

Hearing on Small Business Trade Policy
United States House Committee on Small Business
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Introduction

I am Mark Luden, CEO of the The Guitammer Company. Based in Westerville Ohio, Guitammer is a leader in low frequency sound products and technology. Our innovative and award winning line of patented ButtKicker-brand low frequency audio transducers allows users to feel the full impact low-frequency sound (bass).

ButtKicker brand products are used around the world by leading entertainment and movie theater companies, by world-famous musicians; in home theaters, simulators and in high-end mobile audio systems. ButtKicker products patented design makes them musically accurate, powerful and virtually indestructible.

Our newly patented broadcast technology, ButtKicker LIVE! enables the excitement, impact and feeling of sporting events to be broadcast along with the sound and video.

Guitammer outsources the manufacturing of all its products. Some products are sourced as finished goods in China; some are sourced in China and assembled by a manufacturing partner in Kentucky and some products are sourced in the US. For example, we currently assemble the “Buttkicker” in Kentucky with parts imported from China, and we currently export finished product to China. The Company has and will continue to evaluate whether certain products can be brought back for manufacturing in the US as part of a “re-sourcing” initiative.

ButtKicker is a member of the Consumer Electronics Association (“CEA”) and I serve on CEA’s Board of Industry Leaders. CEA is the preeminent trade association representing the technology industry, and its more than 2000 corporate members are located in every state in the country. CEA is also the owner and producer of the International CES held every January in Las Vegas NV.

Even in these troubling economic times, the technology industry is driving the American economy. Today, the consumer electronics sector directly generates \$1.4 trillion in output, \$325 billion in labor compensation, \$145 billion in tax payments, and 4.4 million jobs in the United States. This economic activity translates into a direct contribution of

\$585 billion by the CE sector to U.S. gross domestic product (“GDP”) — 4.6 percent of the entire national economy.

Trade is an important component of U.S. economic activity in the CE sector, and exports remain the largest element of trade’s contribution. Exports of goods and services account for 10 percent of total CE sector output. This translates into approximately 1.5 million U.S. jobs reliant on CE exports and 2.4 million jobs reliant on trade overall. Tax payments of \$6 billion are attributable to the sale of U.S. CE goods and services overseas. That number grows to approximately \$30 billion when indirect and induced effects are included.)

This robust industry picture has developed despite the fact that CE markets around the world are not as open as they should be. The World Trade Organization (“WTO”) Information Technology Agreement (“ITA”), while an important boon to the global technology industry, does not include most CE products. Consequently, many CE products are still subject to significant tariffs and non-tariff barriers around the world.

Removing these tariff and non-tariff barriers and opening up new markets is one of the consumer electronics industry’s top priorities. CEA views bilateral trade agreements, for instance those negotiated with Colombia, Panama and South Korea, and the Trans-Pacific Trade Partnership (TPP) currently under negotiation, as vital steps in reaching the larger goal of multilateral trade liberalization.

Lowering trade barriers on a reciprocal basis will have a positive effect in terms of maximizing areas in which the US CE industry has competitive edges, such as in high technology parts, research and development, design, and the launching of new products. Agreements should be as broadly based as possible. While bilateral trade agreements are helpful, global trade liberalization provides the greatest benefits to consumers while avoiding the trade distortions that may benefit some members while disadvantaging others.

The Impact of Trade Policy on Small Businesses

The Administration’s goal to double exports in 5 years is welcome, ambitious and necessary. This goal can only be met by an aggressive effort to bring down trade barriers.

After a long period of delay, we are finally moving forward. I commend Congress and the administration on the recent approval of Free Trade Agreements with Panama, Colombia and Korea. There is no question that these agreements will help provide new opportunities for U.S. exporters of goods and services.

For example, enactment of the Korea Free Trade Agreement (KORUS) has a direct impact on our business. Our product, the ButtKicker LFE is used in numerous Korean movie theaters. Prior to the KORUS, our customer in Korea paid 8% duties for importing

our products. With the duty now removed by KORUS our product is significantly more competitive.

Additionally, KORUS included market opening measures on the US film industry. With US film producers able to export more of their content, we expect to see an increasingly vibrant Korean movie sector and with it the possibility of increased demand for our products.

Unfortunately, at times foreign and domestic regulations and policies intended to assist companies, actually act as barriers. Those barriers can unfairly and disproportionately affect small businesses which are not able to absorb or pass along costs of compliance. Unlike larger and often multi-national competitors, small businesses typically cannot afford to house divisions of their company overseas to reduce costs.

As a result, small US businesses compete in foreign markets with built in disadvantages: 1) they are competing against local companies whose products are not subject to import duties and 2) they are competing against the local division or operating company of large multi-nationals, which are often not subject to import duties since they can produce locally, or secure the benefits of the host country's existing free trade agreements.

In addition to tariffs, small companies who wish to engage in global commerce face a mountain of regulations, foreign labeling requirements, laws and investment policies, technical barriers and standards, and compliance issues to navigate. This regulatory burden can be challenging, since small businesses necessarily have fewer resources to devote to compliance.

Also, as discussed further below, I applaud and support Congressman Tipton's proposed TRADE Act (Transparent Rules Allow Direct Exporting for Small Businesses and Jobs Act) as a good first step to helping small companies understand and successfully navigate those foreign export market requirements. The optimal solution would be to remove these non-tariff barriers entirely. However, having a "one-stop-shop" to clarify foreign requirements and rules, as proposed in the TRADE Act, would be of great advantage to small businesses.

Guitammer's story shows that a small business can succeed in the global marketplace – but the process is not intuitive or easy. Like many US small businesses, we are fortunate to have high-quality products that people around the world wish to purchase. The only difference between us and many other small US businesses is that we have deliberately made exporting a key strategic focus of our business plan.

For the first three months of 2012, 45% of Guitammer's sales came from outside the US. Approximately 10% were to Canada and 35% to the rest of the world, mostly concentrated in Europe and Asia.

Guitammer's manufacturing process is US and China based. Some products are sourced as finished goods in China; some are sourced in China and assembled by a manufacturing partner in Kentucky and some products are sourced in the US. Gross Margin dollars from products made in China are developed by and sold by Guitammer, a small US business, to companies around the world, including back to China. They create a virtuous cycle of free enterprise that benefits the US economy directly and indirectly.

100% of Guitammer's gross margin dollars, from sales around the world, come back to Ohio. What happens to those gross margin dollars? A mostly US based value chain of commerce is created. Guitammer's employees get paid and therefore spend or invest those dollars directly into the US economy – jobs are created or saved. Guitammer as a company spends those gross margin dollars on goods and services – shipping, supplies, materials, consultants, etc. – and more jobs are created and saved.

Adversely, tariffs artificially raise the cost of a US company's products to its international reseller or distributors, and force the reseller or distributor to raise prices, thereby reducing sales. Otherwise, the reseller would absorb duties, and make less gross margin dollars on a US company's products.

Either way, the result can be harmful to a US small business as the reseller loses incentive to import the US company's products.

The end result is zero gain for all. The US company loses out on sales it otherwise could have had, or the international reseller or distributor loses out on sales it could have had-- With no profit for the US company, no additional gross margin dollars are able to be spent in the US economy. And of course, no additional US workers are hired.

Opportunity for a small business to compete on global basis creates a new paradigm for small business growth in America. It is made possible because of our government's aggressive commitment to promoting free trade and lowering market barriers. We encourage this commitment to continue.

What Congress Can Do Now

Trans-Pacific Partnership (TPP): A successful and expeditiously concluded Trans Pacific Partnership is of key importance to the CEA members and the tech industry. This proposed agreement with nine developed and developing nations of the Pacific, along with Canada and Mexico will include tariff elimination on industrial goods, and agriculture, AND REMOVE technical barriers to trade. It will have the additional benefit of harmonizing various national regulatory bodies and addressing investment barriers.

We are concerned, with intellectual property language proposed by some in the content industry that would go beyond current US law. These proposals risk injecting significant controversy and delay into what should be a straightforward negotiation and approval process. Counterfeit product is a widespread problem in our industry, and enforcement

mechanisms provided in trade agreements are vital to us. However, we urge negotiators to reject extreme proposals and ensure that the intellectual property language in the agreement mirrors that found in US law.

Information Technology Agreement: The Guitammer Company and CEA strongly support the efforts to expand product coverage of the Information Technology Agreement (ITA), which we regard as one of the successful trade agreements in the World Trade Organization (WTO). From 1996 to 2008, ITA product trade increased more than 10 percent annually, from \$1.2 trillion to \$4.0 trillion. Since its passage, ITA has helped drive innovation, create jobs, new markets, and lower consumer prices across the globe.

Yet in the fifteen years since its passage, the product scope of the Agreement has never been expanded, leaving products such as tablets computers and smart phones outside of the scope of the current agreement. Tariff elimination on electronics products opens markets for all businesses, including small businesses such as Guitammer. . Preliminary estimates are that an expanded ITA could completely remove tariffs on a least an additional \$800 billion in electronics trade globally, a 20 percent increase over the \$4 trillion now covered annually.

I strongly urge Congress to support expeditious expansion of product coverage for the Information Technology Agreement.

TRADE (Transparent Rules Allow Direct Exporting and Jobs) Act.

Sponsored by Rep. Tipton, the TRADE Act would direct the agencies to monitor and collect up-to-date information on tariff and non-tariff laws, creating a single resource portal where companies may go to access information such as foreign trade barriers and changes to foreign trade requirements.

This one-stop-shop information portal would address a key challenge for small business exporters, who currently cannot easily access information about foreign regulations labeling requirements or customs declaration information.

Currently, of the 281,668 small businesses exporters, 58 percent export to only one market, and 83 percent only export to one to four countries. With limited time and resources, small businesses tend to go with what is safe and proven. For many, the cost of understanding foreign compliance is too costly to absorb, and they simply do not have the resources to hire personnel dedicated to navigating the regulations.

By simply creating an easily-accessible database of foreign regulations, the TRADE ACT will help provide small businesses with the confidence and knowledge they need to export to new markets.

Conclusion

In the past, small businesses were primarily concerned with the economy of their state or region. Today – thanks to the Internet and other new technologies that render distance largely irrelevant – we exist in and have access to a worldwide marketplace.

Free trade creates and keeps U.S. and Ohio jobs, and access to foreign markets is now a key determinant in a small-businesses' success.

If you want to hear about the benefits of free trade, just ask my employees. Or, for a more frustrating conversation my friend who owns a family business that manufactures heavy equipment in central Ohio. He tells me they are finding it hard, if not impossible, to enter the Brazilian market because of their high tariffs on imports.

I commend Congress for its advocacy of free trade, and I urge you to seize every opportunity to open new markets and reduce tariff and non-tariff barriers. The future of the US economy – and that of America's small businesses – depends on it. The Guitammer Corporation pledges its full support, and we look forward to helping you in any way we can.