

**TRADE ADJUSTMENT ASSISTANCE FOR U.S. FIRMS:
EVALUATING PROGRAM EFFECTIVENESS AND
RECOMMENDATIONS**

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT
OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

NOVEMBER 14, 2012

Serial No. 112-190

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.fdsys.gov>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

77-041 PDF

WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
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TRADE ADJUSTMENT ASSISTANCE FOR U.S. FIRMS: EVALUATING PROGRAM EFFECTIVE- NESS AND RECOMMENDATIONS

Wednesday, November 14, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY, AND FINANCIAL MANAGEMENT,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:18 a.m., in Room 2247, Rayburn House Office Building, Hon. Todd Platts [chairman of the subcommittee] presiding.

Present: Representatives Platts, Lankford, Towns, Connolly, Norton, and Cummings (ex officio).

Staff Present: Alexia Ardolina, Assistant Clerk; Molly Boyl, Parliamentarian; Katelyn E. Christ, Professional Staff Member; Linda Good, Chief Clerk; Mark D. Marin, Director of Oversight; Tegan Millspaw, Professional Staff Member; Jaron Bourke, Minority Director of Administration; Beverly Britton Fraser, Minority Counsel; Jennifer Hoffman, Minority Press Secretary; Adam Koshkin, Minority Staff Assistant; and Elisa Lanier, Minority Deputy Clerk.

Mr. PLATTS. The committee will come to order. I want to welcome everybody here and first apologize for keeping everyone waiting with my delayed arrival, and especially for our witnesses on both panels. I appreciate your understanding with rescheduling this hearing from back in October when—it was the first time I had to cancel a hearing and you would not have wanted to be with me. I was unfortunately very under the weather and couldn't speak literally because of a throat issue, but we do appreciate your patience and returning here today to share your testimony.

Today's hearing will evaluate the Trade Adjustment Assistance for Firms program, or TAAF. TAAF is a program administered by the United States Department of Commerce and it has helped small and medium sized companies in the United States stay competitive with overseas markets for the past 50 years. TAAF operates out of the Commerce Department's Economic Development Administration and has been helping firms since it was first put in place in 1962.

The program is currently authorized through 2013 at an annual spending level of \$16 million. TAAF support is provided to eligible firms through a network of 11 EDA funded Trade Adjustment Assistance Centers, or TAACs, located throughout the country. The

director of the TAAC for the Mid-Atlantic region, Mr. Bill Bujalos, is here with us today.

Consultants at each TAAC work along side eligible trade impacted firms to develop business recovery plan or “adjustment proposals” that are tailored to increase productivity for their specific business model. Companies have 5 years to implement proposals once they are approved with EDA typically covering up to 50 percent of the implementation cost.

According to the American Business Council, 829 were firms assisted nationally through TAAF from 2006 through 2010. More recently in 2011, 149 American firms with average sales of \$20 million and approximately 100 employees each received a total—I’m sorry, received a total of \$12 million in financial assistance through TAAF. The vast majority of these small companies were in manufacturing in an industry that is still struggling nearly 4 years after the 2009 recession.

Today’s hearing will evaluate the extent to which TAAF has increased the productivity of participating firms. According to EDA’s most recent annual report, firms receiving funds in 2009 now report that average sales actually decreased by 1.6 percent, average employment decreased by 1.9 percent. This low productivity is thought to be temporary, however, as companies often need time to adjust to their new business strategies. Firm performance must also be considered alongside broader economic indicators like the nationwide unemployment rate which has remained considerably strained for the past several years.

Mr. Bryan Borlik, Director of TAAF at EDA, is here today and will be part of our second panel to explain the operation of TAAF along with some of these long-term performance considerations.

Another goal of this hearing is to determine how Congress can improve execution of TAAF. In 2010 the United States Government Accountability Office claimed the impact of Federal assistance to firms through TAAF was unclear. In September of this year the GAO released an updated report arguing that the program has been useful for participating firms. We will hear from GAO today as well about their recommendations of how to make TAAF even more effective going forward.

Today we will also hear from companies in our first panel of witnesses that have participated in the TAAF program. This subcommittee is honored to have these job creators from these firms with us who have received TAAF assistance to testify how they’ve been impacted. And we welcome Ms. Patricia Britton of Topflight Corporation in Glen Rock, my home district. We are delighted to have you here with us to share your knowledge and insights. We also have Tom Zieser of JACE Systems in Cherry Hill, New Jersey and Drew Greenblatt of Marlin Steel in Baltimore which is located in the full committee member’s—the full committee’s ranking member’s district, Mr. Cummings. We sincerely appreciate all the witnesses being with us today and thank them for their willingness to share their knowledge and insights regarding the TAAF program.

There is no doubt that trade is critical to the prosperity of our country. The United States is the world’s largest trading nation. In 2011 alone we exported goods and services totaling over \$2.1 tril-

lion. These exports supported nearly 10 million jobs. It can therefore be easy to overlook what a devastating impact increased overseas competition has had on the profitability of our small businesses. It is a well known fact that small businesses are key engines of new job creation and that small U.S. Companies are struggling in the face of international competition.

So today we want to focus on these firms, on the severe economic dislocation that businesses today often face when trying to meet their bottom lines on a daily basis.

We must ensure that in doing right by our Nation's trade impact and employers we also protect the financial interest of all American taxpayers. I look forward to hearing from our witnesses about how we can help continue the TAAF program and make it even stronger so that the firm should participate or not just survive but will prosper in an increasingly competitive and globalized world in which we live.

I'm now honored to recognize the distinguished ranking member and the former chair of the full committee, Mr. Towns from New York, for his opening statement and again, Ed, appreciate your patience with my late arrival.

Mr. TOWNS. Thank you very much, Mr. Chairman, and thank you for holding this hearing.

I'm pleased to join you today to talk about the Trade Adjustment Assistance Program for firms. It is important that we focus on and celebrate those initiatives that are aimed at preserving American small businesses and creating jobs.

The Economic Development Administration and the Department of Commerce has done a terrific job at improving the Trade Adjustment Assistance Program through the Recovery Act of 2009. As a result hundreds of United States companies have been able to turn around businesses, business loss, due to important competition and create or preserve much needed jobs. This is an important program and I hope that we can do something today to make sure that it continues and even that it's expanded.

In the last 10 years United States free trade agreements with countries like South Korea, Panama and Colombia have increased goods imported into this country by \$1.3 trillion. Naturally many small businesses struggle to compete with imported goods and some are plunged into economic distress. Others who cannot make the right adjustment simply go out of business. Many struggling businesses are built by people who have worked for years, sometimes decades maintaining those businesses. Some of those companies are the foundation of an entire community, either as the largest employer or the largest provider of important services. Others support the livelihood of countless families and businesses with their presence.

I am pleased to welcome the representatives of a few of those companies here today. You have unique and impressive stories of change and development. Thank you all for taking the time to share your journey with us on the impact of trade assistance.

Too many here in Congress take the position that the government should not take any part in whether private businesses succeed or fail. But I think that view is too short-sighted. Global trade rules may confer benefits, but they can also have consequences that

may be severe for certain workers and certain businesses. I do not believe there's a single trade impacted company just sitting around waiting for a government handout for its survival. Rather, there are hard working companies needing a helping hand and tools to make them better positioned in the globalized economy. Sometimes that is all a small business needs to remain competitive. The Trade Adjustment Assistance Program does just that.

I look forward to hearing the testimony from you. And just before I get going I want to make certain that I have the correct pronunciation of your name. Is that Mr. Zieser or Mr. Zieser.

Mr. ZIESER. Mr. Zieser, sir.

Mr. TOWNS. Okay, fine. Thank you very much. I'm helping the members of the committee. Thank you, I yield back.

Mr. PLATTS. I thank the gentleman and yield to the gentleman from Virginia, Mr. Connolly, for an opening statement.

Mr. CONNOLLY. Thank you, Mr. Chairman. And I want to thank you. I think this is I think your penultimate hearing as chairman of this subcommittee, one more, yeah. And I just want to thank you for your friendship and your leadership. You have approached issues with judicious analysis, you have avoided strident headlines, you have avoided bitter partisanship, and I think you are a model that many could learn from and as a member on this side I just want to tell you how much I've appreciated your friendship and your collegiality.

Mr. PLATTS. Gerry, I appreciate the kind words, and members of my local media that are shadowing me here today are going to think I paid you.

Mr. CONNOLLY. If it helps him back home, he's the most strident Republican I have ever met.

Mr. TOWNS. Would the gentleman yield?

Mr. CONNOLLY. I certainly would yield.

Mr. TOWNS. I would like to associate myself with the remarks of the gentleman of Virginia.

Mr. PLATTS. Appreciate it. Gerry, Ed and I have traded seats here where I was chairman and he was ranking member and then he was chairman and I was ranking member and now we're back.

Mr. CONNOLLY. I hope to do that with James.

Mr. PLATTS. I think one of the hallmarks of our subcommittee, not just for that but from our members, is that approach that you just referenced. It is about policy, about issues, not partisanship. So I certainly thank you for your kind words.

Mr. CONNOLLY. This subject is also a terribly important one. I come from a district that very much is supportive of free trade. And if you look at what's happened both to our export performance and the value of trade, it clearly overall has been beneficial to the United States and we need to put more pressure on export driven parts of our economy, because compared to so many other economies it is actually a small percentage of our GDP. And the 14 trade agreements we've had in the last number of years I think on balance clearly have benefited the United States as well as our trading partners. However, it does, the fact of the matter is trade liberalization leaves some behind. That's why this subject is so important in terms of the adjustment programs we've got and how are we doing. And it's important both from an economic point of view

in trying to help communities under distress, but also frankly from a political point of view in terms of trying to broaden the stakeholders in free trade. If we fail to do that, if we fail to adequately address the fair part of free trade, we're going to lose a fragile coalition in this country of support for broadening and further liberalizing trade regimes.

So I look forward to the testimony. I think GAO has done a great job. And again Mr. Chairman, I thank you for having a hearing on this committee that doesn't begin with a conclusion.

Mr. PLATTS. I thank the gentleman. We will keep the record open for 7 days if anybody wants to submit additional statements or extraneous materials for the record.

I am delighted to welcome our first panel: Ms. Patty Britton, as I said, Vice President of Topflight Corporation in Glen Rock, Pennsylvania; Mr. Tom Zieser, President and CEO of JACE Systems in Cherry Hill, New Jersey; and Mr. Drew Greenblatt, President of Marlin Steel in Baltimore, Maryland.

Pursuant to committee rules, if I could ask all three of you to stand and raise your right-hand and we will have you sworn in.

Do you solemnly swear that the testimony you are about to give this committee will be the truth, the whole truth, and nothing but the truth?

[Witnesses sworn.]

Mr. PLATTS. Thank you. You may be seated and let the record reflect that all three witnesses affirmed the oath.

We will set the clock at 5 minutes. Ms. Britton, we will start with you, but if you need to go over that, it is kind of a guideline but we want to make sure we get a chance to have your testimony. We do appreciate the written testimonies. I got through my final one that was revised yesterday last night late but that gives us an opportunity to be better prepared for today's hearing. So we appreciate you submitting them in advance.

Ms. Britton.

WITNESS STATEMENTS

STATEMENT OF PATRICIA M. BRITTON

Ms. BRITTON. Good morning, Mr. Chairman and members of the committee. Thank you for having me here today.

Since 2003 I have worked at Topflight Corporation in Glen Rock, Pennsylvania in a variety of roles, most recently as Vice President. Topflight is a printer and convertor for the medical electronics, consumer and cosmetics industry with customers primarily in the U.S., as well as a few in Europe and Asia. We are a privately held, family-run organization initially formed in 1943 to manufacture airplane parts for World War II.

In the forties, Topflight made hundreds of thousands of small parts, such as rivets, bolts, nuts and connectors. In fact, employees at the time found that handwriting the identification tags for so many parts was in some cases more time consuming than actually producing the parts. So with good old-fashioned American ingenuity Topflight invented one of the first desktop label printers in their machine shop and began to label these parts with what looked like printed Scotch tape.

Once the war ended Topflight embarked on a business reinvention, the first of many business reinventions over the years. Mr. Huber, Topflight's owner, convinced Black & Decker, our very first customer, who is still a customer today, to replace the metal name plates which were bolted on to their hand tools with a pressure sensitive adhesive label. This was a revolutionary concept at the time, and as a side note, Mr. Huber's contemporary with Stan Avery, who you will recognize the name of Avery Dennison. Mr. Huber went on to create many patents, including the first tamper-evident label, which was more than 20 years before the Tylenol scare, and an entire business and industry was born during those years out of innovation and manufacturing.

Since that time Topflight has undergone changes, many changes in customers, product lines and capabilities, as I'm sure almost all businesses do that survive for that long period of time. However, in recent years the pace of technological change and intense competitive pressure have resulted in a business climate unlike any I have seen in the past. For example, instead of pricing escalators being written into our contracts as they were many years ago, we are now negotiating contracts where customers expect year over year price decreases, the most recent one when a major customer asked for a 7 percent price decrease. In order to continue doing business with them it is a requirement. This means that as our costs rise and our prices decrease, our margins erode unless we find ways to become more efficient.

Reverse auctions on top of that have allowed overseas competitors with a much lower cost basis to drive down pricing to unsustainable levels in some of our markets. Often these companies are not held to the same quality or regulatory standards as U.S. companies, so again their costs are lower. And in addition their overhead in general is less.

I believe that Topflight and many other manufacturers have risen to the challenges of continuous improvement and have found ways to become more lean in response to these issues. However, that strategy can only go so far in sustaining and growing a business. By the end of 2009 Topflight was feeling the effects of the economic slowdown and unprecedented pricing pressures. In fact, our revenue had decreased within 2 years by almost 30 percent. And most of this was from competition from offshore manufacturing locations. Many of our consumer products customers were moving their lines overseas.

The erosion of the business had begun and in face of the new reality Topflight needed to do something different. In 2009 Topflight worked with Mantec, a manufacturing consulting company based in York, Pennsylvania, on a program called Eureka, which was intended to create a process and environment of innovation. In the course of those meetings representatives from Mantec mentioned that Topflight may qualify for assistance from MATAAC based on the amount of business we were losing to the overseas competitors. The timing couldn't have been better.

I contacted the MATAAC group and began the required paperwork. We were assigned a consultant, Todd Shevlin, who was able to provide guidance and insight into where we might benefit from the program. In the course of his management interviews, it be-

came clear that many of the problems facing our business came back to lack of critical data and technology integration. For example, we didn't know the true cost of producing products. We didn't know which product lines and customers were the most profitable. In many cases the time it took to process an order was longer than what was required to make the order, very similar to our innovation problems back in the 1940s.

Many manufacturing and paperwork processes were manual, which wasted time and introduced errors, and our estimating software was not integrated with our costing system so we couldn't tell if we made the product as specified. Basic information needed to analyze the business was missing, making strategic planning almost impossible and largely based on educated guesses.

So Topflight, with MATAAC's input, decided to use the funds in 2011 to implement an ERP system that integrated all functional areas of our company from estimating to cash collections, including the entry of shop floor manufacturing data. We chose Radius, a printing and packaging system tailored to our industry, and launched the software in February of this year. Going through the management interview process and obtaining the grant was a key factor in deciding to go forward with this investment.

Although it's too early to analyze the full effects of this implementation, I can say that since 2009 all of Topflight's key indicators and metrics are moving in the positive direction. Most notably, we are on track to replace revenues lost to offshore locations and have been able to increase our revenue per employee by 20 percent. On the qualitative side managers are now having in-depth conversation about costs, profits and margins now that were not possible with our old system. Inventory accuracy increased, which has reduced our carrying costs and raw materials, one of the major expenses.

Based on Topflight's experience with MATAAC, I am a very strong believer in this program. In order to compete in today's ultra competitive global environment manufacturers need to be willing to do things differently, to innovate, to train and to respond to constant change. MATAAC and its team helped us do just that.

Thank you for your time and attention.

Mr. PLATTS. Thank you, Ms. Britton.

[Prepared statement of Ms. Britton follows:]

TESTIMONY OF
PATRICIA M. BRITTON
VICE PRESIDENT, TOPFLIGHT CORP.
BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT
SEPTEMBER 19, 2012

Good morning Mr. Chairman and members of the committee. Since 2003, I have worked at Topflight Corp. in Glen Rock, PA in a variety of roles, most recently as Vice President. Topflight is a printer and converter for the medical, electronics, cosmetics and consumer goods industries with customers primarily in the U.S., as well as a few in Europe and Asia. We are a privately held, family-run organization, initially formed in 1943 to manufacture airplane parts for World War II.

In the 40's, Topflight made hundreds of thousands of small parts, such as rivets, nuts, bolts and connectors. In fact, employees at the time found that hand writing the identification tags for so many parts was in some cases more time consuming than producing them. So with old-fashioned American ingenuity, Topflight invented one of the first desktop label printers in their machine shop and began to "label" those parts with what looked like printed scotch tape.

Once the war ended, Topflight embarked on a business reinvention, the first of many over the years. Mr. Huber, Topflight's owner, convinced Black & Decker to replace the metal name-plates that identified their power tools with adhesive backed labels. This was a revolutionary concept at the time. Mr. Huber went on to create many patents including the first tamper-evident label (more than 20 years before the Tylenol scare made them commonplace). A business and an entire industry were born.

Since that time, Topflight has undergone changes in customers, product lines, and capabilities as I'm sure almost all businesses do that survive for so long. However in recent years, the pace of technological change and intense competitive pressure has resulted in a business climate unlike any I've experienced. For example, instead of pricing escalators being written in our contracts with customers, we are now negotiating contracts where customers expect year-over-year price *decreases* in order to continue doing business with them. This means that as our costs rise, our prices decrease and our margins erode unless we find ways to become more efficient.

Reverse auctions have allowed overseas companies with a much lower cost basis to drive down pricing to unsustainable levels. Often these companies aren't held to the same quality or regulatory requirements as US companies. So in addition to their lower labor rates, their overhead in general is less.

I believe that Topflight and many other manufacturers have risen to the challenges of continuous improvement, and have found ways to become more lean. However, that strategy can only go so far in sustaining and growing a business. By the end of 2009, Topflight was feeling the effects of the economic slowdown and unprecedented pricing pressures, mainly due to competition from offshore manufacturing locations. Many of our customers had sourced manufacturing to China and Mexico and the erosion of our business was steady. In the face of this new reality, Topflight needed to do something different.

In 2009 Topflight worked with Mantec, a manufacturing consulting company based in York, PA on a program called Eureka intended to create a process and environment of innovation. In the course of those meetings, representatives from Mantec mentioned that Topflight may qualify for assistance from Mataac based on the amount of business we were losing to overseas competitors. The timing couldn't have been better.

I contacted the Mataac group and began the required paperwork. We were assigned a consultant, Todd Shevlin, who was able to provide guidance and insight into where we might benefit from the program. In the course of his management interviews, it became clear that many of the problems facing our business came back to a lack of critical data and technology integration. For example, we didn't know the true costs of producing our products. We didn't know which product lines and customers were the most profitable. In many cases, the time it took to *process* an order was longer than what was required to *make* the order. Many manufacturing and paperwork processes were manual, which wasted time and introduced errors into our system. Our estimating software wasn't integrated with our costing system so we couldn't tell if we made a product as specified. Basic information needed to analyze the business was missing, making strategic planning almost impossible and largely based on educated guesses.

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Based on Topflight's experience with Mataac, I'm a strong believer in this program. In order to compete in today's ultra-competitive global market, manufacturers need to be willing to do things differently, to innovate, train and respond to constant change. Mataac and its team helped us to do just that.

Thank you for your time and attention.

Mr. PLATTS. Mr. Zieser.

STATEMENT OF THOMAS G. ZIESER

Mr. ZIESER. I thank you, Mr. Chairman, for the opportunity to testify before the committee regarding the effectiveness of Trade Adjustment Assistance for Firms. Since 1999 I have been President and CEO of JACE Systems.

JACE Systems is a medical device manufacturer and medical services provider in Cherry Hill, New Jersey, approximately 8 miles east of Philadelphia. Our products are used by patients recovering from orthopedic surgery to their joints. The company manufactures devices that exercises the patient's affected joint in a passive manner immediately following their surgery. This is commonly referred to as continuous passive motion therapy, and the devices used in CPM therapy are identified as CPM machines. Most common application is after surgery of the knee, usually total knee replacement, or sports injuries like anterior cruciate ligament, or ACL, repair. Other applications for our product include the hand, wrist and toe. Surgery to the hand and wrist are usually a result of trauma and injuries in the workplace. These products are particularly helpful for complex injuries that involve bone, soft tissue and nerve damage. The devices are used to prevent the formation of scar tissue, adhesions, reduce swelling and edema and reduce the need for pain medication.

The company also manufactures a neuro muscular electro stimulation device, MNES, JACE TriStem, that is used to reduce pain and swelling and also retrain damaged muscles, soft tissue and nerves. When the knee ECPM is at the end of range of motion the CPM pauses and the TriStim stimulates the muscles through a small electrical current via attached skin electrodes. The net result is the flexion and extension of the joint, combining with electro therapy hasten the rehabilitation of the joint. Patients return to work and resume daily activities as a result of our therapy.

The company has been in business since 1990. Our products are used throughout the United States and also exported to Europe and Japan. The company is an FDA licensed medical device manufacturer with ISO 9001 and ISO 13485 certifications. The company is also recognized by Japan as a foreign medical device manufacturer. The K 100-A knee CPM is also recognized by the European Union to display the CE Mark on our product.

My business experience includes an undergraduate Bachelor of Science degree from Northland College in Ashland, Wisconsin and a Masters of Business Administration from Seton Hall. My entire career has been in health care. I have held positions at Nations Healthcare, Haemonetics, Baxter international, Fresenius USA and so on. Positions held range from sales rep, product manager, sales director, sales of business development manager, vice president and general manager.

JACE Systems competes in the highly regulated medical device industry. Over the last several years the demands and complexity of foreign regulations have had significant impact on our manufacturing operations and opportunity. Our flagship product, the K 100-A knee CPM, was introduced in 1994. It is electrically powered and controlled by a sophisticated hand controller that is micro proc-

essor controlled through a soft push button panel and viewed on a liquid crystal display. There is also an interface on the controller for the TriStem that is often used to retrain and exercise muscles affected by the surgery.

Prior to the formation of the European Union most countries accepted the U.S. FDA 510K product registration as proof of acceptance and under the underwriters UL seal for electrical safety. The Medical Device Directive Council of the EEC of 14 June 1993 concerning medical devices, is intended to harmonize the laws relating to medical devices within the European Union. The M.D. Directive is a new approach and consequently for a manufacturer to legally place a medical device in the European market the requirements of the medical directive had to be met. Manufacturers products meeting harmonized standards have a presumption of conformity to the directive. Products conforming with the directive must have a CE Mark applied. The directive was most recently reviewed and amended in 2007 and a number of changes were made.

Compliance with the revised directive became mandatory in March 2010. These included products currently distributed in the EU. Consequently there was no grandfathering for our products. JACE Systems had to be retested to the new standard. We were essentially excluded from selling new products in the European Union and our dwindling sales efforts were only for the replacement parts for the existing fleet of machines.

Consequently, without the CE Mark our sales declined, beginning in 2004 and 2005, and caused decreased profitability. JACE Systems was forced to reduce overhead and lay off employees. I was discussing our predicament with the U.S. Commercial Team and they recommended I contact MATAAC to discuss our situation. I applied for a grant and submitted the necessary documentation, and in February 2008 we were approved for a matching grant of \$73,000. That is for every dollar JACE invests in a MATAAC approved project MATAAC will match it dollar for dollar.

In April our grant was approved and project work began. The electrical safety testing was done at BEC Laboratories in Pottstown, PA at a cost of 15,000 and 6,000 respectively. The ISO registrations and quality management systems were completed by Enterprise Strategy Group at a cost of 24,000. After the tests were completed additional engineering and design had to be done. Nelson Design Services in Willow Grove reviewed our circuit board for compliance to the new standard at 17,000. And none of these projects would have been done in the short timeframe without the MATAAC matching grant assistance program.

Since acquiring a CE Mark in ISO registrations we have seen our sales to Germany increase to 177,000 in 2011 from a low of 76,000 in 2007. In addition, we have hired one new employee in 2010. But the real impact of the assistance, however, is not just seen at JACE Systems and the test laboratories and design services we contracted with. We are an assembly operation. We purchase parts and assembly for many companies in our area and throughout the USA. The grant assistance helped JACE design new tools and first articles that reduced cost, improved design and made us more efficient. For example, C&K Plastic, Metuchen, New Jersey, redesigned our tools that vacuum formed the plastic pieces

for the K 100-A knee CPM at a cost of \$9,970. The new design reduces waste and evens out our parts inventory imbalances. Kaiser Medical designed a new anatomical hinge movement for \$10,000 that reduced cost and increased flexion and range of motion from 120 degrees to 130 degrees. Pittsville Plastics, Pittsfield, Massachusetts, created first articles for \$30,000 for injection molded parts that reduced our unit cost and increased assembly efficiency. JACE Systems is the export engine for the many companies that do not export at all. JACE Systems is the tip the of spear in all of our export efforts.

The MATAAC grant has not only helped the companies listed previously, it also had a trickle down effect that aids in the sales growth and development of many other small companies in the past year. Cardinal Precision, Orelan, PA received no grant assistance but they fabricated the metal parts that are the product of the MATAAC funded Kaiser Medical anatomical hinge that netted Cardinal sales of \$27,000. Youngtron Electronics, Hatfield, PA, designed the circuit boards and the electronic layouts that make us compliant to the CE requirements. That netted the sales of \$9,000 to them.

Should I stop?

Mr. PLATTS. Go ahead and finish.

Mr. ZIESER. Okay.

In addition to helping small companies grow JACE made significant purchases from large companies like Merkle Korff in Chicago, \$23,000; Thomson Linear, Radford, VA for 30,000.

Gaining the CE Mark has also helped JACE develop businesses in Turkey. Turkey signed a Customs Union agreement with the European Union in 1995. The CE Mark enables us to sell our products in Turkey and enabled JACE to establish a beachhead in that part of the world and distribute our products to the Middle East region, a rapidly growing market for Made in America medical products. We have shipped 1 knee CPM to Turkey and it is being evaluated in a large hospital group, and I expect positive results after the trial period. We also received inquiries from the UAE, Saudi Arabia, Kuwait, Egypt and other countries in that area, and because of the language and cultural differences and time it is difficult for a small company to establish business relationships in that part of world. I sincerely believe that our partner in Turkey will help JACE establish business in the Middle East.

So the data and information gathered from the K 100 was extremely helpful in establishing our presence in Mexico. Mexico does not require a CE Mark, they do require medical device manufacturers registration and approval by the Mexico Health Authority to market and sell in Mexico. We identified a distributor while participating in the U.S. Commercial Trade Winds event in Mexico City. The distributor, Kuxtal DME, assisted us in getting our knee CPM approved and registered with the Mexico Health Authority. Much of the technical information and test data we completed for the CE Mark was also required by the Mexico Health Authority. Having this data available greatly accelerate our product registration. Consequently, Kuxtal was successful in selling five knee CPMs in a public tender to the Mexico Defense Department in June of this year, and there are other tenders coming in the next few months

and I feel it will be equally successful to penetrate Mexico and establish a beachhead for Central and South America.

In conclusion, I want to thank the committee members for allowing me to share my JACE Systems journey. I encourage you to support the TAAF and other programs like Trade Winds the Americas offered by the U.S. Commercial Service. They are a valuable resource for small companies like JACE to compete in the world and provide jobs for JACE employees and the many suppliers throughout the USA, and thanks again for your time and attention.

Mr. PLATTS. Thank you, Mr. Zieser.

Mr. ZIESER. That was over 5 minutes.

Mr. PLATTS. We are glad to have your knowledge and to hear your story, and one of the aspects of your story, and I know in Mr. Greenblatt's testimony, is not just dealing with the competition from abroad but is actually helping you to export products from America abroad and that's an important part of what this program is all about.

[Prepared statement of Mr. Zieser follows:]

TESTIMONY OF
THOMAS G. ZIESER
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF JACE SYSTEMS
BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND
FINANCIAL MANAGEMENT
SEPTEMBER 19, 2012

Thank you Mr. Chairman for this opportunity to testify before the committee regarding the effectiveness of Trade Adjustment Assistance for Firms (TAAF). Since 1999 I have been the President and Chief Executive Officer of JACE Systems. JACE Systems is medical device manufacturer and medical services provider located in Cherry Hill, New Jersey approximately 8 miles East of Center City Philadelphia. Our products are used by patients recovering from orthopedic surgery to their joints. The company manufactures devices that exercise the patients affected joint in a passive manner immediately following their surgery. This is commonly referred to as Continuous Passive Motion (CPM) therapy and the devices used in CPM therapy are identified as CPM machines. The most common application is after surgery of the knee, usually total knee replacement (TKR) or sports injuries like Anterior Cruciate Ligament (ACL) repair. Other applications for our products include the hand, wrist and toe. Surgery to the hand and wrist are usually the result of trauma and injuries in the work place. These products are particularly helpful for complex injuries that involve bone, soft tissue and nerve damage. The devices are used to prevent the formation of scar tissue and adhesions, reduce swelling and edema and reduce the need for pain medications.

The company also manufactures a neuro muscular electro stimulation device (NMES), JACE TriStim, that is used to reduce pain and swelling and also retrain damaged muscles, soft tissue and nerves. When the knee CPM is at the end range of motion (ROM) the CPM pauses and the TriStim stimulates the muscles thru a small electrical current via attached skin electrodes. The net result is the flexion and extension of the joint, combining with electro therapy hasten the rehabilitation of the affected joint. Patients return to work and resume daily activities as result of our CPM therapy.

The company has been in business since 1990. Our products are used throughout the United States and are also exported to Europe and Japan. The company is an FDA licensed medical device manufacturer with ISO 9001 and ISO 13485 certifications. The company is also recognized by Japan as a foreign medical device manufacturer. The K 100-A knee CPM is also recognized by the European Union (EU) to display the CE Mark on our product.

My business experiences includes an undergraduate Bachelor of Science Degree from Northland College in Biology and Masters Degree of Business Administration from Seton Hall University. My entire career has been in health care. I have held positions with companies that include Baxter International, Haemonetics, Nations Health Care and Fresenius USA. Positions held range from Professional Sales Representative, Product Manager, International Sales Director, International Business Development Manager, Vice President and General Manager.

JACE Systems competes in the highly regulated medical device industry. Over the last several years the demands and complexity of foreign regulations have had significant impact on our manufacturing operations and opportunity. Our flagship product, the K 100-A knee CPM machine was introduced in 1994. It is electrically powered and controlled by a sophisticated hand controller that is micro processor controlled thru a soft push button panel and viewed on a Liquid Crystal Display (LCD). There is also an interface on the controller for the TriStim that is often used to retrain and exercise muscles affected by the patient's surgery or trauma. Prior to the formation of the EU, most countries accepted the US FDA 510K product registration as proof of acceptance and the Under Writers Laboratory (U/L) seal for electrical safety. The Medical Device Directive (MDD) Council Directive 93/42/EEC of 14 June 1993 concerning medical devices, is intended to harmonize the laws relating to medical devices within the European Union. The MD Directive is a 'New Approach' Directive and consequently in order for a manufacturer to legally place a medical device on the European market the requirements of the MD Directive have to be met. Manufacturers' products meeting 'harmonised standards' have a presumption of conformity to the Directive. Products conforming with the MD Directive must have a CE mark applied. The Directive was most recently reviewed and amended by the 2007/47/EC and a number of changes were made. Compliance with the revised directive became mandatory on March 21, 2010.¹ The MDD included products currently distributed in the EU, consequently, there was no "grandfathering" for our products. JACE Systems medical devices had to be re-tested to the new "harmonized" standard and certified with the CE Mark. We were essentially excluded from selling new product in the EU. Our dwindling sales efforts were only for replacement parts for the existing fleet of machines in the EU. Our EU sales were managed by an independent sister company in Germany, JACE Systems GmbH.

Consequently without the CE Mark, our sales declined in 2004 and 2005 and caused decreased profitability. JACE Systems was forced to reduce overhead and lay off employees. I was discussing our predicament with the US Commercial Service Trenton, NJ office and they recommended I contact the Mid Atlantic Trade Act Assistance Center (MATAAC) to discuss our situation. I applied for a grant and submitted the necessary documentation and paperwork. In February 2008, JACE Systems was approved for a matching grant of \$73,000.00 That is, for every dollar JACE invests in a MATAAC approved project, MATAAC will match it dollar for dollar.

In April 2008, our grant was funded and the Project work began to bring our flagship product, the K 100-A to CE Mark status. The electrical safety testing and electronics emissions testing (EMC) was completed at BEC Laboratories in Pottstown, PA at a cost of \$15,370 and \$6,750 respectively. The ISO Registrations and Quality Management

Systems (QMS) requirements were completed by the Enterprise Strategy Group at a cost of \$24,000. After the tests were completed, additional engineering and design requirements had to be achieved. Nelson Design Services in Willow Grove, PA reviewed our circuit board layout for compliance to the new standard at a cost of \$17,060.00. None of these projects could have been done in the short time frame without the MATAAC matching grant assistance program.

Since acquiring CE Mark and ISO Registrations we have seen our sales to Germany increase to \$ 177,318.00 in 2011 from a low \$ 76,000 in 2007. In addition we have hired 1 new employee in 2010. The real impact of the assistance however, is not just seen at JACE Systems and the test laboratories and design services companies we contracted with to get us CE Ready. JACE Systems is an assembly operation. We purchase parts and assemblies from many companies in our area and thru out the USA. MATAAC grant assistance helped JACE design new tools and first articles that reduced cost, improved design and made us more efficient. For example, C&K Plastics, Metuchen, NJ redesigned our tools that vacuum formed the plastic pieces for the K 100-A knee CPM at a cost \$9,970. The new design reduces waste and evens out our parts inventory imbalances. Kaiser Medical Inc, Southampton, NJ designed a new anatomical hinge movement for the K-100-A for \$10,000 that reduced cost and increased flexion end Range Of Motion (ROM) from 120° to 130°. Pittsfield Plastics Engineering, Pittsfield, MA created first articles at a price of \$30,000 for injection molded plastic parts that reduced our unit cost and increased assembly efficiency. JACE Systems is the export engine for the many companies that do not export at all. JACE Systems is the tip of the spear in all of our export efforts.

The MATAAC Grant assistance has not only helped the companies listed previously. The MATAAC Grant assistance also has trickle down effect that aids in the sales growth and development of many other small companies in the past year. To name a few, Cardinal Precision Co., Oreland, PA received no grant assistance but they fabricated the metal parts that are the product of the MATAAC funded Kaiser Medical anatomical hinge project that netted Cardinal sales of \$27,258. Another example is Youngtron, Hatfield PA. Youngtron had no direct MATAAC Grant assistance but they are now supplying the redesigned circuit boards and electronic layouts that make us compliant to the CE Requirement that netted sales of \$9,287. Maven Medical Manufacturing, St. Petersburg, FL supplies the synthetic lamb wool soft good that supports the patient's limb while it is in the CPM machine netted sales of \$77,648. In addition to helping small companies grow, JACE made significant purchases from large companies as well. Merkle Korff Corporation, Elk Grove Village, IL sold JACE \$23,999 worth of electric motors and Thomson Linear Motion, Radford, VA sold JACE \$30,672 worth of precision ball screws in 2011.

Gaining the CE Mark has also helped JACE develop business in Turkey. Turkey signed a Customs Union agreement with the EU in 1995. The CE Mark enables us to sell to Turkey and more importantly, enables JACE to establish a beach head in that part of the world and distribute our products to the Middle East region, a rapidly growing market for Made in America Medical products. We have shipped 1 knee CPM to Turkey and it is being evaluated at a large private hospital group. I expect positive results after the trial

period is over in October 2012. JACE Systems also receives inquiries from the UAE, Saudi Arabia, Kuwait, Egypt and other countries in that area of the world. Because of language, cultural differences and time difference, it is difficult for a small company to establish business relationships in that part of the world. I sincerely believe that our partner in Turkey will help establish JACE systems in the Middle East.

The data and information gathered from the K 100-A testing was extremely helpful in establishing our presence in Mexico. Mexico does not require a CE Mark. They do however, require medical device manufacturer's registration and approval by the Mexico Health Authority to market and sell your product to hospitals and compete in public tenders. We identified a distributor in Mexico while participating in US Commercial Service Trade Winds the Americas business development mission. The distributor selected, Kuxtal DME, Mexico City, MX assisted us in getting our knee CPM approved and registered with the Mexico Health Authority. Much of the technical information and test data we completed for the CE Mark was also required by the Mexico Health Authority. Having this data readily available greatly accelerated having our product Registered with the Mexico Health Authority. Consequently, Kuxtal DME was successful in selling 5 knee CPM's in a Public Tender to Mexico Defense Department in June 2012. There are other tenders coming in the next few months and I feel he will be equally successful in our efforts to penetrate the Mexico market and also establish a beach head for Central and South America.

In conclusion, I want to thank the Committee members for allowing me to share my JACE Systems journey. I encourage you to support the TAAF and other programs, like Trade Winds the Americas offered by the US Commercial Service. They are a valuable resource for small companies like JACE to compete in the world and provide jobs for JACE employees and the many suppliers throughout USA. Thanks again for your time and attention today.

1. Wikipedia Medical Device Directive

Mr. PLATTS. So Mr. Greenblatt.

STATEMENT OF DREW GREENBLATT

Mr. GREENBLATT. Thank, Mr. Platts. Good morning to the members of House Committee on Oversight and Government Reform.

My name is Drew Greenblatt. I'm the owner of Marlin Steel. We make wire baskets, sheet metal fabrications all in Baltimore City. We export to 36 countries, we import nothing. The Trade Adjustment Assistance for Firms program, TAAF, is one of the many tools that we have used to help us create a dramatic turnaround for our company. We were established in 1968. Right now we're rocking and rolling, we're growing. We won the INC 5000 honor roll. We are the 162nd fastest growing company manufacturer in America out of 223,000 companies, and we hire only people from the city of Baltimore. We have had many distinguished visitors in our factory, including Secretary Geithner, Senator Mikulski, Senator Cardin, amongst many other representatives from the State of Maryland. We have embraced many new ideas to grow, but TAAF is one of the ones that has really helped ignite us.

MATAAC is the organization that works with us so very closely. The value of assistance in helping us grow can be best understood to understand where we came from. I sold a security system company that was small, I used that as down payment to buy Marlin. We made bagel baskets. I felt like a genius when we bought it because there was a bagel basket boom in the nineties and we were going to grow to the Moon we thought. We were quickly in a bad way, it was a perfect storm.

The first thing that happened was the Atkins diet. I don't know if you remember the Atkins diet in the late nineties. Last place you want to be if you own a bagel basket manufacturer. All of a sudden everybody stopped eating bagels because of the carbs. Also China started dumping bagel baskets into America. They started selling bagel baskets for cheaper than I could buy steel. So I couldn't pay my employees. I couldn't have them weld, I couldn't pay rent or I couldn't have a marketing campaign, couldn't do health insurance to compete with China.

So we were in a devastating position. We were about to close. We were losing a lot of money, we were hemorrhaging cash. We had to transform. Right around that time we had a fortuitous phone call from an engineer at Boeing who needed a custom made basket. We designed it, engineered it, and sent it to them. They were delighted and this was the epiphany that saved my company.

We morphed from commodity bagel baskets, which was a disastrous business model, to precision engineered sheet metal fabrications and wire baskets and it that has taken us and grown us and that's why we are doing so well.

We have invested over \$3 million worth of robots. We don't fear the competition anymore, we actually love shipping overseas. That's 25 percent of our business and 25 percent of our employees' compensation. When I first bought the company the average employee was making 6 bucks an hour and their health insurance plan was you walk to the emergency room. Now they have Blue Cross/Blue Shield and we've come a long way.

The beauty of TAAF is that it makes manufacturers have skin in the game. We pay 50 percent, TAAF pays the other 50 percent. So we're really focused on making sure our money is spent well, but it is like giving our money steroids so it is amplified and accelerated, the benefits are pushed forward faster. So it helped us graduate out of bagel baskets much quicker into this precision manufacturing.

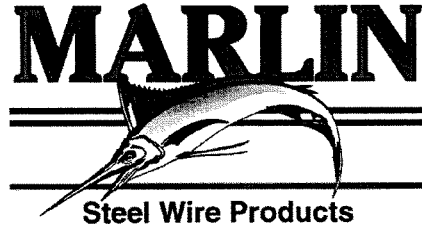
TAAF has done things like help us get ISO, like Mr. Zieser, and it has also helped us with other products like business software. For example, we bought an American made laser, we buy steel from Pennsylvania and we export this part to Japan, a Japanese automotive factory, okay, 100 percent USA made, made in Baltimore City. The training for my engineers was done through a TAAF program. It is very expensive. I had to fly them to Connecticut, they had to spend over a week there. We sent six people to learn how to run our laser to its fullest extent. And that's why Japanese automakers are buying from a Baltimore company using American made lasers and American made steel so that we could ship to Japan.

See, American manufacturers have a significant challenge. We're competing with Vietnam where they pay a buck an hour. We are competing with China where they pay \$2.50 an hour. We are paying our guys \$20, \$25 bucks an hour. And for us to meet that kind of competitive head winds we have to be much more productive. We have to work smarter, not harder. You have heard that line. So it is imperative that we arm our employees with the best training and the best skills and the best technology so that we can beat them. That's imperative, and that's going to grow jobs in this bad recession.

It's critical that we coddle American manufacturing in our country. \$75,000 is the average compensation of an American manufacturing employee. You can send a kid to college, you can buy a home, you can take vacation with that kind of livelihood.

So in conclusion, please support TAAF. It is critical for us growing and being able to compete with foreign competition.

[Prepared statement of Mr. Greenblatt follows:]



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Drew Greenblatt, President

Testimony for
Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency and Financial Management
Wednesday, September 19, 2012

Good morning to members of the House Committee on Oversight and Government Reform Subcommittee on Government Organization, Efficiency and Financial Management, to Chairman Platts, to my colleagues who have utilized the Trade Adjustment Assistance for Firms and other distinguished guests. My name is Drew Greenblatt and I am president of Marlin Steel in Baltimore, Maryland. We manufacture precision-engineered wire basket, wire forms, machined components and sheet metal fabrications.

The Trade Adjustment Assistance for Firms (TAAF) program is one of many tools that we've employed to accomplish a dramatic turnaround in our business. Marlin, which was established in 1968, has grown revenue and profit the past six years in a row in spite of the difficult economy. Inc. magazine recently named us to its list of the fastest-growing U.S. companies, a feat particularly rare for a manufacturer. Of the nearly 7 million private companies in America, we ranked among the top 5,000 for growth, and 162nd among manufacturing companies. As a growing employer located in a city, we were also named among the "Inner City 100" this summer by the Initiative for a Competitive Inner City. The organization was founded by a Harvard Business School professor to recognize economic vitality in urban areas. Our operation has been cited as a model for innovation by state and national business organizations. As such, we have hosted tours for very distinguished visitors during the past year or so, including **U.S. Treasury Secretary Timothy Geithner, U.S. Trade Representative Ron Kirk, U.S. Senator Barbara Mikulski and several members of the U.S. House of Representatives from Maryland.** We have embraced many new ideas and opportunities such as TAAF to accomplish our transformation. We were introduced to TAAF through the MidAtlantic Trade Adjustment Assistance Center (MATAAC), which is chartered by the Economic Development Administration of the U.S. Department of Commerce to manage Trade Adjustment Technical Assistance. The value of that assistance in helping us grow can be best understood by recalling where we've come from.

After selling a small home-security systems supplier in the mid-1990s, I used the proceeds to buy a small factory that made baskets to hold bagels for bakeries and food stores. We felt like geniuses when suddenly bagel chains began opening up around the country and the simple bagel became a trendy food. It was a good time to be in bagels and a good time to be the nation's biggest maker of bagel baskets. But before we had much time to congratulate ourselves on our foresight and intuition, a double whammy hit. First, the Atkins diet swept the nation. Now if there is a time *not* to buy a business tied to bagels, it would be prior to a low-

carb diet craze. Second, Chinese companies began dumping steel into the U.S. cheaper than Marlin could buy it. It had never occurred to me that the Chinese might get into the bagel basket business, but the challenge that presented was immense: Even if our employees forfeited their paychecks, we dropped all insurance and halted all marketing, we still could not have matched the Chinese on the price they were selling bagel baskets. We were hemorrhaging cash. We were on the verge of shutting the plant, distributing pink slips and forfeiting all of our investment and sweat equity.

About that time, a representative from an aerospace concern contacted us to inquire whether we could build a basket to hold a delicate airplane part as it went through the manufacturing process. We knew nothing about making baskets for anything but bagels, but when the caller said price wasn't a concern for him if we could deliver what he wanted, a light bulb went off. Very quickly, we had to sharpen our focus on precision and engineering. Bagel baskets did not require great meticulousness. The bagel wasn't going to fall out if the basket weave was off a little. That first specialty basket was a challenge. We had no testing procedures, no process for quality assessment, no blueprints, no real training. Our most sophisticated measuring tool was a tape measure. Our direction was clear: transform or die.

Today, we have invested more than \$3 million in robots that have supercharged our precision and our production. We made a good chunk of that investment during the recession, so confident were we in finding a niche to exploit. Our clients include major companies in health care, aerospace, defense, automotive and telecommunications. We no longer fear foreign competition. In fact, we're taking business from it. We ship Marlin baskets to 36 countries, including China. We are competing aggressively with foreign manufacturers whose countries subsidize raw materials and currencies. We were named one of Maryland's top businesses for international trade by the World Trade Center Institute and last year accompanied a Maryland trade mission to Asia. Our story has been featured by the likes of CNN, New York Times, The Economist, *The Atlantic* magazine, Fox Business News and the *Washington Post* because at a time when Americans are concerned that the country has lost its edge in the global market of manufacturing, we've discovered a "secret sauce" to thrive. Marlin employees who once made \$6 an hour and couldn't afford a car now receive performance-based bonuses that exceed the paychecks of peer employees at our competitors. Having a competitive, viable, thriving company is the best protector of jobs.

How did the Trade Adjustment Assistance for Firms program help make us more nimble and competitive? We have been able to leverage TAAF to double our investments in technology and training. On roughly a dozen occasions since September 2010, we have matched our own spending totaling more than \$75,000 – our "skin in the game" -- with the same amount from TAAF. Those investments have helped us gain ISO 9000 certification, purchase state of the art software and retrain employees in new welding techniques and laser-cutting equipment. We realized that even after we had graduated from bagel baskets to more specialized and profitable wire products, we couldn't relax and stand pat. Your competition is not static. Markets change. Improvement is a continuous process. We had built a solid business in wire products and I think that we could continue to grow in that area. But our clients indicated they would appreciate us more if we were able to supply them with sheet-metal products or with the sheet-metal components for our wire baskets that they had to get from other suppliers.

The TAAF match enabled us to move twice as fast as we could have otherwise to meet the demands of the market. We needed advances in robotic equipment, in software upgrades and in computer-aided design capability to make that transformation. We recently had the first month in which we sold more products in sheet metal than in wire baskets and wire forms. That hadn't happened for this company in 45 years. That ability to pivot quickly protects and creates jobs. Our employees could care less if their paychecks are coming from the fruits of sheet metal or wire. The TAAF program also helped us become more competitive by

helping us pay for a top-to-bottom review to achieve ISO 9001: 2008 certification. Many clients want to know if a prospective supplier has the ISO seal to ensure the quality of production. For engineering in our field, ISO certification is rare. That valued assessment improves our ability to compete for business in the global market.

We could make such investments without a program such as TAAF, but more slowly and in the face of overseas competitors who play by different rules and who benefit from subsidized raw materials and gamed currency. These other emerging manufacturing nations want to eat our lunch. Our labor costs are higher. We are not going to win by paying workers \$7.50 an hour while Vietnam is paying a buck an hour. Our material costs are higher. China subsidizes its raw materials. The Chinese offer manufacturers 10 years of interest-free financing. That's what we're up against. Our environmental controls are more costly. When we chrome-plate something, the effluent we're putting out of our vendors plant has to have less nickel and chrome than the tap water coming in. Now I'm not suggesting I want the Chinese system. On my trade-mission trip to China last year, the smog in Shanghai has stunning. The Yangtze River is about as wide as the Inner Harbor in Baltimore, several hundred meters, but you couldn't see across it. I wouldn't want their system. I like the Chesapeake Bay that flows a few miles from my plant. I want my family and other families to be able to eat crabs from it.

In a typical Chinese factory, the value added per employee – revenue divided by number of employees -- averages about \$14,000 a year. In America, it's \$150,000 or more. The American worker is only going to be able to continue living with a higher wage, more benefits and greater job security if you help make them more productive. You do that with a heavy emphasis on automation – computers, software, robotics – so they can produce a quality parts faster. Get the American worker to \$175,000 value-added, then \$200,000, then \$250,000 by improving productivity and you can achieve a better quality of life. Many people think if we're paying factory workers \$25 an hour, their argument is how do we get it to \$23? That's wrong. I want to get my guys to \$27 an hour, and if I can get from \$173,000 now to \$200,000 in value-add, it's easier for me to do that. Yelling at my employees more is not the trick to more productivity. I need to give them the tools to push out more stuff more quickly and at higher quality.

TAAF helped us advance our use of technology to grow our market and our workforce. A decade and a half ago, Marlin employees made six dollars an hour while making 300 bends an hour by hand. It was all shoulder, all muscle. Accidents were common, sometimes debilitating. Now, with investment in robots, we're able to make 20,000 wire bends in an hour while going more than 1,360 days without a safety incident. Our cost per bend has dropped from 2 cents to 0.0015 cents per bend, which helps counter the advantage of cheap labor and lax standards for overseas competitors. Now we export wire forms to China – Made in the USA. How cool is that?

The story of Marlin Steel shatters the notions too many have come to presume about the American worker and American competitiveness. Our transformation has relevance for employers looking for better ways to motivate and manage their workplace and for policymakers focused on how to strengthen job creation and trade policy.

The average manufacturing employee makes about \$75,000 a year. You can buy a house, send a kid to college, take a vacation on that level of income. When I bought Marlin nearly 15 years ago, I was the only employee with a car. Now my employees complain to me that they need to jockey to get a parking space near the factory. There are no Lamborghinis out there, but everyone owns a car. It makes me very proud. As a nation, we are still the number one manufacturer – bigger than China. If manufacturing were its own economy, it would have the eighth largest GDP in the world. But we can do better. We will do better. American ingenuity, resilience and drive just need to be reawakened. I believe that factories can provide great jobs and superb

benefits – a way to grow the nation's middle-class with solid meaningful jobs. The TAAF program is helping us achieve that goal.

Mr. PLATTS. I want to thank each of you for your testimony and certainly wish each of your companies continued success in going forward. As Mr. Greenblatt, I think you had it in your testimony, which I think captures now we export wire forms to China made in the USA. How cool is that? That's a perfect summation of what we want to help do, is to promote American products, American workers and competing throughout the world.

Let me ask if each of you could give me one thing we want to look at is how the program is benefiting companies and each of you shared that, but also the operation of the program, and so if you could share from the time you first learned of the program, one, were you on a waiting list, did you have to wait at all before you were able to start participating? And if you were or were not, what would be the general time frame when from when you first learned of it, submitted materials for certification and then were actually able to access grant or technical assistance to start putting it to use in your companies? Go left to right.

Ms. BRITTON. The entire process from us, actually we were more of the holdup on our end just trying to gather the documents but start to finish it was about 7 months.

Mr. PLATTS. And so really not a waiting list issue for you.

Ms. BRITTON. No waiting list at all, no, very efficient.

Mr. PLATTS. Mr. Zieser.

Mr. ZIESER. Yeah, I would say about 6 months from the initial meetings to—the hardest part was for us to get the necessary documentation and the financial data that MATAAC required.

Mr. PLATTS. And the 6 months, was that until were you certified as eligible or until when you actually had an approved—

Mr. ZIESER. It was a 6-month process to get the approval.

Mr. PLATTS. Of your certification.

Mr. ZIESER. Yes.

Mr. PLATTS. And then from there going forward actually accessing grant funds.

Mr. ZIESER. Yeah. We had to gather the 8 most recent quarters of financial history and sales and personnel records, that kind of thing, head count, and we submitted it to, you know, to Bill and they analyzed it and they'd come back with a few more questions. So it was a process. It was good for us to understand our business better by just going through that effort. And the analysis that they provided was very helpful too. Upon approval they gave us a written report about weaknesses within our company that we needed, we should address, that kind of thing.

Mr. PLATTS. And that kind of gets into the second question I had, it wasn't just financial assistance but the managerial expertise.

Mr. ZIESER. Yes. Yes, of course the whole spectrum of the organization. It was business, manufacturing, but financial, also more strategic 5-year type of plan, that type of thing. As opposed to just here is your money and do it, it was very good assistance.

Mr. PLATTS. Mr. Greenblatt.

Mr. GREENBLATT. There was no waiting list for us, it was an extended process for us. I think a lot of small companies to survive the recession have had to streamline their organization. And unfortunately that means we are running extremely lean and thin and we don't have a lot of talent to spend the time to do the paperwork.

I don't think it is MATAAC's fault. I think they have a tremendous number of regulations they have to adhere to do their job. I would recommend, this is constructive criticism, to streamline the paperwork. It is a lot of paperwork and I think that probably inhibits the growth of this program because the people you most want to embrace this have a tremendous challenge organizing all that paperwork and getting it over. And again, MATAAC was doing their job adhering to the law; however, if you want to grow this program, my suggestion to you is massively reduce the paperwork necessary because it is very cumbersome and it is challenging for us to accomplish that when we are so lean and we are obviously fighting these Chinese imports.

Mr. PLATTS. Yeah, you are for the most part small companies to begin with, maybe medium, so you are smaller staffed and so you're struggling to keep the doors open from a prioritization of manpower.

Once you went through the certification process and then were then receiving some technical assistance or grant assistance, can you share how MATAAC, and I think all three of you were part of MATAAC for the mid-Atlantic, how they stayed with you through that process, because I think, Mr. Zieser, you just said they didn't just say here is money, good luck. But can you share how they kind of partnered with you as you moved forward with your implementation plan?

Mr. ZIESER. Well, all projects have to be approved. You're right, why do you think this project would help with your business. There was some conversation around why I need to get this tool made to improve the efficiency of the thermofarm plastics. They were very understanding, and they agreed with the logic behind it when you saw the inventory imbalances in the stockroom. And we did have discussions with John Mercer, was our contact and he has since retired from MATAAC, but he was very helpful along the way.

Mr. PLATTS. But stayed with you kind of moving through that implementation stage?

Mr. ZIESER. Uh-huh, yes.

Ms. BRITTON. Our experience was very helpful as well through both the analysis and the implementation. Our consultant helped us really formulate some of the arguments that we needed to go to the owner of our business about making a technology purchase. Our owner is 92 years old, went through the Depression, is very technology averse. So we had to spend quite a lot of time really truly understanding the depths of how this would change our business and improve it and allow us to change going forward. So I would say the most value that they brought through that implementation was helping us hone that argument with the owner.

Mr. PLATTS. Okay. I yield to the ranking member for the purposes of questions.

Mr. TOWNS. Thank you very much, Mr. Chairman. You know, listening to the comments, and evidently the program was extremely helpful, let me ask this question. Do you believe the companies would be in its current position of growth and profitability if it did not participate in TAAF? Do you believe the company would have been?

Just right down the line.

Ms. BRITTON. I do not, because I can say that this help was the deciding factor in us going with this technology. And in savings alone from previous technology we are probably looking at about \$120,000 worth of savings, that's hard savings. In addition we've been able to save on raw material inventory. We think that is going to come out to almost \$200,000 a year. In addition, we now know about our profit lines, profitable products. We are on track this year to improve our EBITA by about 12 percent. I don't think any of those things would have been possible without this grant, it just wouldn't have happened.

Mr. TOWNS. Mr. Zieser.

Mr. ZIESER. Our particular problem is being in the medical device industry, it is highly regulated, and the regulations, especially in Europe and throughout the world, are moving targets. There used to be, like I said in my presentation about the FDA to be the bellwether for the world, but the Europeans have cleverly outwitted us and really putting burdensome regulations and testing that needs to be repeated and repeated and repeated. And without this MATAAC money I certainly couldn't afford the design for circuit boards and sophisticated things like that. We just don't have that talent pool within our business. We are an assembly operation, we put parts together. We utilize the software programs for the machines, which the body doesn't change; a leg moves the way it moved centuries ago. It is really a no-brainer, why they put all these burdensome and heavily expensive regulations in front of us. It just—we are going through it now again in Japan with this IEC 60601-1, which is a new standard for electrical safety. They had to put our machine into a humidity chamber, 90 percent humidity for I don't know 8 hours to see if it would short out. You know, you don't take these machines into a sauna. So why they make this regulation so intense it is just ridiculous.

Mr. TOWNS. Mr. Greenblatt. Thank you very much.

Mr. GREENBLATT. I think it is an accelerant, it cranks you up, you get to the results faster rather than being pokey. We're in a recession now so everybody needs to get super charged. We have to get fired out of this recession fast.

Mr. TOWNS. Do you have a message for the Members of Congress that are responsible for the TAAF budget in the future; do you have a message?

Ms. BRITTON. Anything you can do to accelerate innovation and help manufacturing is absolutely imperative. Manufacturing has been moving away from this country and it provides jobs and that flow needs to stop and reverse.

Mr. TOWNS. Thank you.

Mr. ZIESER. I say again we're at the tip of the spear, many of the people and vendors and suppliers that we do business with would never export anything, but we're the assembly operation that collects their output, puts it in a package and moves it across the border. And for those reasons small companies like myself are really dependent upon this type of grant assistance to push us over the mark and keep us competitive.

Thank you.

Mr. GREENBLATT. This helps American manufacturers that have been hit by trade improve their game so they can be profitable and

retain their employees and hire new ones and prosper in the future.

Mr. TOWNS. Thank you very much. On that note, Mr. Chairman, I yield back.

Mr. PLATTS. Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman, and I was particularly struck, Mr. Zieser, by what you said a lot of other manufacturers would never export anything. And I happen to believe that may be part of the problem with the U.S. economy. We're rather insular, we have a huge domestic market, we don't have to. Or at least historically we didn't have to. But frankly as you look at the global economy we have got to reposition ourselves to be competitive. And I very much appreciate all three of your stories in terms of how this program—and I want to pick up on what you just said Mr. Greenblatt. It isn't just help us survive, it actually is reposition us to be competitive against Chinese, to pick one country. I was particularly struck, I love your story, I mean, bagel baskets, and now we're doing precision, custom fit, laser guided products for very sophisticated clientele and we're out of the bagel businesses, and we have ceded it to the Chinese, I guess, but you have been able to create a new niche, with this help, I wonder if you could tell us a little more about that story. If the Chinese are paying \$2.50 an hour for a worker and you're paying \$25. I mean on its face it sounds like you're doomed, you can't possibly compete with that, and yet you are. I wonder if you could just expand a little bit on that transition and how you've in a sense gone global too with what you're doing.

Mr. GREENBLATT. We're using three techniques to beat China, quality, engineering, quick. We are not going to be the cheapest guy in town, but we're going to give the best quality parts in the world. So for example our laser, it cuts plus or minus 4/1000ths of an inch. Okay, our punch, our sheet metal punch is punching plus or minus 4/1000ths of an inch. China can't touch that. We have a press break in the back that when it bends 132 tons of force, it's like 66 cars, it's doing it plus or minus 10 microns.

So we're offering the best quality. We're also offering engineering. 20 percent of my employees are degreed mechanical engineers. So we are coming up with innovations that blow away our competition. So we are figuring out ways to hold parts in baskets so that, for example, Toyota, a big client of mine, is able to run their factory more efficiently. So they are getting 33 percent improvement in their product lines and their projects, okay, they don't have to hire 33 percent more people or they don't have to build 33 more factories. They just need to use my baskets which are engineered and so innovative that it makes sense to buy from us.

And the third reason is quick. We ship faster than anybody else in the world. Two weeks ago we got an order for 4,500 baskets that a Chinese company couldn't deliver and we did it in 4 business days. We never made these baskets before. So we go from 0 to 60 faster than anybody else.

So again it is quality, it is engineering and it is quick. That's the critical secret sauce for our effectiveness.

Mr. CONNOLLY. When were you in the bagel basket business were you in the export business?

Mr. GREENBLATT. We were in Brooklyn, New York, and an export to us was shipping to the Bronx.

Mr. CONNOLLY. Now you are in the export business.

Mr. GREENBLATT. But now we ship to 36 countries.

Mr. CONNOLLY. How did you develop the expertise to do business overseas? How did you make that—I am thinking about what Mr. Zieser said because it is so true about so many people are just not export oriented and yet you made that transition quite successfully and it is now a key part of your business model.

How did you do it?

Mr. GREENBLATT. It's a great point. I mean, 11 percent of American manufacturers export. It's 25 or so—28 percent in Canada. And they're very similar to us. But it's 45 percent in Germany. So we're missing a key strategy to grow. If we were to grow at 20 something percent, like the Canadians, the recession is over. It's all done.

So what we need to do is get manufacturers to focus on 95 percent of the world's consumers. We're just 5 percent.

Mr. CONNOLLY. How did you do it?

Mr. GREENBLATT. We did it by—we have a significant Internet presence. We've translated our Web site into multiple languages. And what happened also is we get a lot of referrals. So we sell to Americans transplants. So like a Japanese factory that's built here will have engineers that talk with the mother office and refer us. So we ship to—as Congressman Platts mentioned, we ship wire forms to China now.

Mr. CONNOLLY. Yeah, but you had to, if I can, just one second, Mr. Chairman, if your idea of export was to the Bronx, and today you're shipping to 36 countries, you had to learn—you had to learn about laws governing entrance to other markets, you had to learn about free trade or unfree trade laws that might have tariff and non-tariff barriers to your ability to export. You had to look at their laws in terms of, like Mr. Zieser was talking about, European standards that are an impediment actually to your exporting your product, maybe deliberately to protect domestic markets. You had to learn all that. You had to deal in other cultures and other languages you weren't used to doing. How did you manage that successful transition? Did that cost a lot of money?

Mr. GREENBLATT. It's a challenge. Mostly, we're dealing with mechanical engineers—degreed mechanical engineers, process engineers, and in many of these countries they speak English fluently. So there was less of a language topic. Number two, we're not selling a product that a consumer's using in a medical environment. We're selling a wire basket that goes into a factory in another country. So there's less—the Singapore equivalent of the FDA is not going to be focusing in on me. So I have some advantages over some of the medical firms out there; smaller medical firms.

So it's a challenge. The biggest challenge is the cost differential. I mean, making something in America costs 20 percent more than it does in Canada or in Germany or in France. So that's our biggest disadvantage. And we have to get more competitive with these countries so that we can thrive and prosper more.

Mr. CONNOLLY. If the chairman would allow.

Mr. ZIESER. You know, it's funny, he mentions Canada. Canada is our largest trading partner. Unless you're registered with Health Canada—and that application fee, I believe, is like \$35,000—you can't export over there. And then they also have to charge you a certain percentage of your sales in Canada. So talk about these regulations, it is a trade barrier between USA health care companies or private medical device manufacturers and trading in Canada. And that's something that maybe not this committee, but I would just like to bring that to your attention.

The other thing about medical devices, small companies, I rely a lot upon the services of the U.S. Commercial Service. They have market sector specialists in all these countries. They help you identify. They do a gold-key search program. They identify potential distributors, customers. You can go on a site visit like with this fellow in Turkey; I met him once. We do Skype over the Internet for training. Because after you sell our products, you have to warranty them and you've got to make guarantees to the customer that you're not going to be stuck with a lemon and how do you repair and reprogram the devices? There are sophisticated electronics involved.

So it's kind of a challenge to set up an operation in a foreign land, especially for a small company. And I rely a lot on the U.S. Commercial Service and all the services that they offer.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you.

One quick final question and we'll wrap up this panel. You basically have all addressed this but not stated this specifically. In dealing with your TAAC—MATAAC, in this case—it sounds like the expertise of the staff you're dealing with all were very good matches for what your needs were. Because of the loss of one of our witnesses, we're not going to have another TAAC represented.

But is that an accurate statement, that when you were seeking that expertise, that the staff at the TAAC or those consultants that you worked with through the TAAC all really were good matches for the level or the type of expertise for your specific industry, your specific needs, whether it was regulatory help or working through other countries or data gathering and really getting the knowledge base that you needed internally? Is that a fair statement, that they had that level of expertise?

Ms. BRITTON. No, I wouldn't say it was anything down to the technical level or specific product knowledge of the technology at all. I think it was more the business processes around it. He asked enough questions. He surfaced enough conversation. Sometimes they say in metrics and manufacturing what you look at gets—what you measure gets changed. And there's a large amount of truth in that with the MATAAC group. Because they have your entire management team focusing and talking and taking time out of their day-to-day operations to think about improvement and what's better. And just that breakaway—and as you were saying—Mr. Greenblatt was saying—it's very lean—and it is for all of us very lean—the mere fact that we broke away and spent that time generated a tremendous amount of improvements and thoughts that I don't think we would have gotten without that assistance.

Mr. PLATTS. Based on that, so it's a fair statement then that when we look at the funding of this program, that the funding of the TAAC staff that facilitated that communication is an equally important part as the actual grant money that go out to a company to implement some changes.

Ms. BRITTON. There is no question. Because if somebody just drops money on you and you go along doing business the same way you've always done it, then nothing fundamentally has changed except maybe your bank balance. So I think it's absolutely critical.

Mr. PLATTS. Thank you.

Mr. ZIESER. I agree with Ms. Britton. What you measure, you will improve upon. You've got to measure the right stuff. And they certainly helped us measure the

yardsticks and set goals and mileposts and so on. And I really appreciated their help.

Mr. PLATTS. Great. Mr. Greenblatt.

Mr. GREENBLATT. We worked with Todd Shevlin. And he was A-plus.

Mr. PLATTS. I want to thank each of you again for your testimony, both written and your testimony here today, and giving us some good insights of where the rubber meets the road. We hear a lot about programs here, but how they actually are implemented and benefiting or not. Clearly, as you shared, they are, in this case, benefiting your companies. And we wish you a great continued success. Thirty-six companies today, 50 tomorrow, and keep climbing. Thank you again.

We're going to take a very short break while we reset for the second panel. And we'll stand in recess for about 5 minutes.

[recess.]

Mr. PLATTS. We'll reconvene our hearing here. I appreciate our second panel of witnesses. One, I appreciate, again, your patience with the change in date from earlier in the fall, as well as your patience here today.

We are delighted to have three individuals who have some great insights to share with us: Mr. Brian Borlik, Director of the Trade Adjustment Assistance for Firms program at the Commerce Department's Economic Development Administration; Mr. Bill Bujalos, Director of the MidAtlantic Trade Adjustment Assistance Center, and we heard great testimony about your center and your staff and your assistance to our previous witnesses; and Mr. J. Alfredo Gomez, Acting Director of International Affairs and Trade for the Government Accountability Office.

Now that you're seated, if I could ask you to stand so I can swear you in. I apologize for having you to get up and down. Will you raise your right hand?

Do you solemnly swear or affirm that the testimony you are about to give this committee will be the truth, the whole truth and nothing but the truth?

The record will reflect that all witnesses answered in the affirmative.

As with our previous panel, the clock will be set at 5. Kind of a guideline. If you have need some extra time, that's fine. And we'll look forward to your testimony and then getting into a Q and A with you.

Mr. Borlik, if you'd like to begin.

STATEMENT OF BRYAN BORLIK

Mr. BORLIK. Chairman Platts, Ranking Member Towns, and my own Member of Congress, Mr. Connolly, Congressman Connolly, thank you very much for the opportunity to provide testimony today on behalf of the Department of Commerce's Economic Development Administration on the Trade Adjustment Assistance for Firms, TAAF, program. I'd also like to quickly thank some of the TAAF directors for being here today. Bill here, Dave Hansberger, and of course, some of our important clients, JACE Systems, Top-flight Corporation, and Marlin Steel Wire, for being here.

Through the Trade Adjustment Assistance for Firms program, the Department of Commerce is committed to helping firms throughout the United States adjust to import competition and to increase their own competitiveness and to save and create jobs. The mission of the TAAF program is to help U.S. firms regain competitiveness in the global economy, and as a result, save and create jobs. The program has received high marks from participating firms, as well as from GAO, whose new report finds that the program has a positive impact on the firms that it helps.

Through the TAAF program firms can receive matching funds that expand markets, that strengthen operations, and increase competitiveness. The program essentially provides cost-sharing technical assistance in the development of business recovery plans, which are known as adjustment proposals, or APs, and also matching funds to implement projects outlined in those proposals. Firms contribute a matching share to create and implement their recovery plans.

The TAAF program supports a national network of 11 Trade Adjustment Assistance Centers, or TAACs, to help U.S. firms in all 50 States, the District of Columbia, and the Commonwealth of Puerto Rico. Firms work directly with the TAACs to apply to EDA for eligibility for assistance in the preparing and implementing strategies to strengthen their competitiveness.

As you've heard today from other witnesses, TAACs add great value to the TAAF program. The expertise and structure of the TAACs allow them to provide technical assistance to firms on a timetable customized to the unique needs of each firm. TAAC directors and their staff bring extensive business experience, knowledge of information systems, management, marketing, and quality to identify projects

best-suited to improve the competitiveness of each unique firm that they serve.

Upon the creation of the Trade Adjustment Assistance division at the Economic Development Administration in late 2009, we developed a 2-year strategic plan to address challenges the program was facing in terms of operational efficiency and customer service. And since then, the average turnaround time for EDA certification of petitions has decreased from 89 days to 36 days, while the average turnaround time for the approval of adjustment proposals has decreased from 20 to 16 days. And this was achieved despite significant increases in the number of petitions from firms and APs submitted to EDA for approval. Also, 100 percent of EDA grants to the

Trade Adjustment Assistance Centers are now being processed on time and all payments being disbursed on time to the TAACs.

And finally, relationships have improved between EDA and the TAACs as well as among TAACs themselves as a result of several meetings that we've held between TAAC staff, EDA, and program stakeholders, including Congress.

Looking forward, EDA intends to focus on developing an improved performance measurement process for all of our programs, including this program, TAAF, over the next couple of years. To assist with this effort, EDA has partnered with the University of North Carolina Chapel Hill and George Washington University to develop draft performance measures utilizing state-of-the-art performance measurement and program evaluation techniques.

Looking at recent TAAF program evaluations, the fiscal year 2012 Senate Report on Appropriations directed the Office of Inspector General at the Department of Commerce to review the administrative costs of the TAACs and also called on GAO, of course, to evaluate TAAF program operations and effectiveness. And this past May, the Department of Commerce OIG completed their report, stating that they did not determine the level of administrative costs of the TAACs to be unreasonable.

GAO's newly released report contains positive findings regarding the effectiveness of the TAAF program, including that program participation has resulted in a 5 percent to 6 percent increase in sales, and a 4 percent increase in productivity. It also found that manufacturing firms reported that the program was associated with increased sales and productivity. An impressive 73 percent of the firms reported the program helped them with profitability, 71 percent said it helped them retain employees, and 57 percent reported that the program helped them actually hire new employees.

Just as a quick aside, I must say how impressed I was with the professionalism and the thoroughness of the GAO team. It was truly a pleasure to work with them. And I truly and EDA truly appreciate their report, and thank them for that.

So with that, I'd like to thank you for the opportunity to provide testimony. We look forward to working with you and continuing to work to improve the Trade Adjustment Assistance for Firms program. Thank you. And I'll be happy to answer any questions you have when you like.

Mr. PLATTS. Thank you, Mr. Borlik.

[Prepared statement of Mr. Borlik follows:]



Testimony of

Bryan Borlik, Director
Trade Adjustment Assistance Division
Economic Development Administration
U.S. Department of Commerce

U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency and Financial Management

September 19, 2012

INTRODUCTION

Chairman Platts, Ranking Member Towns, and distinguished members of the Committee. Thank you for the opportunity to provide testimony on behalf of the Department of Commerce's (DOC) Economic Development Administration (EDA) on the Trade Adjustment Assistance for Firms (TAAF) program. Through this program, the Department is committed to helping firms throughout the United States adjust to import competition, increase their own competitiveness and save and create jobs.

MISSION

The mission of the TAAF program is to help U.S. firms regain competitiveness in the global economy, and, as a result of increased international competitiveness, save and

create U.S. jobs. The program has received high marks from participating firms, particularly those involved in manufacturing, as well as from the independent Government Accountability Office which as recently as last month noted that the program has helped manufacturing and service firms. Through the TAAF program import-impacted U.S. agricultural, manufacturing, production, and service firms can receive matching funds for projects that expand markets, strengthen operations, and increase competitiveness through TAAF. The program provides cost-sharing technical assistance in the development of business recovery plans, which are known as Adjustment Proposals (APs), and matching funds to implement projects outlined in the proposals. Firms contribute a matching share to create and implement their respective recovery plans.

The TAAF program supports a national network of 11 Trade Adjustment Assistance Centers (TAACs), some affiliated with universities and some independent non-profits, to help U.S. firms in all 50 States, the District of Columbia, and the Commonwealth of Puerto Rico. Firms work with the TAACs to apply to EDA for certification of eligibility for assistance and to prepare and implement strategies to guide their economic recovery. As I think you will hear from other witnesses during this hearing, TAACs add great value to the TAAF program. The expertise and structure of the TAACs allow them to provide technical assistance to firms on a timetable customized to the unique needs of each firm. The TAACs facilitate this by acting as a liaison between the firms and EDA, “translating” the program (its requirements, benefits, etc.) into the “language” of small businesses. TAAC directors and staff bring extensive business experience, knowledge of

information systems, management, marketing and quality to identify projects best suited to significantly improve the competitiveness of each unique firm they serve. Projects can include export development strategies, International Organization for Standardization (ISO) certification to facilitate overseas sales, marketing and sales process improvements, new product development and more.

TRADE ADJUSTMENT ASSISTANCE DIVISION AT EDA

Upon the creation of the Trade Adjustment Assistance Division (TAAD) at EDA in late 2009, a two-year strategic plan was developed to address challenges the program was facing in terms of operational efficiency and customer service.

Some of these challenges were:

- On average, it took 89 days for EDA to certify petitions for eligibility under the program and 20 days to approve APs;
- According to TAAC Directors, EDA was often late in processing payments to TAACs as well as in awarding grants to TAACs, which resulted in unacceptable levels of uncertainty for both TAACs and their clients in receiving the funds necessary to provide efficient services to clients; and
- Relationships between EDA and the TAACs, as well among the TAAC Directors, were strained as a result of these challenges.

Since the creation of the TAAD and the implementation of EDA's strategic plan for improving the program, the following accomplishments have been realized:

- The average turnaround time for EDA certification of petitions has decreased from 89 days to 36 days, while the average turnaround time for approval of APs has decreased from 20 days to 16 days. This accomplishment was achieved despite significant increases in the number of petitions and APs submitted to EDA for approval. For example, in FY 2010, EDA certified 53% more petitions than in 2009 (114 more petitions in 2010 than in 2009) and approved 54% more APs (93 more APs in 2010 than in 2009).
- 100% of EDA grants to TAACs have been processed on time, and all payments to TAACs have been disbursed on time. Prior to the creation of the TAAD, TAAC directors reported late processing of payments to TAACs as well as in awarding grants to TAACs, which resulted in uncertainty for both TAACs and their clients in receiving the funds necessary to provide efficient services to clients; and
- Relationships have improved between EDA and the TAACs, as well as among the TAACs themselves as a result of several meetings convened by EDA between TAAC staff, EDA, and program stakeholders, including:
 - A TAAF Program Conference in March 2010 with TAAC Directors focused on developing a set of best practices in the area of submission of petitions for certification and APs to EDA, with the goal of increasing the quality of submissions to EDA and thereby increasing program efficiency and operations;

- An informational briefing and roundtable discussion with Congressional stakeholders in July 2010, in which TAAC Directors and two of their clients provided briefings on the TAAF program to staff of the Senate Finance and House Ways and Means Committees;
- A meeting between EDA and TAAC Directors and staff in September 2011 to develop outreach strategies to increase program visibility and participation by firms in states with relatively low participation in the program, and to strengthen partnerships with other Federal programs, such as NIST's Manufacturing Extension Partnership program. This meeting also served as a program introduction to the U.S. Government Accountability Office (GAO) as they began their evaluation of TAAF program effectiveness; and
- A Performance Measurement Strategic Planning Meeting in February of this year to explore improvements in TAAF program performance metrics in connection with EDA's efforts to improve metrics for all of its programs.

Looking forward, EDA intends to focus on developing an improved performance measurement process over the next two years. EDA is currently implementing a performance measurement improvement process for all of its programs and activities,

which began in late 2011 and consists of two phases: planning and development, and implementation. The one-year planning and development stage is expected to be completed by the end of this year, and includes researching and identifying improved metrics and indicators, testing the metrics and indicators across the full portfolio of EDA investments, and developing a work plan for implementing measures that are adopted. To assist with this effort, EDA has partnered with the University of North Carolina and George Washington University to develop draft performance measures utilizing state-of-the-art performance measurement and program evaluation techniques.

The subsequent implementation phase will include obtaining OMB approval of data collection forms, developing a database to store collected data, and updating programmatic guidance and regulations. The entire process is expected to be completed by the fall of 2014. The end result is expected to be more effective program management, for all of EDA's programs, including the TAAF program.

EVALUATIONS OF THE TAAF PROGRAM

The Fiscal Year (FY) 2012 Senate Report (112-78) of the U.S. Senate Committee on Appropriations for the Commerce, Justice, Science, and Related Agencies Appropriations Act, 2012 (H.R. 2596) directed the Commerce Department's Office of Inspector General (OIG) to review the administrative costs of the TAACs and the U.S. Government Accountability Office (GAO) to evaluate TAAF program operations and effectiveness.

On May 11, 2012, OIG presented DOC with a copy of the letter to the Committee reporting their findings related to TAAC administrative costs. As part of their review, OIG obtained expenditure data from a sample of three TAACs – Western TAAC in California, New England TAAC in Massachusetts, and the New York State TAAC – focusing on the use of Federal funds provided by EDA. Based on their analysis, OIG stated that they “did not determine that the level of administrative costs to the three TAACs to be unreasonable.”

GAO presented the Commerce Department with the draft report, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve (GAO-12-930)*, on August 17, 2012. Overall, the report contained positive findings regarding the effectiveness of the TAAF program. As part of this study, 117 of 163 firms responded to GAO’s survey on the firms’ experience with the TAAF program, an extremely high response rate. As noted in the report, nearly all of the responding firms reported they were generally or very satisfied with the program. Manufacturing firms, specifically, reported that the program was associated with increased sales and productivity. Notably, an impressive 73 percent of the firms reported the program helped them with profitability, 71 percent said it helped them retain employees, and 57 percent reported that the program helped them hire new employees.

CLOSING

I would like to thank Chairman Platts, Ranking Member Towns, and distinguished

members of the Subcommittee for the opportunity to provide this testimony. The Department of Commerce looks forward to working with Congress and continuing our work to improve the Trade Adjustment Assistance for Firms program. Thank you, and I look forward to answering any questions you may have.

Mr. PLATTS. Mr. Bujalos.

STATEMENT OF WILLIAM J. BUJALOS

Mr. BUJALOS. Thank you, Mr. Chairman. I am Director of the MidAtlantic TAAC, responsible for administration of TAAF in New Jersey, Pennsylvania, Virginia, West Virginia, Maryland, Delaware, and the District of Columbia. My testimony has been submitted earlier, so let me just briefly outline it so that there should be some time for questions.

I've been the director of MATAAC for the last 13 years, and I have to tell you, I am struck by the utter uniqueness of this program. I could be wrong, but in my humble opinion, there's no other agency or endeavor in the Federal Government that does what we do. TAAF is an example of the government acting smart by doing only a little. And doing it well. It's not a manufacturing assistance program. It's not a jobs program. It's not a corporate welfare program. Firms in the program receive no public money. TAAF doesn't pick up the pieces after catastrophic layoffs have taken place and attempt to create new careers out of whole cloth.

We're not consultants. We don't sell projects to keep our employees busy. In other words, we don't compete against the private sector with public money. It is a firm stabilization program. It is a trade remedy aimed at small firms under existential threat. Let's be clear. I believe in free trade. Let me say that again. I believe in free trade.

Further, I believe that it should be the policy of this government to support the eventual elimination of all barriers to global free market. Our focus is exclusively on heretofore competitive small enterprises. Heretofore they were competitive, blindsided by tides of imports, in many cases. Sure, they should have kept up with the latest news about pending trade agreements that might affect them. Sure, they could have mitigated the damage had they done so. Of course, it wasn't smart to ignore the necessary business process upgrades so that they wouldn't be surprised as imports ballooned. Shame on them for spending so much time trying to make payroll by Thursday afternoon.

We've heard from previous testimony how lean some of these companies are. And I can tell you from personal observation, that's not quite an accurate statement. It's beyond that, in many cases. More often than not, by the time I see them, they've spent the last few years burning working capital—burning it—in a vain attempt to remain competitive through price cutting. I mean, that's all they had, just that.

For example, the aggregate profile of firms entering TAAF in my region include the following: A 20 percent sales decline, a 10 percent productivity decline, a 60 percent earnings decline, and more than 12 percent of the employees have been let go. More than simply not sustainable, this profile is a death spiral for a small business. And there are ripple effects. More than three-quarters of the firms that I deal with are located in rural areas where they are either the primary employer or, in some cases, the only employer in the township.

We only do three things: One, we prove trade injury; two, we develop business plans unique to each firm's specific circumstances. Three, we partner with them in engaging outside consultants to implement change. In other words, to take on the risks associated with not doing the same things over and over again and expecting different results.

Our overarching mission then is the upgrade of global competitiveness, something that only they can achieve. That's why they have so much skin in the game. Not only do they not receive any public money—and actually, they have to pay into the program—but they also must do something to get any benefit out of it.

Does it work? Well, nationally we surveyed just under 1,000 active clients. Nationally. This isn't just MidAtlantic, or MATAAC. These are the aggregate results since program entry. Aggregate results. Some companies do better. Some don't do as good. These are the aggregate results: 4 percent jobs growth, 26 percent sales growth, and 21 percent productivity growth.

And by the way, I'm not foolish enough to believe that

TAAF can claim sole responsibility for those results. We played a part, as did the consultants that we engaged and the managers that provided leadership, and the employees who learned how to work a lot smarter than they used to. This isn't trivial, in my view. When then entered the program, every company was seriously injured and unable to compete against imports. What we did at the end of the day was facilitate an environment where entrepreneurs—and you've seen some of them today—could execute change that heretofore was financially unattainable, at least immediately. Probably in several years, if they had some luck.

Could the program be improved? I believe it can be. For instance, if our mission is the upgrade of the global competitiveness of the trade injured—that specific classification of company—then what's the best methodology we should use to measure, track, and score that achievement? Secondly, what's the optimum deployment of resources that we do engage? Third, what minimum levels of acceptable performance should be evaluated, scored, ranked and held accountable against the TAACs? And would it be worthwhile at some multiyear interval, yet to be defined, to rank TAACs by their score and subject the lowest one to a rebidding of their cooperative agreement? And given the importance of our mission, shouldn't we require substantial—and I'm using that word deliberately—substantial business credentials of all key hires going forward?

And finally, we've all heard the term AP or adjustment plan. This is an adjustment plan. When we add the financials, it's about a hundred pages. It's not trivial documentation. Shouldn't approval of the adjustment plans be devolved to the TAAC directors by virtue of the fact that these tones are robust business plans unique to each firm's financial, organizational, and operational circumstances, and that short of actually remedying themselves, nobody external to the TAAC is qualified to evaluate them in any meaningful way.

Make no mistake, even if none of what I've just

outlined, those four or five things, if none of those things were ever implemented, TAAF is still an impressive, agile, focused and effective trade remedy as it is. Its business model is such that I

would argue should we ever get serious about the revitalization of the Nation's small business sector, we would be well advised to at least consider it a platform of choice.

I thank the committee for giving me this opportunity to share my point of view on TAAF, but I only help manage it. It's more important that you listened to and you heard the actual entrepreneurs that have benefited from what we do, because they're at the front line. The friend that was sitting right here, they're at the tip of the spear, not us.

Thank you very much for at least allowing me to be part of the discussion.

Mr. PLATTS. Thank you, Mr. Bujalos.

[Prepared statement of Mr. Bujalos follows:]

TESTIMONY OF
WILLIAM J. BUJALOS
DIRECTOR OF THE MIDATLANTIC TRADE ADJUSTMENT ASSISTANCE CENTER
BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND
FINANCIAL MANAGEMENT
NOVEMBER 14, 2012

Thank you Mr. Chairman for this opportunity to testify before the committee regarding the effectiveness of Trade Adjustment Assistance for Firms (TAAF). Since 1998 I have been the Director of the MidAtlantic TAAC (MATAAC) located in a suburb of Philadelphia. MATAAC is a private sector non-profit entity, one of 11 such centers (or TAACs) that contract with the US Department of Commerce through its Economic Development Administration (EDA) to manage TAA for Firms throughout the nation. As part of that network my responsibility is to assist small firms in New Jersey, Pennsylvania, Virginia, West Virginia, Maryland, Delaware and the District of Columbia.

By way of credentials let me state that I have a Bachelor of Science Degree in Mechanical Engineering, have held engineering and executive positions in a variety of both publicly-traded and privately-held firms ranging in size from less than 20 to tens of thousands of employees in both manufacturing and service sectors both domestically and internationally. Positions held include: Process Engineer, Project Engineer, Project Manager, Engineering Director, Plant Manager, General Manager, Business Analyst, Vice President, Executive Vice President and Owner in the: steel, chemicals, batteries, plastics, medical device and management consulting industries.

No other agency or endeavor of the federal government does what we do. In my view TAA for Firms is a uniquely smart use of the people's money – an example of the government doing little but doing it well. It's not a manufacturing assistance program. It's not corporate welfare. It *is* a trade remedy. An initiative focused exclusively on previously quite competitive small companies now under existential threat – contributed to by growing imports frequently resulting from our free-trade agreements. Every day I see small family-owned enterprises that have been in existence for generations who have spent the last couple of years burning working capital in a vain attempt to remain competitive. Sure, they should have kept up with the latest news about pending trade agreements that might affect them. Sure they would have mitigated the damage had they done so. Of course it wasn't smart to ignore the necessary business process upgrades so that they wouldn't be blindsided by imports.

Shame on them for deciding to make payroll by Thursday afternoon instead.

By the time I see them they're reduced to fighting for their survival from a position of significantly diminished financial strength with price-cutting as the only tool left. For example, the aggregate profile of firms entering TAA in my region is as follows:

- 20% sales decline
- 10% productivity decline
- 60% earnings decline
- And more than 12% of employees had been laid off

Does anyone really think that a business exhibiting these stats is in any way sustainable? In my previous life we had a term for it – death spiral. And consider, more than three-quarters of them are located in rural counties; in many cases they're a primary employer – sometimes the *only* employer. So the effects often aren't just on the firm but the community at large.

I believe strongly in the benefits of free trade. In my view the movement of goods and services across borders is a hallmark of a capitalistic free market system. Further, I believe the eventual elimination of barriers to free trade should be this government's policy. In that context TAAF is a well thought out "ounce of prevention" designed to help small privately held enterprises navigate the minefield they may find themselves in as a consequence.

There are numerous misconceptions about what we are. Some in Congress have claimed that we are "consultants" and that we "grossly overcharge companies." Further that we "... have been known to charge exorbitant overhead rates of 60 percent of grant funding ..." and that a high percentage of the firms assisted have gone out of business anyway. None of that is true. What is true is that people like me have failed miserably at educating some folks.

To clarify: we prove trade-injury, we develop specific business plans aimed at upgrading weaknesses found and we then partner with our clients in hiring outside consultants to implement a bundle of knowledge-based upgrade projects thus identified. Our objective is the enhancement of their global competitiveness.

- TAAF has been a benefit to both service and manufacturing sectors for decades. Firms in this program receive no public money. They *do* receive technical assistance critical to their survival. They receive it from other small businesses: mostly one, two or three person consulting shops trying to succeed in the economy too and identified either by the client firm itself or as a result of competitive bids. We pay half of the fees for the assistance and the firm pays the other half during our relationship with them.
- They have lots of skin in the game. Companies in this program actually pay into it. The success of small trade-injured enterprises in this program requires that management decide to conduct business differently. In other words, to succeed they must confront the risks associated with NOT doing the same old things over and over again – they have to address a permanent change in their behavior ... a difficult assignment in *good* times!
- We don't pick up the pieces after catastrophic layoffs have occurred and try to create new careers out of whole cloth. Our job is to help prevent catastrophe in the first place. It's a lot cheaper and immensely more effective.
- TAA for Firms is not a jobs program but a trade remedy through firm-stabilization. Our overarching mission is the increased global competitiveness of the trade-injured.

We gauge success with long-term tracking methodologies using measured results – not calculated ones. For instance last year's national survey of about a thousand active clients showed in the aggregate since program entry: 4% jobs growth, 21% productivity growth and 26% sales growth.

At MATAAC we define competitiveness upgrade as share growth, or simultaneous growth in at least three of the following four metrics:

- Sales
- Productivity
- Earnings
- Jobs

In '09, 30% of our portfolio achieved three out of four. A year later 44% did it and by the end of last year 48.4% did.

Rarely do these results occur early. They require sustained project implementations over time. TAAF just isn't a quick fix. Very little in business ever is. And importantly, since we are not a consulting firm, we are free to speak painful truths with clarity and directness without the need to sell project types to match the skill sets of our employees. Put another way, we don't use the people's money to compete against the private sector.

The truth about our overhead rates is exemplified by our experience in the MidAtlantic states: rather than cover several counties with a staff of as many as 10 or more, MATAAC covers 6 states with a staff of 4, resulting in an overhead rate for 2011 of just 16%. Put another way, 84¢ of every dollar expended hits the street. Regarding sustainability as a going-concern, consider that 97% of the firms assisted were still in business five years after entry into the program and fully half of those not in business didn't go out of business. They were acquired.

National ROTI speaks for itself. From '07 through '11 funding for TAAF totaled \$71.2 million and the program returned more than \$14 in taxes for each dollar spent:

Investment per job:	
Funding, federal fiscal year 2007 to 2011 ¹	\$71,217,976
Total jobs impacted ²	77,015
Investment per job	\$925
Economic Impact per job:	
Income, average manufacturing job	\$44,221
Federal, state revenue on manufacturing @ 20.7%	\$9,154
Income multiplier ³	\$22,111
Federal, state revenue on multiplier jobs	\$4,577
Annual federal & state revenue per manufacturing job ⁴	\$13,731
Return on Taxpayer Investment	1,485%

I realize that these numbers may seem heroic. That doesn't make them wrong. I believe they suggest that TAAF works – quite possibly better than most of what the federal government does on any given day.

¹ Funding covers FY 2007 to 2011, includes only federal government expenditures, and includes funding only for the Trade Adjustment Assistance Centers. It does not include the administrative costs of the U.S. Department of Commerce.

² Jobs impacted are those retained and generated at firms completing at least one technical assistance project by December 31, 2011. It does not include the impact of assistance for firms that entered the program after December 31, 2011.

³ Multiplier jobs are those jobs generated in providing goods and services required by the employed manufacturing workers. Although often estimated at 2 or 2.5, for the purpose of this analysis, a conservative multiplier of 0.5 was used. Manufacturing job revenue is calculated at an average hourly rate of \$21.26 (US Statistical Abstract 2011), an annual income of \$44,221 was assumed, and the multiplier income per manufacturing job is \$22,111.

⁴ Annual revenue per job disregards local income tax or property tax revenue.

Could TAAF be improved? Sure.

Speaking as a private citizen with some business experience I would say that if we're to be every bit as serious about the general continuous improvement of the program as we are about the competitive performance of our clients, we should be open to better ways of doing our job – if for no other reason than at the end of the day our real client is the American taxpayer.

1. If our mission is as I've stated i.e., the upgrade of the global competitiveness of the trade-injured, then what is the best methodology we should use to measure, track and score that achievement – regionally and nationally?
2. What is the optimum national deployment of our resources (assets, personnel and management systems) to be engaged to fulfill that mission?
3. What are the minimum levels of acceptable performance against which each TAAC should be evaluated, scored, ranked and held accountable for in that process?
4. Might it not be worthwhile at multi-year intervals to rank TAACs by their score at mission achievement over the period and subject the lowest ranked to a re-bidding of their cooperative agreement?
5. Given the importance of the mission, shouldn't we require significant business credentials of all key staff hires going forward? Especially manufacturing credentials?
6. Shouldn't approval of Adjustment Plans be devolved to the TAAC Directors by virtue of the fact that these tomes are robust business plans unique to each firm's financial, organizational and operational circumstances and that, short of actually writing them themselves, no person external to the TAAC (especially without business credentials) is qualified to evaluate them in any meaningful way?

But even if none of what I've just outlined is ever implemented, I am still convinced that Trade Adjustment Assistance for Firms remains an agile, focused and highly effective program just as it is. Further, I would argue that someday if we ever get serious about revitalizing the nation's small business sector we might consider this business model as a sharpened arrow in our quiver – and not just for the trade-injured either.

Let me be clear. I'm just an engineer, not an economist. But I do know what it is to work hard for a living and I've seen quite enough to appreciate the utter folly of Keynesian economics. In my view the fundamental purpose of business is and ought to be the enrichment of those risking their own investment. Jobs are a natural consequence of their success. Therefore for me it's pretty simple. We should develop those policies that would promote a level of business success equal to none on the planet. Small firms in any capitalist society are more precious than gold – more so especially now given our current circumstances. I am reminded that for each million people that are out of work, America needs to create an environment in which entrepreneurs will create 10,000 new ones ... and that's presuming we don't lose too many of the ones we already have!

I am convinced that TAAF, coupled simultaneously with a much more robust focus on free trade agreement ratification and a critical review of current tax and regulatory policies would go a long way in reversing what has become an existential chokehold on that part of our economy that produces most of the people's take home pay.

But I only help manage Trade Adjustment. It's a lot more important for you to hear from folks like the entrepreneurs that were kind enough to join me today. Their experiences are direct and more relevant.

Thank you for asking me to be a part of the discussion.

Mr. PLATTS. Mr. Gomez.

STATEMENT OF J. ALFREDO GOMEZ

Mr. GOMEZ. Mr. Chairman, Ranking Member Towns, Mr. Connolly, good morning. I'm pleased to be here today to discuss the Trade Adjustment Assistance for Firms program administered by EDA.

Over the past decade, U.S. imports have almost doubled, reaching \$2.7 trillion in 2011. During the same period, the U.S. entered into free trade agreements with 14 partner countries.

Mr. Chairman, as you noted in your opening statements, although trade expansion can be beneficial for all trade partners, many firms and workers experience difficulties adjusting to import competition. The program, through 11 centers, or TAACs, across the country provides technical assistance to these firms so that they can remain competitive in the global economy.

My statement today is based on a report that we issued recently in response to a mandate that we review the operations and effectiveness of the program. I will focus on three main areas: First, the results of recent legislative changes in the program's operations; two, the performance measures and data that EDA uses to evaluate the program and what these tell us about the program's effectiveness; and three, how program funding is allocated and spent.

First, we found that the changes that Congress enacted in 2009 contributed to improvements in program operations and increased firm participation. For example, the creation of a director and other full-time positions for the program reduced the time to certify firms. Also, the inclusion of service sector firms and the expansion of the look-back period from 12 months to 36 months resulted in additional firms participating in the program.

Second, we found that EDA's performance measures and data collection for the program provide limited information about the program's outcomes. EDA does not systematically maintain data collected by the centers on the firms they assist, resulting in gaps in centralized data that EDA could use to evaluate the program and need reporting requirements. Given the weaknesses we found in the data collection, we undertook further analysis to determine the program's impact. So our economic analysis showed that there is a small positive and statistically significant relationship between program participation and sales. Firms participating in the program experienced a growth of 5 to 6 percent in sales, although other factors had a stronger effect on performance.

So we also conducted a survey of 163 firms that participated in the program. The survey showed that the program had a positive effect. The graphic on page 7 of my statement shows some of the survey results. So, for example, we found that more than 90 percent of the firms reported that they were satisfied with the services they received from their center and the consultants. And you heard some specific examples from the first panel this morning. Also, 82 percent of the firms reported that the program helped them stay in business.

Third, in terms of how funds are allocated and spent, we identified several weaknesses pertaining to EDA's funding formula. EDA

has allocated funding to the 11 centers. However, its formula does not take into account the potential number of firms in need of the program and differences in cost across the centers. Consequently, centers that may have a greater number of trade-impacted firms receive similar funding as those centers serving a much smaller number of firms. A revised formula should use reliable and appropriate measures of need in each State or region.

In summary, although funding for the program at less than \$16 million is small relative to the rise in imports over the past decade, our economic analysis and survey results show that the program has delivered positive results for firms. The changes that Congress enacted in 2009 gave EDA and the centers' officials more flexibility in certifying firms and increased firm participation.

Lastly, EDA's allocation formula does not factor in differences in program need and cost across the regions. We have recommended that Commerce establish more effective performance measures, improve its data collection efforts, and allocate funds in a way that considers program needs and costs.

Mr. Chairman, Ranking Member Towns, Mr. Connolly, this completes my statement. I would be pleased to respond to any questions.

Mr. PLATTS. Thank you, Mr. Gomez.

[Prepared statement of Mr. Gomez follows:]

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Government
Organization, Efficiency, and Financial
Management, Committee on Oversight and
Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Wednesday, November 14, 2012

TRADE ADJUSTMENT ASSISTANCE

Commerce Program Has
Helped Manufacturing and
Services Firms, but
Measures, Data, and
Funding Formula Could Be
Enhanced

Statement of J. Alfredo Gomez,
Acting Director, International Affairs and Trade



GAO-13-166T

Chairman Platts, Ranking Member Towns, and Members of the Subcommittee:

I am pleased to be here today to discuss the Trade Adjustment Assistance (TAA) for Firms program, which is administered by the Department of Commerce's (Commerce) Economic Development Administration (EDA). Over the past decade U.S. imports have almost doubled, reaching \$2.7 trillion in 2011. During the same period, the United States entered into free trade agreements that liberalize trade with 14 partner countries. Further trade liberalization is being pursued, including a Trans-Pacific Partnership among 11 nations in the Asia-Pacific region.

Although trade expansion can enhance the economic welfare of all trade partners, many firms and workers experience difficulties adjusting to import competition. Congress has responded to concerns about these difficulties with trade adjustment assistance programs.¹ Established in 1962, the TAA for Firms program provides technical assistance to help trade-impacted, economically distressed firms make adjustments that may enable them to remain competitive in the global economy. In fiscal years 2009 through 2012, EDA received \$15.8 million annually for the TAA for Firms program. EDA uses its appropriation for the TAA for Firms program to fund 11 TAA Centers (center), which provide assistance to U.S. manufacturing, production, and service firms in all 50 states, the District of Columbia, and the Commonwealth of Puerto Rico.

Congress amended the TAA for Firms program under that part of the American Recovery and Reinvestment Act of 2009 known as the Trade and Globalization Adjustment Assistance Act (TGAAA) of 2009 and mandated that we review the operation and effectiveness of these amendments. My testimony is based on our September 2012 report that examined (1) the results of the legislative changes on program operations and participation, (2) the performance measures and data that EDA uses to evaluate the program and what these tell us about the program's effectiveness, and (3) how program funding is allocated and spent.

¹The three other TAA programs focus on workers, farmers, and communities.

My statement today summarizes our findings on each of the three issues discussed in our report.²

First, we found that the four changes mandated by the 2009 legislation contributed to improvements in program operations and increased participation:

- *Creation of director and other full-time positions:* The creation of a director and other full-time positions for the program resulted in reduced firm certification processing times for petitions.
- *New annual reporting on performance measures:* EDA has submitted three annual reports to Congress on these performance measures as a result of the legislation.
- *Inclusion of service sector firms:* According to our analysis of EDA data, the inclusion of service sector firms allowed EDA to certify 26 firms not previously eligible for assistance from fiscal years 2009 through 2011.³
- *Expansion of the "look-back" period from 12 months to 12, 24, or 36 months:* Our analysis of EDA data shows that 32 additional firms participated in the program from fiscal years 2009 through 2011 based on the expansion of the look-back period from 12 months to 12, 24, or 36 months. Prior to the legislative changes, firms were only allowed to compare sales and production data in the most recent 12 months to data from the immediately preceding 12-month period.

²More detail is available in the report, GAO, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve*, GAO-12-930 (Washington, D.C.: Sept. 13, 2012). We conducted our work from July 2011 to September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³Examples of service sector firms assisted by some centers include architectural engineering firms, telecommunications firms, and software development firms.

Our review found that from fiscal years 2008 through 2010 EDA certified and approved an increased number of petitions and business recovery plans. According to staff at several TAA Centers, the economic downturn contributed to the increase in firms applying for and receiving assistance from the TAA for Firms program during this time period because more firms could demonstrate a decline in sales and employment. Additionally, EDA officials and TAA Centers staff stated that the 2009 legislative changes increased interest in and demand for the program by prospective firms.

EDA certified fewer petitions and approved fewer recovery plans in fiscal year 2011 than in fiscal year 2010. EDA officials and TAA Centers staff attributed the decline to a lapse in the legislative changes from February to October 2011; uncertainty regarding the program's future funding; and improvement in the economy, which prevented some firms from demonstrating decreases in employment, sales, and production.

Second, we found that EDA's performance measures and data collection for the TAA for Firms program provide limited information about the program's outcomes, although our economic analysis found a statistically significant association between participation in the program and an increase in firm sales. EDA collects data to report on 16 measures to gauge the program's performance, such as the number of firms that inquired about the program and the number of petitions filed, but most of these measures do not assess program outcomes. EDA is exploring better ways to assess the effect of their efforts on firms.

We found that EDA does not systematically maintain data collected by the TAA Centers on the firms they assist, resulting in gaps in centralized data that EDA could use to evaluate the program and meet reporting requirements. We identified the following issues:

- *Gaps in centralized data.* According to EDA officials, the agency maintains databases of information from petitions, such as firm location, or information about sales or production, but EDA does not maintain the necessary data to conduct a quantitative analysis of the program, such as whether a firm is a public or private firm or a multiplant firm.
- *EDA relies on multiple data requests from the TAA Centers.* EDA frequently makes additional requests to the centers to obtain their program data when preparing required reports.

-
- *Data requests require verification but can still result in inaccuracies.* In addition, EDA relies on each of the centers to validate its data. However, when we compared EDA's data with data provided by the centers, we identified errors in EDA's data.
 - *Lack of guidance results in dissimilar information across centers.* EDA has also not developed guidance on the format and types of program data that centers collect, which has contributed to a lack of comparable data on program activities across the centers.

Given the weaknesses we found in EDA's performance measures and data collection, we undertook further analysis to determine the impact of the TAA for Firms program. Our analysis of data collected from the TAA Centers showed that the program was statistically associated with increased sales and productivity for manufacturing firms, although some factors were more strongly correlated with improved performance than was participation in the TAA for Firms program.

We determined the following:

- *There is a small positive and statistically significant relationship between program participation and sales.* Overall, we estimate that the effect of participation in the program was an increase in firm sales, ranging from 5 to 6 percent on average, if all other factors are held constant. The effect was greater for firms with 300 or fewer employees, which account for 95 percent of firms in our sample. Using productivity (firm sales divided by employment) as one outcome variable, we also found that the effect of the program on productivity was about a 4 percent increase.
- *As imports rose, sales declined for TAA for Firms clients.* Our analysis shows that import penetration⁴ was highly statistically significant and most likely had a very negative effect on firm sales. According to our estimates, for every 1 percentage point increase in the industry import penetration ratio, sales of firms included in our analysis decreased by about 16 percent on average.

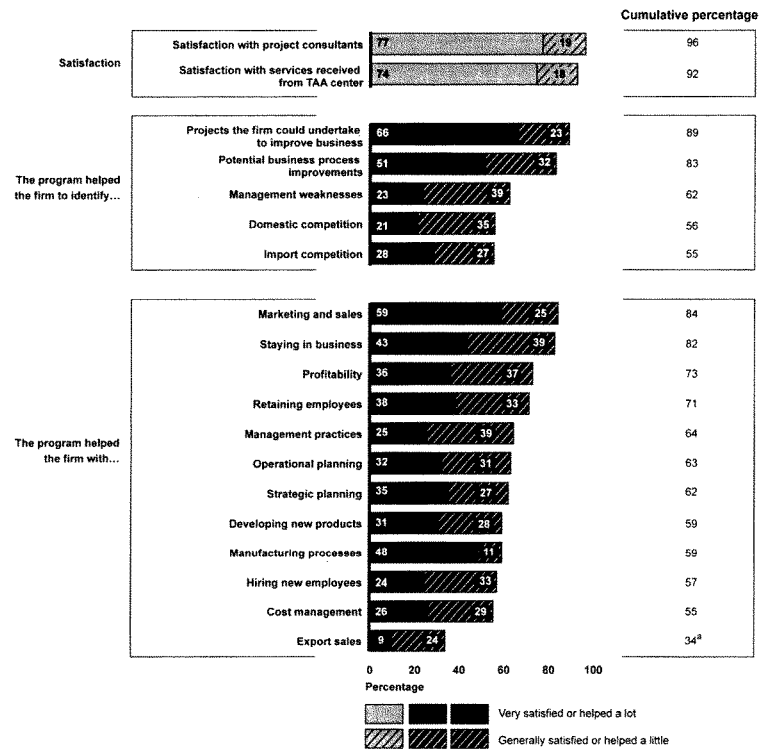
⁴Import penetration is defined as the ratio of imports to apparent domestic consumption, which shows the share of the U.S. market for the particular product served by imports. Apparent domestic consumption is derived by subtracting net exports (exports minus imports) from U.S. industry sales or shipments.

-
- *TAA for Firms participation combined with market growth increased firm performance.* We found a statistically significant and positive effect of industry market growth on firm sales after firms participated in the program.⁵ Specifically, for firms participating in the program, the percentage change in firm sales increased as market growth increased. For firms in relatively high growth industries, such as certain types of metal manufacturing, plastic pipe manufacturing, and flooring industries, the combination of participation in the program and industry growth affected sales more positively, with such firms experiencing a 6 to 10 percent increase in sales.
 - Our survey of TAA for Firms participants also showed that the program had a positive effect. We conducted a survey of 163 firms that had a recovery plan approved in fiscal year 2009 to obtain their views about their experience with the program; we received responses from 117 of the 163 firms, with a final response rate of 72 percent. The survey included questions about the TAA Centers, the consultants who carried out the projects included in the business recovery plans, and the outcomes of the firm's participation in the program.⁶ More than 90 percent of responding firms reported that they were either very or generally satisfied with the services they received from their TAA Center and the consultants who performed work for them (see fig. 1). Over 80 percent reported that the program helped them to identify projects and business process improvements, and 62 percent said that the program helped them to identify management weaknesses.

⁵For market growth, we used yearly value of shipments data from the Census Annual Survey of Manufacturers from 1997 to 2010. For 2011, we estimated a projected value of shipments. We then estimated market growth rates for each industry (as determined by the six-digit North American Industry Classification System) associated with each firm by taking the natural log differences of the value of shipments divided by the change in year. Log growth rates are often used in economic modeling and empirical analyses.

⁶For complete survey results, please see *Trade Adjustment Assistance: Results of GAO's Survey of Participant Firms in the Trade Adjustment Assistance for Firms Program* (GAO-12-935SP), an e-supplement to GAO-12-930.

Figure 1: TAA for Firms Program Clients Expressed Satisfaction with Program and Results



Source: GAO.

Notes: The difference between the cumulative percentage and 100 percent represents responses that were either "didn't help," "as satisfied as dissatisfied," "generally dissatisfied," "very dissatisfied," "don't know," or "no response/not applicable."

^aDue to rounding, the cumulative percentage adds up to 34.

In narrative responses to our survey's open-ended questions, 22 firm representatives said that the program helped their business to grow or improve. In addition, 30 respondents wrote positive comments about their TAA Center's attentiveness to their needs and the ease of working with their center. For the complete results of our survey, please see GAO's e-supplement, GAO-12-935SP.

Third, in terms of how funds are allocated and spent, we identified key weakness pertaining to EDA's funding formula.

EDA has allocated funding to the 11 TAA Centers using a funding allocation formula that comprises a set of weighted factors; however, the formula does not take into account the potential number of firms in need of the program and differences in costs across the centers. According to a key standard—beneficiary equity—a funding allocation formula should distribute funds according to the needs of respective populations and should take into account the costs of providing program services, so that each service area can provide the same level of services to firms in need.

EDA's funding formula divides two-thirds of allocated funding equally among the 11 centers according to base funding and two fixed factors—geographic size and number of firms. The funding formula divides the remaining one-third of allocated funding among the centers according to three variable factors:

- approved business recovery plans,
- employees in approved recovery plans, and
- firms achieving expected results.⁷

However, EDA's funding formula does not include a direct measure of the number of firms potentially in need of the program. To meet the beneficiary equity standard, the formula should use reliable and appropriate measures of need in each state or region.⁸ Consequently,

⁷This is measured by the percentage of a center's clients who reported satisfaction with the assistance received, and assistance being demonstrated by the center's payment to a third-party consultant helping the firm implement a project.

⁸See GAO, *Vocational Rehabilitation Funding Formula: Options for Improving State Grants and Considerations for Performance Incentives*, GAO-09-796 (Sept. 30, 2009).

centers that may have a greater number of distressed firms due to import competition potentially receive similar funding as those centers serving a much smaller number of trade-impacted firms.

EDA's allocation of funding also does not take into account variations in TAA Centers' costs of providing firms assistance, even though to meet the beneficiary equity standard, a formula should account for differences in the cost of providing services in each region so that each firm may receive the same level of assistance. However, we found that centers' direct and indirect costs to operate the centers varied considerably from one center to another during the cooperative agreement years 2008 to 2010. Because EDA's funding formula does not take into account variations in centers' costs of providing firms assistance, EDA cannot ensure trade-impacted firms in different service areas receive the same opportunities for assistance through the centers. The available evidence we analyzed suggests there is wide variation in the number of firms centers are able to assist and the amount of funding they may provide to implement approved business recovery plans, raising questions about whether limited program funding is being used as effectively as possible.

In conclusion, although funding for Commerce's TAA for Firms program, at less than \$16 million, is small relative to the \$1.3 trillion rise in imports over the past decade, our economic analysis and survey results show that the program has delivered positive results for participating manufacturing and services firms. We found that these firms receive individual attention from TAA Center professionals located in their regions, practical help in developing business recovery plans, and federal matching funds to pursue projects designed to address competitive weaknesses and capitalize on strengths.

The changes to the TAA for Firms program that Congress enacted in the TGAAA in 2009 gave EDA and TAA Center officials more flexibility in certifying firms, strengthened professional management of the program, and improved transparency regarding the program's performance. However, enhanced accountability can be accomplished only through better measures of how the program is helping firms adjust to import competition. Better and more readily retrievable data would give EDA and Congress a more comprehensive and complete picture of program activities and enable more meaningful and ongoing analysis of impact. EDA can do more to ensure that its allocations reflect firms' and regions' varied needs for assistance and TAA Centers' varied costs in providing this assistance. EDA can also encourage more efficient program administration by making the cost of services a criterion in its funding

formula and by incentivizing TAA Centers' cost-containment efforts, so that more funds are available to serve firms.

In our report, we recommended that Commerce establish more effective measures of program outcomes, improve its data collection, and allocate funds in a way that considers program needs and costs. Commerce concurred with our findings and recommendations. EDA has recognized many of the weaknesses we identified and has already made initial efforts to address them.

Chairman Platts, Ranking Member Towns, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions you may have.

Contacts and Staff Acknowledgments

For further information on this statement, please contact J. Alfredo Gomez, at (202) 512-4101 or gomezj@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Individuals who made key contributions to this testimony include Kim Frankena, Assistant Director; Christina Bruff; David Dayton; Leah DeWolf; Barbara El Osta; Bradley Hunt; and Erin Preston.

Mr. PLATTS. I will yield myself 5 minutes for purposes of questions. Most of my focus is going to be on really a cross-section of all three of your testimonies and the administration of the program. Because clearly, from the previous panel, companies are benefiting from the program. And certainly the three that were here today and their interactions with MATAAC shared their great appreciation and, in fact, they perhaps wouldn't still be in business today, but for that assistance. But looking at the big picture is what I really want to try to focus on on this panel.

Mr. Borlik, in your written testimony as well as today, you talk about improving your performance evaluation of the program. I think that's critically important. In your written testimony, you say EDA intends to focus on developing an improved performance measurement process over the next 2 years.

I guess a two-part question. One, is that performance measurement process that you're looking at going to include annual review of the TAACs? My understanding is their contracts are renewed annually. Is that accurate?

Mr. BORLIK. That is correct. The grants are made annually. They are for several years, usually. But several years. But yes, annually.

Mr. PLATTS. As far as this new approach on performance, is there going to be a more involved review or evaluation of that performance of each of the 11 TAACs as part of this new process. And then you talked about in your testimony that in putting this new process in place, that it's going to take 2 years. The second part of my question is: Why is it is going to take 2 years?

Mr. BORLIK. Right. So the performance analysis process, performance improvement process that we're working on with the University of North Carolina and George Washington is going to include the TAAF program and the intent is certainly to develop a whole suite of performance measures where EDA with its regular programs now focuses on investment leveraged and on jobs created. With the TAAF program, we look at a number of performance measures, including the sales and employment and productivity of participating firms at the time of certification, after 1 year following certification, and 2 years after completion of the program.

So the point of this performance measurement improvement system is going to result in an increased larger suite of performance measures. And we plan to work in collaboration with the TAACs and with a great amount of EDA grantees and also with Congress along the way to develop what those metrics will be, and then yes, the intent would be to apply the relevant metrics to the TAAF program in close consultation with the TAAC directors.

Mr. PLATTS. But specifically, to the evaluation of the 11 TAACs, is there going to be a strengthened, enhanced annual review of those? Again, why the 2 years?

Mr. BORLIK. Right. So yes, the performance metrics that we develop would be applied to the TAACs. We don't know exactly what those will be quite yet. We'll work in consultation with the TAACs to make sure those make sense, but the intent is to apply those to each of the 11 TAACs, whatever those end up being.

The 2 years, that takes into account the GPRA, or the Government Performance Reporting Act, requirements for forms that need to be filled out by grantees. But it's not as if we won't be able to

do anything for 2 years. We're going in phases. And we anticipate fairly soon, hopefully over the next 6 months or less, 3 to 6 months, to actually begin piloting some of these measures and sharing those with the Trade Adjustment Assistance Centers.

We're in the process right now with the our research partners of developing a suite of what those measures might be like. It's not going to take 2 years to completely develop those. The 2 years is the whole process when you include the 9 months for developing the forms for GPRA reporting.

Mr. PLATTS. I won't be in this position a year from now and the coming 2 years. Perhaps Mr. Connolly or Mr. Lankford. As two retiring Members, Ed and I won't be here, but we know our colleagues that still will.

When I read your testimony in preparation for the hearing—and I am glad you're focusing on performance evaluation—but we're talking about a 2-year plan to put that in place and then begin. I hope it's 3 to 6 months and not just as a pilot but that—that is one heck of a long time.

Related to that specific evaluation of the TAACs, do you know when—and I know you're relatively new in your position in the division being stood up—but when the last time any one of the TAAC's contracts was put out for bid; rebid?

Mr. BORLIK. No. They have not been. They traditionally have not been. I know that that—the Department of Commerce's OIG alludes to that—not alludes, but recommends that we consider doing that.

Mr. PLATTS. My understanding, it's been 30 years. Is that accurate?

Mr. BORLIK. Right. Yes, I think it has been about 30 years.

Mr. PLATTS. When I read that, it seemed like 30 years we've not rebid any of these seems pretty much a closed market. And competition for those companies that are participating for the government itself, the fact that we're not looking at is there something else in that region, wherever it may be, that may able to do it better, we don't know unless we ask.

Mr. BORLIK. Right. It's a great question. I think the Department of Commerce is open to that possibility. We would want to work very closely with Congress on that because I do know that we have some stakeholders in Congress who feel strongly about whether or not to bid it out. But I would say the Department of Commerce is open to that.

Mr. PLATTS. Well, any of my colleagues that want to stand in front of the camera and say they don't think it's a good idea to rebid taxpayer contracts on a regular basis, I would love to stand next to them and tell them why I think it's a good idea. Because to me, when I read that, I hope that's part of that reinvigorated performance process, is that these are 11—no disrespect, Mr. Bujalos to yours. I don't have the data to compare you to the other 10. But the fact that we're not saying, Hey, here's what you're doing. Let's see if somebody else can do it better or not. But the fact that we're not even asking the question over 30 years is just unacceptable.

Mr. BORLIK. Point very well taken.

Mr. PLATTS. To my colleagues that will be here, I hope that question is followed up on very closely.

I've got a whole host of other questions that relate to, Mr. Bujalos, your testimony. And Mr. Gomez. But we'll come back around for a second round. But I'll yield to the ranking member for purposes of questions.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me ask, if you have companies that are not failing because of trade injury, do you think this model would work?

Mr. BUJALOS. Oh, yeah. I mean, I can't be any more specific than that. I've had a long history of working in companies. And in my last gig before I took this gig, I was vice president of one of the East Coast's largest management consulting firms. And I've spent a long amount of time with a lot of companies that weren't trade-injured. And I spent that time with companies that were in the Fortune 500 and also in the Inc. 100. The majority of them were family-owned. Some were traded publicly.

There is something magical—and I'm using that word deliberately—there's something magical about not giving somebody welfare but convincing them, and in many cases, against their own initial intuition, to make changes that they're not used to that are not part of their default. And working through that exercise, almost emotionally in some cases, where they say, Okay, if I have a partner that will partner with me and guide me during that process, then it might work, because all we are is seed money. It's just a seed.

We have to get a company—in many cases, they're in crimson red ink—off the edge of the table in mid-air by the time we see them. And all I've got to do is get them to the point where they have the confidence and they're looking at black ink and the training wheels can be taken off and they're own their own and doing their own investments.

One of the things we do in the plans, we write these Adjustment Plans for the entire turnaround of the enterprise. Not for \$75,000. Does anybody really think it takes \$75,000 to turn around a \$10 million business? No. It's closer to a million by the time you throw in hardware and software and equipment and robotics and a whole bunch of other things. We want them to get to the point where they willingly and can afford to invest on their own on a routine basis. And that's the objective of what we do.

Mr. TOWNS. You know, thinking about the fact that you only have \$16 million, how are you able to reach and have such a great return—reach all these people and have such a great return? How can you do it?

Mr. BUJALOS. It's not universal. I don't want you to walk away with the impression that they're all successful. They're not. We're dealing with a bell curve, right. And we're dealing with a certain part of the business bell curve—the extreme left-hand side of it; those that are injured. By the time we see them, they are injured. They're not part of the normal universe of companies.

By the time we see them, there is a higher percentage of those owners and chairmen and CEOs that have been mugged and they're willing to listen now. This isn't a sales pitch

anymore. This is existential discussion. And I have a sneaky feeling that that has a greater impact by that point than the same discussion a year earlier would have had. And I think that has something to do with it, too.

You put yourself in their shoes. You've risked your children's education. You've risked your ability to make your mortgage payments on your house. You've risked, in some cases, your marriage. And all of that now is in jeopardy. And somebody comes along and says, I want you to take even a further risk. But I'm going to be your partner in that effort and we're going to measure it one step at a time. And that has an effect on people. It really does. And I suspect that that platform, the fact that they get no money, that they have to put their skin in the game, and that we set it up so we that can measure the metrics on a short time interval so they can see the improvements that are taking place, it changes attitudes and it changes peoples' default behavior. And I think that's applicable to business in general, not just the trade injured. But that's just my opinion.

Mr. TOWNS. Right. The uncertainty of 2011 in terms of budgetary and all of that, how does that play—does it play in? Because the point is the uncertainty around whether it's going to be there or not there.

Mr. BUJALOS. It's a worry. See, all of our—I shouldn't say all, but darn close to all of our outreach is associated with some sort of referral. Somewhere, somebody referred somebody to us as a result of people like me making speeches and doing presentations to trade organizations, banking consortia or their consultants that will send their clients here or clients will talk to other clients during the rubber chicken meals. When the word gets out that this possibility is going to go away, well, there's—I've gotten many, many calls and emails from companies saying—I mean, it's an investment. Put yourselves in their shoes. You're going to invest the better part of a year. Why should you if now you figure what, I'm going to get a piece of paper and that's it?

It is the same kind of effect as uncertainty has in general. Businessmen loathe uncertainty. Business in general loathes it. Not just for TAA but for taxes and regulations and a whole bunch of things that you all know about. Uncertainty for TAA is just as injurious as uncertainty generally.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. PLATTS. Yield to the gentleman from Virginia for questions.

Mr. CONNOLLY. Thank you, Mr. Chairman. It's been a fascinating discussion. Of course, as has been the case, every time we have a witness from the 11th District of Virginia, there's a certain aura that's projected. And, Mr. Borlik, you certainly are keeping that tradition. So thank you.

Mr. Gomez, let me just say in the GAO report, you look at, Commerce should establish more effective measures of program outcomes. It should improve its data collection. And it should allocate funds in a way that considers program needs and costs. Those almost sound like generic critiques of any Federal program. There's nothing unique about this. And I heard Mr. Borlik say how grateful he was to the GAO and so forth, but it just seems to me one could

bore down a little bit more to be more helpful than these kinds of generic critiques.

In those critiques, would one part of the solution be: Let's invest more in technology so we can do that stuff?

Mr. GOMEZ. Well, in regards to the first recommendation that we made to have Commerce look at developing more performance outcome-oriented measures and goals is that the whole purpose of our study was to look at the impact of the study, or to look at the impact of the program. So from the performance measures that Commerce has and the data that they have, we weren't able to determine what's the impact. So we put together an economics model, we did a regression model, where we looked to isolate the impact that participation in the program had while controlling for other factors.

Mr. CONNOLLY. Mr. Gomez, I appreciate that. I'm just trying to get at a simple question: Would more investment in more technology, IT capacity, help them help this entity better comply with your recommendations?

Mr. GOMEZ. We didn't look specifically at that, but I think that's something that perhaps Mr. Borlik could answer if that is a specific need.

Mr. CONNOLLY. Mr. Borlik, do you think that might be part of the solution in terms of looking at the GAO recommendations and going, how are we going to implement those or better comply with those?

Mr. BORLIK. I certainly do, yes.

Mr. CONNOLLY. Mr. Bujalos, I was absolutely fascinated by your testimony. But as somebody who's in the consulting business—and I heard you say you were a management consultant—it sounds like that's what you do. You ticked off a whole bunch of stuff we don't do and I'm sitting here thinking, Then what is it you do do? And obviously you feel passionate that there's great value added in what you do. But if I'm sitting here as a layman, and I am, trying to understand your mission in life, I don't understand what your value added is.

Mr. BUJALOS. We don't want our clients to think of as consultants. So we don't use that term. A lot of what we do—

Mr. CONNOLLY. I don't want my clients to think of me as a politician. We don't use that term. But I don't always succeed.

Mr. BUJALOS. We bring to the table all the things that you and I both know about. And why do we do it? We do it because it works.

Mr. CONNOLLY. But in fact, you function as a consultant?

Mr. BUJALOS. Yeah.

Mr. CONNOLLY. All right. So, all right. We don't want the term, but. With the time that's left me, because I was thinking about the bagel baskets, give us an example, if not two, walk us through a successful example or an unsuccessful one from soup to nuts how you functioned and how it made or did not make a difference. Because I think you made a very impassioned example of what's at risk; what some of these small businesses risk. Just walk us through how it works.

Mr. BUJALOS. I'll give you two. One is not in MATAAC. This one is in northwest United States. And the company no longer exists

because it was acquired and split up and—the function still exists, but it's not there anymore. I think the owner now lives on an island someplace.

The company made—and I tell this in a lot of my presentations because I've done the research to make sure it was true because I couldn't believe it at first. The company was a family-owned company that made ceramic clay flower pots, the kind you buy at Home Depot. High tech? Not so much. Expensive? Not so much. They did it for like 50-plus years until a family in Taiwan realized they could do the same thing, ship them across the Pacific, offload them up and down the West Coast of the United States, and sell them for a price that was less than our client's cost.

Now flash forward 6-1/2 years. A ceramics engineering company was hired and a marketing firm were hired. The company was still in the ceramics business, but now they were making ceramics for Boeing Aircraft. Not everybody survived. About 70 percent of the employee base decided to stay on the train, but they had to listen to something that modified their behavior and was not necessarily pleasant; i.e., you've got to go back to school. But I've got a family to raise, I've got this and I've got that. But that is why God made nighttimes and weekends.

So now they're making a much more sophisticated product mix. They're making it for a customer mix that isn't very tolerant of an occasional chip or crack. Not very forgiving at all. And they have to understand—and now they do—that they are in a kind of a business where somebody on this planet is going to clone it in 9 months—and probably cheaper than you're doing it. That means they had to become pretty masterful at creating new products quick time; knowing also that 80 percent of the time, your new product is going to be a miserable failure, or even mediocre, at very best. So you've got to do a lot of them and you've got to be prepared for a lot of failure. But one or two of those are going to be the blockbuster that are going to pay for all the other mistakes. That's the kind of world they're living in now. It's not necessarily comfortable, but it's quite rewarding. That's the first example.

Second example. This one does exist right now in your State. And I like it because it's not sexy. This is the kind of a business and a kind of an industry that the experts and the gurus like us would have said 30 years ago: Give it up. Don't mess with it. The world's going away from this stuff. It's going to Indonesia. It's going to Vietnam. It's going to China. It's going to wherever. The company makes shoes. Shoes. Feet, shoes.

The company was in mid-air, in red ink, bought by a former salesman from another shoe company. I think he bought it out of bankruptcy but I'm not sure about that fact. They were in very bad shape. Joined with us. The problem was we didn't get to join with them until the third year. That's why lots of time they're burning their working capital like crazy, figuring they can compete by simply slashing prices. When they finally realize that that's not working, it's really dangerous.

One of the first projects we did after they were certified and given the grant was we decided to hire a small software company, a three-man shop, and they were able to work with the company's CEO and his engineers to come up with an RFID tag. If you don't

know what that means, it's a tiny little grain of sand that's a radio frequency identification. And the company inserted one RFID tag in every single shoe in inventory.

Now as a side bar, understand if you're in the business of making shoes, it's shocking, I know, but they tend to walk at the end of each shift. So you have what is called inventory shrinkage occasionally. Putting an RFID tag in each shoe eliminated that by a Monday morning, saving about a million dollars worth of inventory costs. That began to turn red ink into black ink.

Second thing. Hired another software company. Because consider something, if you're in the rag trade you have bolts of fabric and you use geometry to figure out what the pattern has got to be and use a cutter or laser to cut out maybe a thousand sheets of fabric to come up with the dress or the shirt or the suits of whatever you're doing. But if you're in the business of making shoes, you're not dealing with a perfect rectangle. You're dealing with an animal hide. Each one is unique. But you still have the same yield problems, you still have the same waste problems. So how do you deal with it?

So we had another software company that took a table like this, but made it a light table with a camera up in the ceiling so that the company could take the hide, place it on the table, a picture was taken of it, digitalized. The software then arranged the geometry of the pattern that was unique to that piece to maximize the yield from that piece and a laser cut it out. And then the next one and on and that sort of thing. I don't know what the savings was. It wasn't as great as the millions dollars, but it was significant. And it also gave this particular company a niche no one else ever thought of.

The third thing. And this one is still in process and it's failed twice, so I don't know if this is going to work. But in the shoe industry, traditionally, there has been an in-elastic market, a niche in-elastic market. The very high end. Some people have seen the movie called "Prada." There's a shoe called Prada, where people are willing to pay thousands of dollars for well-made Italian leather luxury shoes. Those particular customers don't care if it costs \$1,500 or \$2,500.

Well, our client wants to make an American Prada. One way to do that, aside from branding, because it's just like with Toyota and Lexus, you have to use a different distribution channel, different names, different Web sites, different everything, but also, he has to have new talent. So we've tried so far twice to hire a retired Italian artist, but there was a cultural problem with south Virginia and Rome. So we're trying it again this next summer to see if that works. Because my friend is determined to see if he cannot be successful in—it won't be called Prada, obviously—but to create something equivalent to that and proudly put a gold USA stamp in it.

Mr. CONNOLLY. Thank you.

Mr. PLATTS. I thank the gentleman. Ms. Norton, did you have questions? I yield to the gentlelady.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. Gomez, I was fascinated by the ratio of funding to imports here. According to your report, \$16 million available for these 11 centers to deal with a universe of

\$1.3 trillion in imports.

I have a couple of questions. You look at how the funds, this small amount, are divided to these 11 centers and the one-third allocated to the centers, according to what you call three variable factors, look like it has to do with the effectiveness of those centers: Approved business recovery plans, employees in approved recovery plans, and firms achieving expected results. That's really an effectiveness measure, is it not?

You indicate as what needs to be done, and I am quoting here: "A funding allocation formula should distribute funds according to the needs of respective populations." Now I need you to define for me what you mean by "needs," given the diversity of the so-called populations that these centers deal with. The needs of firms, the needs of the geographic area. I'm not certain I understand.

Mr. GOMEZ. Right. So two-thirds of each of the centers' budget is—essentially, they all get the same amount of base funding. The one-third that you're referring to is based on those three variables. The point that we were making on the funding formula is that each region has different firms in need. So we were asking Commerce to look at revising its formula allocation to look and see the number of firms that may be in need. So they may differ from one center to another.

Ms. NORTON. So if a center had a—

Mr. GOMEZ. Greater need, for example, perhaps that should be taken into account in their funding formula.

Ms. NORTON. Rather than this base equal.

Mr. GOMEZ. Correct.

Ms. NORTON. That's very interesting. I know that when you're in Congress everybody wants to make sure they get the same thing everyone else gets. But when you're dealing with such a small, tiny amount of funds, it does seem to me the highest and best use needs to be taken into account.

I have to ask you, given the small amount available to these centers and it really miniaturizes when you divide it 11 ways, are there case studies, is there any way to make this replicable to other small businesses, such as my colleague's question, to give an example, to go through what a firm goes through. You help a business. That business learns. Is there any way that other businesses, either in that area or in the larger universe can learn from that experience or is that—forgive me the term—lost, because it helps one firm and nobody ever hears about it and can replicate it himself or herself.

Are there case studies? Should those be done so that firms see what other firms have done and perhaps one can get a bigger bang out of this small amount of funds. Could I ask your views of the three of you? And if not case studies that were publishable, is there any other way to share whatever a firm gets from its relationship with one of the centers?

Mr. BUJALOS. We do at least one every month.

Ms. NORTON. One what?

Mr. BUJALOS. Case study.

Ms. NORTON. And you publish that?

Mr. BUJALOS. Yes. Well, we send it to the head office. There is a book of them. We do them quite often.

Mr. BORLIK. We've collected a great amount of those. And the Trade Adjustment Assistance Centers have done a terrific job in sharing those with us at EDA. They're busy as it is, and we've asked for a little bit more in collecting these case studies so that we can share them both within the Department of Commerce, across the administration, and eventually, hopefully on a Web site where we can promote the best practices. We do have to be careful about confidentiality.

Just real quickly for an example—we don't have to use the names of the companies—but there was a food processing plant operating out of Salem, Oregon, and also in Kentucky, losing sales to less expensive imports from both China and Chile. And the Northwest TAAC in Portland, Oregon, helped them develop a business recovery plan that was aimed at increasing market share, sales and profitability, new product development. The project started in 2005. And since completing the projects out that were identified within the adjustment plan, they've created 231 jobs, not only saving the business, but created 231 jobs and increased sales by \$37.4 million, which for a small business is a great increase.

I think it's a great question about whether or not we collect examples. We do on a regular basis. We have quite of a few of them. And the intent is to try and share those as much as we can.

Ms. NORTON. When you consider the small amount of money obviously is not going to be get larger in this Congress and perhaps in successive Congresses. It does seem to be that it is perhaps the most valuable thing you could do. Otherwise, this one-on-one as magnificent as it may be to each individual lucky enough, and I use that word advisedly, because with the need that may be out there, part of being one who gets this service may indeed be luck. The value of making as much information available to the larger universe of companies seems to me to multiply many times what conceivably you do for an individual firm.

I would like to ask Mr. Gomez whether or not GAO attempted the gold standard of taking firms, or anyone has done this perhaps with the program of taking firms that did not receive the assistance and comparing them with firms that did, perhaps in the same business or trade or category. Has that ever been done, if not, should it be done?

Mr. GOMEZ. So in our study, that other group that you're referring to is referred to as the control group.

Ms. NORTON. Yes.

Mr. GOMEZ. So we had difficulty finding that control group. So instead, the analysis that we did is we essentially compare the firm to itself so we compared and gathered data for each of the firms before they participated in the program and then after participation. So that was the analysis that we did. We did not find the information for that control group so you know where the funds are that did not take advantage of the program and why perhaps.

Ms. NORTON. Oh, thank you very much, that's very helpful.

Mr. PLATTS. I thank the gentlelady, will yield to myself for additional questions.

I want to come back on the issue of how we are evaluating the TAACs and how it relates to the funding of the TAACs. And it's my understanding that—and this was an issue raised by Mr.

Gomez's testimony in the study about the way the funding is distributed, that in the 2010, 2011 fiscal year that there was one TAAC, I believe the western TAAC that received the same funds as New England, mid Atlantic and the western TAAC only submitted one adjustment plan petition for a single company for the entire year. One, is that accurate Mr. Borlik, to the best of your knowledge?

Mr. BORLIK. I would have to go back and look at that, I know that that particular TAAC does produce many fewer petitions than the other TAACs, I think that's accurate. I don't recall whether it is one or not but it definitely produced fewer.

Mr. PLATTS. That's my understanding, that in the entire year, they had one adjustment plan petition submitted. And this goes to, again, the evaluation. If that's accurate, and there's other TAACs that have a waiting list, and it's my understanding that mid Atlantic and New England have a backlog, I'm not sure if this is a current number, it might have been in that same fiscal year, but a backlog of over \$6 million in unfunded projects.

So we have some regions that have a backlog, and then we have another one submitted just one plan. Again, that seems like a natural to evaluate what's that TAAC doing, or I would contend not doing to assist, because my guess is they've got companies in as great a need as New England does or mid Atlantic does, but they are, for whatever reason, not performing, yet there is no annual review of that and no consideration of making a change. And it really makes a point of what I asked earlier about the fact that we haven't rebid in over 30 years any of these. It just doesn't sound logical. And it goes to the GAO recommendation that one of the flaws of the program—again, we're trying to—how can we help raise issues that will ultimately strengthen the program? That's the goal of this as an oversight committee, the GAO's recommendation is to change the funding formula so it's better allocated based on where the need is and is being identified. And if we have certain regions with a waiting list, we have companies saying, hey, we need this help, and that TAAC is short of funds and can't help all of those in need, but we have another TAAC that's got funds they're not using. It is not a question of we need more money, it is a better use, better distribution of the money.

Mr. Gomez, you used a term, I think beneficiary equity is the term used in your testimony, that the current formula doesn't achieve that. That you could have a company in California, you know, and a company in Pennsylvania that don't have the same opportunity for assistance because of there's a waiting list in Pennsylvania and there's excess funds. Is that an accurate assessment or statement of what your report finding is?

Mr. GOMEZ. That is correct, yes.

Mr. PLATTS. Is that something you're looking at at EDA and to have the TAAF division to look at a change in how you're distributing funds?

Mr. BORLIK. Absolutely it is. We have for the first 2 years of the TAAF division, we focused on operations and getting up to speed in terms of quicker turnaround times in petition review, and in the review and approval of the adjustment proposals, moving forward and not just moving forward from now, but over the past year, the

TAACs and I have met and talked about performance. We held—I think it was this past February where we held a meeting in Washington with all 11 TAACs, and the focus was almost entirely on performance, on what performance accountability should look like, on what the changes to allocation formula should look like. And the fact that we all think, I believe, I certainly do, I know that EDA does, and I know that many TAAC directors believe that this allocation formula should be focused on performance. Now that we with have kind of gotten through that initial phase of improving the operations, we are heavily focused on performance.

And I should clarify when the 2-year point is about EDA's overall development of a performance measurement system for all of its programs, by no means does that mean that we have to wait to make changes to the TAAF allocation formula.

Mr. PLATTS. Okay.

Mr. BORLIK. We are working on it now.

Mr. PLATTS. Understood. In the issue of performance of the TAACs, for the fiscal year ended September 30th, did you have some TAACs turn back money while you had others that had a waiting list?

Mr. BORLIK. We had TAACs turn back money, yes, we did. In terms of a waiting list—

Mr. PLATTS. Unfunded projects—

Mr. BORLIK. Unfunded projects in other TAACs. And EDA asked for that money—well, required that money to be returned and re-obligated and reobligated solely to projects, not to administrative costs, but solely to projects. And so we did take that money back.

Mr. PLATTS. Is that a new approach? Because again, my understanding is that, when I see in Mr. Bujalos's testimony, 14 times returned for every dollar that we are investing in the program, there's a \$14 returns to taxpayers because of the productivity, because of economic growth that occurs. So it is not a question of we need more money, but just the money we reappropriating gets well used.

Mr. BORLIK. Right.

Mr. PLATTS. And my understanding in the past we had TAACs returning money, and other TAACs have unfunded liabilities, and that goes to the beneficiary equity issue. So what you're telling me now for the fiscal year that just ended, we are changing that approach?

Mr. BORLIK. That's entirely correct. It has always been, to my understanding, again, I've been doing this for 2 years, that any funds that have not been spent have been returned and then equally divided per the allocation formula across all TAACs. What we did this past year, and again, this is part of the new approach under a new TAAF division, is to take those funds back, and to redistribute those to be focused solely on the not administrative costs, but on the backlog of services for clients of unfunded projects for clients.

Mr. PLATTS. And that's where I'm hoping to get to in a greater, in a more timely manner, meaning not just once a year toward the end, but perhaps on a quarterly basis, if you've got New England, you've got this waiting list of projects that have been identified, certified, hey, these companies need help; they have got a plan, but

we just need that seed money that would generate a \$14 return for every dollar we spend. We have other money sitting out in western or wherever TAAC not being used in access, especially if there's, my information is correct, one plan even submitted in that fiscal year, to do that on a more time sensitive, because those companies that are in need can't wait, they need the help now.

And so it sounds like you're trying to move towards that direction and that comes back to where I started my question which is, performance evaluation of the TAACs, as the TAACs are looking at how the companies are using money, the division, and EDA, and ultimately the department need to look at how the TAACs are using the money, and to make sure that we're getting the biggest bang for the buck here. And that doesn't seem to have been the approach in the past, whether it was in the lack of any rebidding in 30 years, whether it was in the way of distributing funds.

And then a final question, and this goes, Mr. Bujalos, you raised it in your testimony when you highlighted a number of suggested reforms. I appreciate that you stated even if none of them were adopted you see the benefit of the program day in and day out. You listed six different suggestions, one of which was—I'm trying to find it here, but you talked about the qualifications of those who are part of TAACs and the skill set—

Mr. BUJALOS. Yes.

Mr. PLATTS. —because in your own testimony, I appreciated you listed your background, which is obviously very, very extensive business background from management, project manager, project processing engineer, project manager engineering—you clearly have had a very extensive background. For your own TAACs, could you comment about the staff you have, what type of, I'll say real-world experience do they have, similar to what you have?

And then, Mr. Borlik, is there, in that evaluation process, are you looking at putting in place a more definitive requirements for the type of staff that should be manning these TAACs that they have real-life business experience to provide the level of expertise and assistance that these companies need. Mr. Bujalos, if you want to go first.

Mr. BUJALOS. You know what my checkered past is, the previous panel mentioned that Todd Shevlin they worked with, and also Dr. Mercer. Dr. Mercer is a Ph.D. In management, a Bachelors in finance, he's retired, but we see him occasionally. Todd Shevlin is a relatively young guy, he's in his middle 30s, he's got a bachelor of science in finance. He's got a bachelor of science in IT, Information Technology, and he has an MBA with a finance subset, some from Villanova, some from Penn.

We have another individual who doesn't work too much with clients but works in the back office and takes care of the certification work who has a bachelor of science in accounting and finance. She has worked with Watson Wyatt worldwide and a few other large companies. Todd has also been a founder of two companies that he has since sold. His predecessor was a Salman Jean, who also founded several restaurants and has a degree in engineering.

Mr. PLATTS. So they were out dealing with these issues?

Mr. BUJALOS. He's still making payroll by Thursday afternoon and that's all that has to say about it.

Mr. PLATTS. That's what came through in your testimony of your own experience sounds like those who are working with you and——

Mr. BUJALOS. I just want to add, we have seen, and I'm sure my friend from Virginia can back this up, when you're working with business owners, if you can sit in front of them and prove to them that they are not going through anything you haven't already gone through, it's much easier for you to argue the points you want to argue.

Mr. PLATTS. That, Mr. Borlik, goes to, my question to you is, my understanding is, currently there is no requirements or input from EDA or the division of what the staff training or backgrounds are of those staffing the TAACs. Is that something you're looking at to try to, again, better ensure that these TAACs have expertise that really does relate to the real world to these companies that are in great need?

Mr. BORLIK. We can certainly do that to the greatest extent possible. I should point out that all grants that are made to these trade adjustment assistance centers have both standard terms and conditions from the Department of Commerce and special terms and conditions within each award. And I'm not entirely clear as to the level of detail that they get into in terms of requirements and qualifications of staff, but it certainly—they certainly address that in terms of making the point that we expect there to be the highest quality staff available and that the TAACs should be held accountable to that. So that is, in one way or another, within the conditions of the award.

Also mention I do conduct site visits myself. I'm not able to do as many as I would like because of—EDA's travel budget isn't exactly the highest. But I do make site visits to meet the staff myself. I also—and to tell you the truth, I've been very impressed with the staff that I've met. I have also, am responsible for reviewing the qualifications—I wouldn't say approving, but reviewing and concurring with any changes or hires and key personnel, that's part of the special terms and conditions of the awards.

So I do that regularly and certainly pay very close attention to what those resumes look like, make sure that they are appropriate. And then we, the TAAF program staff and I meet on a regular basis and discuss program operations, certainly including how the interaction is going between our TAAF program staff, and the staff within the Trade Adjustment Assistance Center. So that is something we pay close attention to.

Mr. PLATTS. And again, I appreciate that in taking on the role as director of the division and getting the division stood up, and as you talk about moving to the next phase, that performance evaluation is a big part of it, and what you just said was having the best qualified staff out there possible, and that will bring me back to where we started. If we're not doing any rebidding of saying of these 11, these two or three are the lowest performing, so this year we're going to look at those two or three in the coming year to rebid and see maybe there is a team of—because you said the key is the best qualified people doing the work that taxpayers are paying for.

So my hope is, and I will summarize, and I kind of have three areas I raised with you, annual review, the fact you haven't done it in 30 years, to see if there is any way we can do it better. I hope that's something that's going to stop. While I'm leaving the staff on both sides, the committee staff will continue to work, and Mr. Connolly and others, returning Members can look at. The inequity, I'll say the not well-thought-out funding distribution that results in beneficiary inequity that you have a company need, can't get assistance, and have dollars sitting out in another region where there is no one asking for the assistance that we're not addressing that, and then making sure that we do have the best people possible in these important positions.

So you're focused on performance, I think, in the end will take a good program and make it great, hopefully that \$14 return will be \$16 or \$18, because it's not a question of, from what I'm hearing, more money, but how we're using that money, or better allocating it.

Mr. BORLIK. I can assure you I will take all of that back to our leadership.

Mr. PLATTS. I appreciate it. I know we're all on the same page here, and we're all after the same thing and this is good government and whatever dollars we spend result in a good return for the American people, and especially when we are helping save American companies that are now shipping products to China, instead of receiving products from China, so we're on the same page. I'm going to wrap up, Mr. Connolly, do you have any closing remarks or final questions?

Mr. CONNOLLY. I did, Mr. Chairman, if you don't mind.

Mr. PLATTS. Yes.

Mr. CONNOLLY. Real quickly, Mr. Borlik, Mr. Bujalos, and Mr. Gomez, for that matter, when Mr. Greenblatt testified, one of the things he cited as a small businessman and a champion of the program was the paperwork requirement. It is onerous, it's costly, and a lot of small companies working at thin margins, just, it's a struggle. You concur that we could streamline the process, I think, Mr. Bujalos, you held up something that ultimately is something that's 100 pages. Can we streamline it? Can we make it more user friendly for our clients?

Mr. BUJALOS. Absolutely. For instance, last week, I sent out to all of our consultants, it's about 700 of them, but the active bunch is about 500, a small piece of computer code that has a graphic of the American flag on it, and I requested that they put that on each one of their Web sites with the title Federal assistance, TAAF. That will take whoever goes to their Web site and wants to discuss it, they push it, it takes it to my—our Web site in MATAAC, where we have added another page that begins the process of applying online.

Now that isn't as necessarily as cool as it might sound. There is a lot of paperwork, there is a lot of look-back that we have to verify because of the statutory requirements, but there is a silver lining in this effort also that I don't want people to ignore. It's a good thing to work hard for something, and if we can take a company through the paperwork as quickly as we possibly can, and force them to be in a position where they have to look back 4 years in

their finances for a company that you and I might operate that merely amounts to swiveling in our chair and reaching into a cabinet and pulling out some folders.

For a lot of these companies who have shaved everything down but bone, that's a task. Okay, well there's a benefit for them learning what that task is all about, and the value of going through that. And that helps people like me to help people like them to automate what they should have automated already. So it's not all bad, but there is a lot of paperwork. It probably should be looked at two or three more times before we're sure of it.

Mr. CONNOLLY. And you concur, Mr. Borlik?

Mr. BORLIK. I do concur. I do think it is way too much paperwork. I realize, of course, that there is the statutory need to prove import impact, there is a statutory requirement to prove that there is injury, financial injury, sales losses, employment losses, the regulations, I do believe, I don't know what my office of chief counsel will think about this when I get back, but I do believe the regulatory requirements coming out of the statutes are very complex and require a lot of paperwork.

Mr. CONNOLLY. Sometimes up here we don't want to admit, Mr. Chairman, we're part of the problem, and the requirements we sometimes impose. Mr. Gomez?

Mr. GOMEZ. Mr. Connolly, I wanted to add, many of the firms that we spoke with during our study did have that common complaint, it is a lot of paperwork requirements. It is, as Mr. Borlik noted, that it is the requirement that firms have to demonstrate that have been trade-impacted. So having to look back a couple of years to show whether the impact was on the sales or the employees, it's that sometimes they didn't have that information readily available and they have to get it. I think you heard it also from the three firms this morning that that was something that held them up also.

Mr. CONNOLLY. Well, let me ask you a question about that, though. I mean, Mr. Bujalos and his colleagues, aren't they in the business of certifying that someone has been negatively impacted? So what's wrong with having them do the certification rather than the onus on the potential client having to prove it themselves? Come on in, and you decide whether I am eligible for help.

Mr. BUJALOS. My suspicion however is that this requires a statutory chain.

Mr. CONNOLLY. Okay. I have one final question, and I do want to echo what the chairman said, there is a certain irony in not rebidding. Our mission here is to help companies regain their competitiveness if we can, but we're not competing. And maybe we found the ideal 11 who just can never be perfected and nobody can touch them, and they should be *ad infinitum* those 11. But I think we ought to hold ourselves to the same standards of the efficiencies that can be achieved through competition. And so I think we ought to do a little self-examination there.

But final question, going back to you, Mr. Bujalos, you gave us two great examples. Help me understand what your role was. Were you the ones making the recommendation, put in the radio identification so you cut down on loss? Were you the ones who said, you know, let's digitalize this so that we can look at that piece of leath-

er and be more efficient in what to do with it. Were you redesigning shoes or showing competition?

Mr. BUJALOS. No.

Mr. CONNOLLY. What was your role that helped them with those two stories you told us.

Mr. BUJALOS. Well, the first story about the flower pots, I wasn't there physically, that was in the northwest United States.

Mr. CONNOLLY. When I said "you," I meant the center.

Mr. BUJALOS. Okay. In the second one, I was physically there, that was one of my personal clients. I wrote the adjustment plan for that company and I got to know the owner quite well. The short answer is no. What I really did was, I think, I'm not sure about this, I think what I did over a period of time, because I visited with them physically, extensively, in one case, spent the entire day with them interviewing every one of their C level executives and also their key plant people as well as the chief executive, individually and collectively.

All I think I really did was provide an environment where they could start thinking about something other than trying make that order this afternoon to get on the loading dock. Sometimes it depends on leadership, sometimes you have a problem because there is no leadership in a company, and I will grant you that. But in this particular case, the leadership happened to be there, and the kinds of people we picked for his particular staff were there. What they really needed was the time and the ability behind a door that was closed and phones that weren't ringing. And it took place. I don't think I did any more than that, to tell you the truth.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Connolly. And it really kind of goes to Ms. Britton's testimony in the first panel that the assistance of the TAAC helps facilitate those internal discussions that they actually took the time to sit down and start to have that dialogue as opposed to just trying to get the products, the next order out the door.

So a couple final comments, one on the statutory impediments to streamlining, Mr. Borlik and GAO and the TAACs, we certainly, as a body, we are always glad to have recommendations, we know what you intended, but the way you wrote the statute is asking for things that are not relevant to our assessment of whether someone is trade-impacted or injured. Those kind of recommendations, I know Mr. Connolly would welcome those for the new session as far as how we can strengthen this program going forward and lessen that statutory burden.

When I talked about the yearly rebidding, I wasn't suggesting every year you should be rebidding 11 TAACs,

that would not be very efficient—and Gerry, thank you for great input, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. PLATTS. But that probably every year maybe one or 2 should be being looked at for multi rebidding process, so it's not 30 years since we've done any.

And finally, in closing, I think goes to the really heart of this program and leveraging a small amount of money that ultimately generates a huge reinvestment in return for the companies, and ulti-

mately taxpayers, is Mr. Bujalos, in your testimony, something that stuck out to me, when he says "We don't pick up the pieces after catastrophic layoffs have occurred and try to create new careers out of the old cloth. Our job is to help prevent catastrophe in the first place. It is a lot cheaper and immensely more effective."

And I think that captures the importance of this program. This is trying to not help retrain workers, and my one brother, his steel company, his job went away, he went back to get retrained but the job was gone, it is to try to help that steel company stay in business in the first place.

To each of you, I appreciate your testimony, I appreciate what you do day in and day out. Whether it is at the TAAC, at the division, GAO, we're grateful for your work and your testimony. We will keep the hearing testimony open for 7 days for any other materials you want to submit. With that this hearing stands adjourned.

[Whereupon, at 12:42 p.m., the subcommittee was adjourned.]

“Trade Adjustment Assistance for U.S. Firms: Evaluating Program Effectiveness and Recommendations”

Chairman Platts’ Opening Statement

November 14, 2012

Today’s hearing will evaluate the Trade Adjustment Assistance for Firms program, or “TAAF.” TAAF is a program administered by the United States Department of Commerce and has helped small and medium sized companies in the U.S. stay competitive with overseas markets for the past fifty years.

TAAF operates out of the Commerce Department’s Economic Development Administration (EDA) and has been helping firms since it was put in place in 1962. The program is currently authorized through 2013 at an annual spending level of \$16 million.¹

TAAF support is provided to eligible firms through a network of eleven EDA-funded Trade Adjustment Assistance Centers, or “TAACs,” located throughout the country. The Director of the TAAC for the Mid-Atlantic region, Mr. Bill Bujalos, is here with us today.

Consultants at each TAAC work alongside eligible trade-impacted firms to develop business recovery plans, or “adjustment proposals,” that are tailored to increase productivity for their specific business model. Companies have five years to implement proposals once they are approved, with EDA typically covering up to 50 percent of implementation costs.

According to the American Business Council, 829 firms were assisted nationally through TAAF from 2006 through 2010. More recently, in 2011, 149 U.S. firms with average sales of \$20 million and approximately 100 employees each received a total of \$12 million in financial assistance through TAAF. The vast majority of these small companies were in manufacturing, an industry that is still struggling nearly four years after the 2009 recession.²

Today’s hearing will evaluate the extent to which TAAF has increased the productivity of participating firms. According to EDA’s most recent annual report, firms receiving funds in 2009 now report that average sales have actually decreased by 1.6 percent, and average employment has decreased by 1.9 percent.³ This lower productivity is thought to be temporary, however, as companies often need time to adjust to their new business strategies. Firm performance must also be considered alongside broader economic indicators like the nationwide unemployment rate, which has remained considerably strained for the past few years.

Mr. Bryan Borlik, Director of TAAF at EDA, is here today to explain the operation of TAAF along with some of these long term performance considerations.

¹ Trade Adjustment Assistance Extension Act of 2011, (Oct. 21, 2011), (P.L. 112-4)

² Megan M. Barker, *Manufacturing Employment Hard Hit During the 2007-09 Recession*, Monthly Labor Review, U.S. Bureau of Labor Statistics, (April 2011)

³ Economic Development Administration, *U.S. Department of Commerce, Annual Report to Congress on the Trade Adjustment Assistance for Firms Program: Fiscal Year 2011 Annual Report*, (Dec. 15, 2011)

Another goal of this hearing is to determine how Congress can improve execution of TAAF. In 2010, the U.S. Government Accountability Office (GAO) claimed that the impact of federal assistance to firms through TAAF was “unclear.”⁴ Last month the GAO released an updated report arguing that the program has been useful for participating firms⁵ and we will hear from them today about their recommendations for how to make TAAF more effective.

Finally, we will hear from companies that have participated in the TAAF Program. This Subcommittee is honored to have job creators from four firms that have received TAAF assistance testifying on today’s second panel and we welcome Mrs. Patricia Britton of Topflight Corporation in Glen Rock, Pennsylvania (which is located in my home district), Mr. Thomas Zieser of JACE Systems in Cherry Hill, New Jersey, Mr. Drew Greenblatt of Marlin Steel of Baltimore, Maryland (which is located in the Ranking Member of the Full Committee’s district) and Mr. Marc Rothstein of Prime Synthesis in Aston, Pennsylvania. We sincerely appreciate all of our witnesses being with us today and thank them for their willingness to share their knowledge and insights regarding the TAAF Program.

There is no doubt that trade is critical to the prosperity of our country. The U.S. is the world’s largest trading nation: in 2011 alone, we exported goods and services totaling over \$2.1 trillion, which supported nearly 10 million jobs.⁶ It can therefore be easy to overlook what a devastating impact increased overseas competition has had on the profitability of our small businesses.

It is a well known fact that small businesses are key engines of new job creation and that small U.S. companies are struggling in the face of international competitors. So today we want to focus on these firms, on the severe economic dislocation that businesses today often face trying to meet their bottom lines on a daily basis.

We must ensure that, in doing right by our nation’s trade-impacted employers, we are also protecting the financial interests of all American taxpayers. I look forward to hearing from our witnesses about how we can continue to help firms in our country survive and prosper in the increasingly competitive, globalized world in which we live.

⁴ U.S. Government Accountability Office, *Trade Adjustment Assistance: Impact of Federal Assistance to Firms is Unclear*, Report GAO-01-12, p. 6, (Dec. 2000)

⁵ U.S. Government Accountability Office, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve*, (Sept. 13, 2012)

⁶ Office of the U.S. Trade Representative, Executive Office of the President, *Benefits of Trade*, (accessed on Sept. 6, 2012)

Statement of Congressman Gerald E. Connolly (VA-11)
Subcommittee on Government Organization, Efficiency and Financial Management
Trade Adjustment Assistance for U.S. Firms:
Evaluating Program Effectiveness and Recommendations
November 14, 2012

Chairman Platts, Ranking Member Towns, thank you for holding this oversight hearing to evaluate the performance and management of the Trade Adjustment Assistance (TAA) for Firms program, which is administered by the Department of Commerce's (Commerce) Economic Development Administration (EDA). I commend the Chairman and the Ranking Member for their longstanding commitment to holding fair and substantive oversight hearings that not only highlight deficiencies in government programs, but more importantly, do so in a constructive manner that allows Members to work in a bipartisan fashion to ensure corrective actions are developed and implemented.

Today's hearing is representative of this Subcommittee's productive approach: employing a rigorous, independent U.S. Government Accountability Office (GAO) analysis examining the effectiveness of TAA, resulting in the development of three key recommendations for executive action to improve a program that GAO found enhances the competitiveness of our most vulnerable industries.

Since 1962, Congress has recognized the importance of providing technical assistance to small and medium-sized American businesses negatively affected by trade liberalization policies and emerging international competitors. As a Member of Congress who spent over a decade serving on the Senate Foreign Relations Committee staff, I have long been advocated the necessity for the United States to proactively engage in developing free and *fair* trade agreements.

As GAO's testimony notes, U.S. imports have nearly doubled over the past decade, reaching \$2.7 trillion in 2011. During the same period, the U.S. entered into 14 free trade agreements (FTA) with partner countries. Although trade liberalization has benefited certain American industries, including innovative firms in the 11th District of Virginia, there is no question that the proliferation of FTAs has also been disruptive to many American companies, particularly those in the domestic manufacturing sector.

There is no denying the challenges associated with increased trade liberalization. However, experience in recent decades demonstrates the difficult reality that globalization is likely the inevitable result of a world undergoing unprecedented technological advancements and increased interconnectedness. I believe it has never been a question of whether U.S. firms engage in global trade, but a question of when, and most importantly, *how*.

While there are many reasons that the United States must lead in crafting trade agreements to best protect American economic and geopolitical interests, it is critical that policymakers neither overstate the benefits, nor overlook the needs of communities rendered uncompetitive. Analysts who fail to adequately and honestly address the negative and difficult tradeoffs associated with free trade do our Nation a great disservice, and can lead to mass disillusionment and protectionist policies.

(OVER)

Moreover, ignoring the downsides of free trade may cause policymakers to discount the importance and necessity of critical transitional support such as TAA. Neglecting to help American businesses compete in the global economy can ultimately endanger public support for agreements that open up foreign markets for U.S. companies. Further, refusing to reach formal agreements will allow international competitors to continue to play by a different set of rules than their American counterparts.

I supported efforts to enhance TAA under the American Recovery and Reinvestment Act, and am pleased that GAO found four statutory changes to the program led to improved program operation and greater participation. However, as GAO noted, EDA must continue to improve TAA's performance management by enhancing data quality through better information collection methods, guidance, and verification measures.

As a champion of trade adjustment assistance in principal, and especially the TAA for Firms program in particular, I strongly support increasing funding to better support small and medium firms participating in the program, which only received \$15.8 million annually for fiscal years 2009 through 2012. However, I also recognize that it is incumbent on TAA champions to make sure this program is administered efficiently and EDA is held accountable for effectively accomplishing its goals. I look forward to learning about what actions Commerce has taken to implement the outstanding GAO recommendations.

-END-

Opening Statement

**Rep. Elijah E. Cummings, Ranking Member
Committee on Oversight and Government Reform
Subcommittee Hearing on
“Trade Adjustment Assistance for U.S. Firms: Evaluating Program Effectiveness
and Recommendations”**

November 14, 2012

Mr. Chairman, I want to thank you for holding today’s hearing, and I want to thank you for your service to your country and to this Committee. I also want to thank my friend and colleague, Congressman Ed Towns, for your many years of service and your leadership on this Committee. Together, both of you have demonstrated that real bipartisanship and collegiality is possible by the way you have conducted yourselves and this Subcommittee. Your contributions will be missed after your retirement this Congress.

Some people seem to believe that government should have no role in the economy. They say, innovation is not something government can foster. They say, all entrepreneurs need is for government to get out of the way.

Today’s hearing illustrates how wrong that thinking is. Today, we will hear from businesses that experienced very hard times, that were under crushing pressure from cheap imports. And thanks to a government program, the Trade Adjustment Assistance for Firms program administered by the Department of Commerce, these small to mid-size companies transformed themselves into more competitive, more productive, more profitable businesses.

Marlin Steel Wire Products, located in Baltimore, MD, is a case in point. Marlin’s core business was simple steel baskets for the food industry. But imported Chinese products were cheaper and they were taking away that business. With assistance from the Trade Adjustment Assistance for Firms program, Marlin seized on an opportunity to transform itself into a more sophisticated steel manufacturer for the aerospace industry. They made effective investments in technology, grew the new business, raised worker salaries, and now, they even export to China.

Marlin is far from alone. According to the GAO, the Trade Adjustment Assistance for Firms program has achieved a remarkable record of providing effective assistance to small- and mid-size businesses. Seventy-three percent of participating companies became more profitable, 71% retained their workforce, and 83% attribute success in keeping the doors open to the help they received through the Trade Adjustment Assistance for Firms program.

Now, our economy is growing slowly back from the deepest economic crisis since the Great Depression. Economic pressure caused by cheap foreign imports puts American manufacturers in an especially difficult position to make a comeback.

The Trade Adjustment Assistance for Firms program makes a difference for these companies, and for the workers and communities that depend on them. Congress needs to maintain our commitment to funding the program adequately. I hope all of my colleagues will take note of the testimony we receive today and will support full funding in the coming budget.

Thank you and I yield back.

**Western Trade Adjustment Assistance Center
Clarification Memorandum**

On November 14, 2012 the Committee on Oversight & Government Reform held a hearing at 10:00 a.m. in 2247 Rayburn House Office Building. The hearing was titled "Trade Adjustment for U.S. Firms: Evaluating Program Effectiveness and Recommendations." Mr. Bryan Borlik testified at this hearing as the Director of the Trade Adjustment Assistant for Firms program.

During his testimony, Mr. Borlik was asked by Rep. Todd Platts about the number of "adjustment plan petitions" developed by the Western TAAC in the 2010-2011 fiscal year. Without citing the specific source of his data, Rep. Platts asked Mr. Borlik if it was correct that Western TAAC only submitted a single adjustment plan petition during the 2010-2011 fiscal year. Mr. Borlik responded that he would have to go back and confirm the number.

In an effort to clarify the record, the purpose of this memorandum is to provide Rep. Platts and the Committee with accurate information.

There are two steps to receiving technical assistance under the TAAF program. First, firms must submit a Petition to EDA for certification of eligibility under the program. Once a firm has been certified as eligible for TAAF (approved Petition), the firm must obtain EDA approval of a business recovery plan (Adjustment Proposal) prior to receiving TAAF-funded technical assistance.

In fiscal year 2010, for Western TAAC, Petitions for 12 firms were certified for TAAF and Adjustment Proposals for 9 firms were approved. In fiscal year 2011, Petitions for 7 firms were certified for TAAF and Adjustment Proposals for 8 firms were approved.

We respectfully request that the record be amended to include this corrected information.