have to vote on them because they gotta get the money. We gotta get the money. I thought frankly that we were tired of raising the money and the contributors were tired of giving it. The contributors are being harassed all the time and I know it because I got elected seven times.

By the seventh time if I dropped in at a cocktail party you could see them going out the back door saying, "Oh that bastard, he'll want another $1,000." Even good friends I was losing. It was too much, too long. But Obama is the one who surprised me when he got on that Internet and he raised $270 million and Hillary raised $200 million. It is amazing.

> *"We don't have a free press. They're scandal sheets with Rupert Murdock and all the rest of them trying to get up sales. But all the newspapers are going broke now."*

Q: That's the power of a lot of small contributions.

Hollings: Yeah, but you've got to limit it. You can send money in by mail or by Internet, but it should only come from in-state. You are sent to Washington to represent the people on their needs and the needs of the country — not to fundraise. We don't have time to see constituents. We see the lobbyists on K Street because they're the ones that head up the fundraisers and do the bundling for us.

Q: The Democrats are not very good on this. Despite their promises, they have yet to pass any type of trade legislation. Americans are going to realize that it's been a bait and switch.

Hollings: Both parties are guilty of this. With my book, I wasn't going to write a partisan thing, I held back my view of little George W. to be polite and to be realistic and try to get the book read. That's why I wrote it. I skipped over World War II and my three years in combat and 20 years of trial law. I wrote it because government worked and now it's not working. We have

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to make government work again.

Q: Do you think the word "protectionist" could ever be considered a good word?

Hollings: I'll never forget Ronald Reagan on his second inaugural. He was out there in the ice and snow and I was out there with him. He raised his hands "to preserve, protect and defend the Constitution of the United States." That is the oath of office for the President.

And then they started yelling, "protectionism, protectionism."

Well, we've got the Army to protect us from enemies; the FBI to protect us from enemies within; Medicare for health; Social Security to protect us from the ravages of old age; and the clean air and clean water laws. The fundamental role of government is to protect. You've got to protect your standard of living and your economy.

David Ricardo talked about a comparative advantage. We've got a comparative disadvantage because we've got a high standard of living. We have clean air, clean water. They could care less about that in China.

Q: This is posing a big dilemma for the United States. What does it take to get out of this economic mess?

Hollings: The free press is not free anymore. There was a long-time debate between John Dewey the educator and Walter Lippmann. Lippmann said get together the brains of the country in defense, economy and foreign policy and let them sit around a table and hammer out the needs and give it to the Congress and let the Congress pass it. Dewey said "No, just let the free press report truth to the American people and the needs will be reflected in their representatives in Congress." And that's why Jefferson said that between a free press and a free government, he would choose the former.

But we don't have a free press. They're scandal sheets with Rupert Murdock and all the rest of them trying to get up sales. But all the newspapers are going broke now. [The press] responds to their retailers, cause that's where they make their money — they give you the newspaper to read.

Q: Has anyone picked up where you left off?

Hollings: [Sen.] Sherrod Brown [D-Ohio] got elected and old Jim Webb [D-Va.] was talkin' sense, and Byron Dorgan is still trying. I know I got Harry Reid away from public financing because public financing says you can match the wealthy fellow's spending. If you go up to New Jersey and you got a Jon Corzine with $50 billion, and you've got four other candidates, is New Jersey going to put up $200-million for politics? That's not going to happen. So Harry Reid agrees that it's not going to be public financing.

I had a deal with John McCain. I said I'll vote for your McCain-Feingold if you'll vote for my constitutional amendment. He said it's a deal. We shook hands on it, but for the last three years they wouldn't even get up a joint resolution. The Republicans forced the Democrats to vote on flag burning but they checked with me and said Fritz will you hold up your amendment so we can get to flag burning and I said no, any joint resolution that's stalled I'm going to put that amendment and make us all vote, but they don't want to vote. The public knows what's going on. We'll break it somehow, you'll help. You're paper is helping a lot on manufacturing. It's getting the truth out to the American people. We still got a $700-billion deficit in balance of trade, so even with exports being up, imports are far upper. I'm telling you the people are uptight on this thing. It's definitely deeper than the housing crisis. They're out of jobs.

Q: Beyond campaign finance is there anything Congress should do to encourage insourcing?

Hollings: What's not outsourced is being bought by the cheap dollar. We have cheapened it by adding $4 trillion to our debt. By gosh we used to argue and fuss about a $1 billion, $2 billion, or a $3 billion deficit. Now Cheney says deficits don't matter. We won't even pay for the war.

I put in a bill to pay for the war and we didn't pass it. They've added $4 trillion and when you add $4 trillion, you've gotta pay 5 percent interest and that's $200 billion in waste. The free press is not saying a thing about it.

Pete Peterson, Concord Coalition — uh uh — they get lockjaw when the Republicans get in and a Republican is elected president. Not a word.

On January 25, 2001, Alan Greenspan said we were paying down too much debt and I said Mr. Director you shock me because I looked it up that day, the public debt to the penny was $65 billion, I said we are $65 billion in the red right this minute. He authorized the tax cuts.

Holtz Eakin, who's now the economist for John McCain, was chairman of the CBO and the CBO made a study of the first years of G.W. and found that 48 percent of the increasing deficit was due to tax cuts; 37 percent was the cost of the war and only 15 percent was due to increased in spending. But the public never gets it. Nobody ever tells them, it's not that we're increasing spending, it's that we've been cutting taxes to buy the people's votes to get re-elected. It's a scandal. All we're doing is getting ourselves re-elected.

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its being so derided? "Nothing, except for the fact that it will significantly increase the duties collected on finished goods," says one government official who keeps track of COAC. At the May 2008 meeting of the COAC, Braumiller "requested an update from Dan Baldwin on first sale, given that 18 senators and 52 congressmen were in agreement with COAC's position that the proposed interpretation be withdrawn," according to the meeting minutes.

The members of COAC might have been "in agreement," but there were submissions to CBP from the Alliance for Manufacturing Trade Action Coalition, which is made up of U.S. domestic manufacturers, and the AFL-CIO that supported the rule change. There is no mention of U.S. producers and workers supporting the CBP rule change in the COAC meeting minutes.