

## Rep. Tauscher Delivers Speech to the Center for Strategic and International Studies

Commercial Satellites and Export Controls: Are Things Getting Better?

Thank you all for being here this morning, and special thanks to James Lewis for your kind introduction.

I especially want to thank you in your capacity as the director of Technology and Public Policy Program for your hard work and the hard work of your former project coordinator Erin Schlather, whom I know we all miss.

You both worked on a report whose critical recommendations, if applied, would no doubt improve the strength of the United States satellite industry.

I would also like to thank David Cavossa and the Satellite Association of America for inviting me.

I also want to thank my good friend John Hamre and the Center for Strategic and International Studies for the critical work they do. America and the world are better off for it.

The short answer to the question

before us is that despite some recent positive trends in the global market for commercial satellites, the United States' export control regulations continue to shrink our share of that market, limiting jobs and harming national security.

Four years ago, I was honored to serve on the Center's Satellite Commission, and was proud to have a say in the production of a landmark report: "Preserving America's Strength in Satellite Technology."

The stunning news is that the report and its recommendations are as critical today as they were then.

One of the fundamental observations remains true: "The United States has not been able to distinguish between those technologies where there is still a US advantage and that should be protected and those satellite technologies that are routine, commercial, and available from other sources."

Four years ago controls on the export of commercial satellites were applied reflexively to deal with the fear that US technology might aid the development of enemy military capabilities. Certainly, it's something we all want to ensure never happens. Yet, to this day, the same debate lingers in Congress without yielding a single solution. It brings a whole new meaning to the "do nothing Congress," doesn't it?

You

all remember what happened in the late 1990s, when members of Congress were concerned about allegations that US firms provided expertise to China that could be used to improve its ballistic missile and space program. Loral Space and Communications and Hughes Electronics Corps were alleged to have shared with China the results of their findings on the cause of a PRC rocket failure while launching US origin satellites.

Concerns that this information might help China improve the accuracy and reliability of its ballistic missiles -- coupled with perceived lax policies of the administration -- caused Congress to transfer the export licensing functions from Commerce to the State Department.

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sale of communication satellites and satellite technology became controlled as a munition by law under the International Trade in Arms Regulation (ITAR). We all know just what a mistake that has been.

This misguided policy has reduced government orders and created an onerous export control regime at the State Department that has helped cause a sharp decline in America's share of the world commercial satellite market.

Indeed, our share of global satellite sales plummeted from sixty four percent of a twelve point four billion dollar market in 1998 to only thirty six percent in 2002.

The decline continues to this day. And that's not just a decline for you and your bottom lines - it's a decline for American jobs, and for America's leadership in the world.

And the worst part -- it's all for nothing. Congress' bureaucratic meddling of shifting the licensing has done nothing to protect our national security and has done nearly a decade of harm to our economy.

You know the following statistics -

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From 2004 to 2005 alone, global satellite revenues decreased by twenty four percent.

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The US share saw an even more radical decline, with American satellite manufacturing revenues falling to three point twelve billion in 2004 or forty one percent of the total -- a dramatic reduction from 2000 when US revenues were six billion dollars and fifty one percent of the global total.

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And despite a global increase, US launch industry revenues have never reached their high of two point seven billion in 2000 and in 2005 were at one point five billion.

While the global satellite

industry has recently started gaining strength driven by increased government and consumer demand and financial market interest and investment, I am deeply concerned that the our manufacturing industry continues to stagnate seven years after the transfer of licensing responsibilities to the State Department.

Our self-inflicted inability to take advantage of more recent positive trends in the global market means that we are harming our national security.

Missed opportunities mean that our industrial base will continue to shrink and more American jobs will be lost in a growing labor and technology market. That's not acceptable.

Less American technology being used by the international community means that we are less likely to understand foreign developed technology. From a military standpoint, it means that interoperability with foreign militaries will become increasingly more difficult.

Consequently, we risk turning customers and potential partners into competitors.

So what are our problems? And how do we eliminate them?

The critical problem is that commercial satellites, their

parts, components and technology continue to be included as part of the munitions list.

Unlike other nations, the US controls commercial satellites as defense articles.

The United States is also still prohibited from selling satellites from China without a presidential waiver and notification to Congress.

To this day, the administration has not sought a waiver.

While I believe it's crucial to impose standards on some of our exports, it's imperative that we re-examine our policy toward China. We can no longer deny ourselves entrance into a significant market based on a decade-old incident.

Current State Department rules stipulate that all export approvals require the prior written consent of the State Department before the item may be retransferred to another end-user or its end-use changed from what was originally authorized.

Not only does this requirement not change if the ITAR-controlled article or technology is incorporated in a foreign item but this requirement applies to even our closest NATO allies.

This requirement has caused foreign companies to seek less costly alternatives and some European satellite makers are designing satellites without US components.

Last year, the International Trade Reporter announced that France had launched the first ITAR-free satellite in April 2005.

Not only are these requirements drying up US sales, but they are also harming the industrial base with it becoming more and more likely that in the near future, the United States will depend on importing European components to assemble a working commercial satellite.

My colleagues and I on CSIS' Satellite Commission had already predicted the risk that the United States would become a net importer after observing that while in 1998, the year before the regulations went into effect, the US only imported nineteen percent of spacecraft, satellites and satellite parts -- but after, US imports rose to more than forty percent, with imports in 2001 reaching forty six percent.

Another concern is the lengthy review time at the State Department. The latest report to Congress on defense trade licensing shows that overall licensing times are increasing.

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most recent figures show that the median time for cases staffed to other parts of State and DoD rose from forty eight days in May of 2005 to seventy one days in July of 2006. Washington just doesn't understand that every day and week that goes by is critical to your business.

Licensing staff capabilities have not kept up with a roughly eight percent increase in licensing volume.

A recent visit by my staff to the Office of Trade Controls showed harried staff walking around hallways filled with boxes overflowing with license applications.

In 2003, I offered a very simple amendment with my colleague Doug Bereuter that would have waived the requirement for marketing licenses for sales to a NATO ally. The amendment would only have affected our closest allies. It would have maintained all of the prohibitions on sales to China and it would have provide some relief to US satellite manufacturers.

My amendment passed the House - and then the chairmen of the Armed Services and International Relations Committees realized what had happened and extended the amount of time allowed for voting - after the vote was already over - and they went around on the House floor and convinced members to change their votes so that the amendment failed.

That's not how Washington should work.

While industry has not made a push in recent years to get commercial satellites back to the Commerce Department, I believe it is long overdue for Congress and the next administration to show leadership and revisit this issue.

From my seat on the House Armed Services Committee it has become clear that too many of my colleagues are intent on reliving the Cold War. It's a mindset that was perhaps smart thirty years ago, but out of date and harmful in today's world.

We cannot put the genie back in the bottle by trying to deny US technology to perceived competitors when we are not the sole supplier.

When you have your discussion today I would like you to consider the following key points:

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I believe that many of the recommendations of the Satellite Commission remain valid today.

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We need to have a thorough and regular review of the US munitions list, which takes into account the dynamic global

environment as well as the availability of controlled items and technology in the global marketplace.

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In the long term, commercial satellites should be moved to the Commodity Control List at the Commerce Department.

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Since this will not happen under the current administration and Congress, in the short term, it is critical that we give the State Department the resources it needs to speed up license processing times.

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only does this involve hiring additional licensing officers at the Directorate of Defense Trade Controls but we also need to be hiring people with industry expertise who can provide advice and work with companies to accelerate the process.

While I am encouraged that State has adopted an electronics licensing, compliance and records management system that will become fully operational next month, it will only reduce the caseload by eliminating improperly submitted applications and not actually reduce review time.

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is also unacceptable that the incorporation of any component classified as a munitions in a non-US system require a re-export license for that entire system.

While I agree with the State Department that part of the holdup in expediting licenses has to do with the time it takes for Congressional review and notification, I believe that a cooperative approach can result in a better process.

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Finally, I will note that in the absence of industry input, the executive branch and Congress will continue to deal with satellites as we have in the past. Which is to say, poorly.

You are the industry leaders. You are at the top of your field. Now, you have to come forward and help me show other members of Congress that the United States can and must regain its edge on the global satellite market and find new regulatory solutions that create jobs and improve American national security.

Thank you, and I look forward to a valuable discussion.