Clean Energy Technology Manufacturing and Export Assistance Act of 2010

Testimony before
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Chairman Rush, Ranking Member Whitfield, and members of the Committee, it is my privilege and honor to testify before you today concerning the Clean Energy Technology Manufacturing and Export Assistance Act of 2010.

My name is Anthony Kim. I am a policy analyst in the Center for International Trade and Economics at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The Clean Energy Technology Manufacturing and Export Assistance Act aims to create a government fund in an effort to assist American clean tech firms in advancing their competitiveness in the global market. As a matter of fact, in recent years, "clean energy" has become a shorthand term for the broad policy debate on how to achieve green growth and enhance our energy security in the future. It is encouraging that the proposed legislation offers another timely opportunity to discuss better ways to boost the development of clean energy technology and trigger innovation in the American clean energy industry.

Indeed, the global clean energy industry presents an important market opportunity for the United States, one that could lead to dynamic exports and job creation. Private investment in clean technology is estimated to reach $450 billion annually by 2012 and over $600 billion by 2020 on a global scale, and potentially much larger if recent market opportunity estimates are realized.[1]

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[1] World Economic Forum, "Green Investing: Toward a Clean Energy Infrastructure," January 2009, at *http://www.weforum.org/pdf/climate/Green.pdf*.

Shortcomings of the Clean Energy Technology Manufacturing and Export Assistance Act

Recognizing the urgency of the need to develop a more competitive American clean energy sector that can capitalize on such global market opportunity, the proposed legislation intends to "encourage innovation, investment, and productivity" in the sector, particularly via federal subsidies, by establishing a $75 million fund over the next five fiscal years that will be administered through the International Trade Administration.

However, for the United States to regain economic leadership in the global clean energy industry, our strategy must be driven by real market conditions, not by government financial assistance that serves as a momentary feel-good action and delays a more meaningful advancement of the clean energy sector.

Government-mandated funding has resulted in unbalanced government subsidies and lasting government interference in the private sector, which dampen dynamic growth and innovation of the sector. It also invites the question as to whether the United States government has the expertise and qualifications to effectively help private companies navigate through rapidly evolving clean energy foreign markets.

The proposed legislation fails to identify specific policies to be pursued and risks becoming little more than a financial subsidy grab bag for politically connected special interests. The proposed bill also neglects to acknowledge that there are existing government resources and market incentives for the private sector to invest and develop technological solutions to increase production of efficient alternative clean energy. If this bill becomes law, taxpayer money will be wasted in government bureaucracy.

The American people deserve a government that spends every taxpayer dollar with as much care as taxpayers spend their own dollars. In fact, in response to rising public uneasiness about the widening federal deficit, White House Chief of Staff Rahm Emanuel recently noted that President Obama's goal now is "to change Washington's focus from figuring out how to spend money to how to save money."[2] It seems that the currently proposed bill is more in line with "spending," not "saving."

Freer Trade: Key Ingredient in Making Our Clean Energy Sector More Competitive

In advancing the competiveness of our clean energy technology sector, there are more practical policy alternatives that can and should be implemented. At the top of the list should be further liberalization of international trade.

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[2] Laura Meckler, "Giving Government Incentives to Save," *The Wall Street Journal*, June 7, 2010.

When a country lowers its barriers to trade, it opens its economy to competition and a wider variety of goods and services than was previously available. Competition spurs the movement of labor and capital from industries that cannot compete to those that can, enabling a nation both to produce more efficiently and to attract new investment—critical elements of any long-term economic growth and competitiveness strategy.

The need to adhere to such a strategy is no less important today than before.[3] Free trade fosters economic efficiency, and economic efficiency is the basis for innovation, growth, and competitiveness. Undeniably, trade has opened markets around the world to U.S. goods and services and has created a level of competition that leads to innovation, better and less expensive products, higher-paying jobs for Americans, and the investment needed for long-term economic growth and continued prosperity.

Indeed, the success of America's growth and rising prosperity over the past decades is based on reducing the state's role in the economy, breaking down barriers to international trade and investment, and streamlining the rules and regulations that shape and define long-term competitiveness. Tariffs, quotas, government subsidies, and cheap loans to businesses, outright nationalization of industry, and other policy mechanisms not only serve to distort prices and reduce international markets for goods and services, but also have a chilling effect on private investment and do little to boost business confidence.

These economic facts of life apply to the clean energy technology sector the same as they do to any other. The energy sector also needs freer trade. In fact, freer trade and advancing clean energy technology can go hand in hand, being mutually supportive.

Freer Trade Is Key to Green Growth

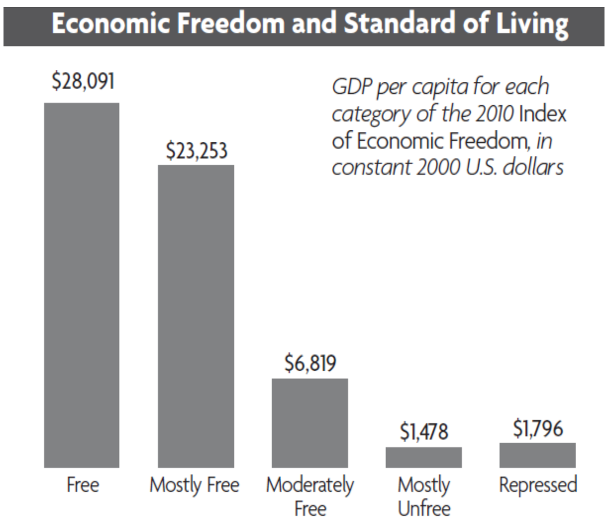
In remarks on World Environment Day, the Director-General of the World Trade Organization (WTO), Pascal Lamy, pointed out that "Trade opening has much to contribute in the fight against climate change and to the protection of the environment." Indeed, the most practical improvements in energy efficiency and protecting the environment through clean energy technology over the past decades haven't stemmed from government-mandated funding or regulations. As shown in the analysis of The Heritage Foundation's *Index of Economic Freedom*, the most progress has been driven by advances in freer trade and economic freedom. These

[3] Yet, while the U.S. has long been a leading advocate for open markets and trade liberalization, the recent financial crisis and global economic downturn have led some to question the worth of policies creating more trade freedom. Focusing predominantly on negative impact of trade on our economy, protectionists charge that trade is unfair to U.S. firms and employees. Unfortunately, they see only a small part of the story. Balanced against any trade-related economic pain must be the overall increase in U.S. employment, productivity, and wage rates that stems from an open, liberal trading environment.

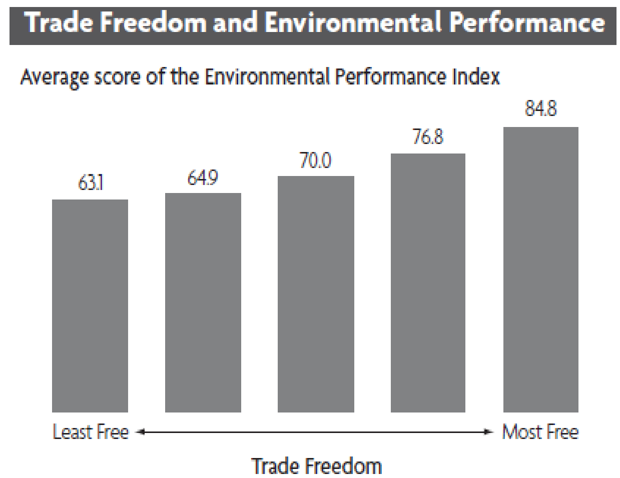
unleash greater economic opportunity and prosperity, generating a virtuous cycle of investment, innovation, and dynamic economic growth.

Echoing the same message, the WTO chief further noted:

> The entire world is well aware of the environmental dangers posed to our planet. But the ability of governments to respond to these dangers is tied closely to the resources at their disposal. Countries which have had success in alleviating poverty and raising living standards tend to be more adept at creating the conditions for a cleaner environment.



Sources: Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010), at *www.heritage.org/index*; World Bank, World Development Indicators Online, at *http://publications.worldbank.org/WDI* (November 10, 2009).



Sources: Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010), at *www.heritage.org/index*; Daniel C. Esty, M. A. Levy, C. H. Kim, A. de Sherbinin, T. Srebotnjak, and V. Mara, *2008 Environmental Performance Index* (New Haven: Yale Center for Environmental Law and Policy, 2008), at *http://epi.yale.edu/Framework* (November 9, 2009).

Policy efforts aimed at imposing stricter environmental standards through a national or global regulatory body run great risk of being not only fruitless, but also counterproductive. They undercut the economic growth and efficiency indispensable to effective efforts to protect the environment. Such regulations are likely to be little more that feel-good actions.

The fundamental flaw of those favoring new government directives is the fallacy that there must be a trade-off between economic growth and environmental protection. They seem to think that to get more of one, you have to have less of the other. The truth is just the opposite: To get more environmental protection, you need more growth, not less.

It is encouraging that many Americans see that truth. As a March 2010 Gallup survey reveals, more Americans believe that economic growth should take priority over environmental protection when the two goals collide, with fewer willing to support environmental measures that may have a negative economic impact.

Freer Trade, Not National Export Initiative, Boosts U.S. Clean Energy Technology

Chairman Emeritus Dingell, a co-sponsor of the Clean Energy Technology Manufacturing and Export Assistance Act, pointed out that the proposed legislation is “part and parcel to the President’s goal of doubling exports in five years and gives wonderful incentive to American companies to design and manufacture the environmentally friendly technologies of tomorrow.”[4]

The National Export Initiative (NEI), President Obama’s trade plan that was unveiled in the 2010 State of the Union address, aims to bolster U.S. international competitiveness by creating an export promotion cabinet that will oversee the expansion of both government programs and special financing for firms and farmers seeking oversees market opportunities.[5]

Recognizing the key role of exports in America’s economic strength was an important first step in forming an effective U.S. trade policy. However, the truth is that it is only part of a winning, comprehensive American trade strategy. Our economy needs a plan that addresses *all* aspects of trade. For America to excel in the world marketplace, U.S. trade objectives need to be clear and consistent with the open-market principles America has long promoted and, indeed, demands from other nations.

As a matter of fact, export promotion via comprehensive trade liberalization provides the most efficient, market-based export promotion strategy for U.S. interests. Such trade liberalization can be achieved by advancing freer trade through a comprehensive and substantive conclusion to the Doha Round of trade negotiations and ratification of the three pending free trade agreements with Colombia, Panama, and South Korea without further delay.

According to the WTO, global talks on free trade in environmental goods and services that will have special treatment in a new global trade deal are recording progress.[6] In April, U.S. Trade Representative Ron Kirk asked the U.S. International Trade Commission to investigate the economic benefit of eliminating U.S. tariffs on imported environmental goods and determine how much U.S. environmental goods exporters might benefit from trade liberalization.[7]

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[4] News release, “Matsui, Rush, Dingell, Eshoo Introduce Legislation to Bolster U.S. Clean Tech Industry,” Office of Congressman John Dingell, April 27, 2010, at *http://www.house.gov/apps/list/press/mi15_dingell/MatsuiRushDingellEshooIntrolegtobolsterCleanTech.shtml*.

[5] Press release, “Executive Order—National Export Initiative,” Office of the Press Secretary, the White House, March 11, 2010, at *http://www.whitehouse.gov/the-press-office/executive-order-national-export-initiative*.

[6] John Acher, “WTO’s Lamy Sees Trade Pact Boosting Green Goods,” Reuters, May 20, 2010, at *http://www.reuters.com/article/idUSLDE64J13F20100520*.

The U.S. can and should spur global economic growth by leading the Doha Round to a successful and ambitious conclusion. The absence of a new, comprehensive trade pact reduces countries' discipline in keeping a rein on protectionist measures designed to prop up inefficient domestic companies during today's economic slump. Moreover, without the new market access a multilateral deal would bring, it will be more difficult for firms that are struggling domestically to export instead.

In order to open up foreign markets for our clean energy sector more practically, America should enhance existing relationships with important trade and investment allies. NAFTA and other free trade agreements (FTAs) the U.S. has in place have spurred competition, job creation, and economic growth. These agreements have an important role in maintaining American competitiveness and prosperity.[8] In 2008, the FTAs currently in force accounted for more than $1 trillion in two-way merchandise trade, which is about 35 percent of U.S. trade worldwide.

U.S. FTAs go beyond winning lower tariffs on American manufacturing and services exports. FTAs include provisions that safeguard investors from discrimination, increase regulatory transparency, combat corrupt practices, and protect and enforce intellectual property rights. U.S. trade agreements include transparent dispute resolution and arbitration mechanisms to guarantee that the agreements are upheld and fully respect the rights of U.S. firms and consumers.

The pending FTAs with Colombia, Panama, and South Korea will result in significant new market access and lower tariffs for America's businesses: Most Colombian and Panamanian products already enter the U.S. duty-free under various preference programs. Because these countries have already had preferential access to U.S. markets, any impact on U.S. jobs from imports from those countries has already occurred. Instead, these agreements will result in new economic opportunity for America's exporters and the U.S. businesses that support them—opportunity that will grow over time as these countries continue to develop through trade and mature into larger, more sophisticated markets more closely integrated with the U.S. economy.

Conclusion

There is no doubt that accelerating U.S. clean energy technology innovation and production has become an economic necessity for America's future. The best strategy to help this happen is not

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[7] Office of the Secretary, U.S. International Trade Commission, April 14, 2010, at *http://www.usitc.gov/research_and_analysis/ongoing/332_516_request_letter.pdf*.

[8] As of the beginning of 2010, the U.S. had 11 FTAs with 17 countries. Congress has approved FTAs with the following nations: Israel; Canada and Mexico (NAFTA); Jordan; Singapore; Chile; Australia; Morocco; the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (DR–CAFTA); Bahrain; Oman; and, most recently, Peru.

through special subsidies or tax breaks for specific American firms, but rather through dynamic leadership in opening markets and spurring global competition so that the most productive and innovative technologies can rise to the top.

We need a strategy that conforms to conditions in the international marketplace, not one that struggles against it by encouraging and subsidizing technologies that can’t stand on their own. We know one sure way to do this, and that is through opening markets, not closing them with protectionist measures. This bill, unfortunately, takes the other path.

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