



Oral & Written Summary of Testimony

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a Witness

on behalf of Revere *and the* China Currency Coalition (on China currency issues)

before the Ways and Means Subcommittee on Trade; *the* Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology; *and the* Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection.

May 9, 2007

Good Morning Chairmen Levin, Gutierrez, Rush & ranking members Herger, Paul and Stearns - indeed all members - thank you for this opportunity to testify on behalf of Revere and as to China currency issues, for the China Currency Coalition.

Your witness guidelines for potential conflict of interest require that government contracts be disclosed. You should be aware that US Secretary of War Henry Knox rode to Boston and offered Paul Revere a \$10,000 loan to build a copper rolling mill to sheath the USS Constitution with copper made in the USA.

So my company was founded by Paul Revere in 1801...perhaps the oldest manufacturing company in the USA. Today, our mill in Rome, New York produces copper and brass sheet, strip and coil for US manufacturing companies.

Since 2000, about 30% of these customers have shut down or moved offshore. Just look at an item made of copper or brass in a big box store and you will see that the product is now made in China. That's because the cost of manufacturing in China is cheaper, you believe.

Once you look at the facts, however, you will see a different picture.

Say the production cost of a brass doorknob in China is 100 yuan. If the exchange rate for converting yuan to dollars is controlled by the government of China at 8 yuan to \$1, then the production cost is equivalent to \$12.50. But if the exchange rate was market driven, it would be about 5 yuan to \$1 and the production cost in China would be equivalent to \$20. So a factory that produces doorknobs for \$18 in the USA is going to shut down.

The manipulation of its currency reduces the competitiveness of every other product, good and service in the world compared to its production in China.

Such protectionism is reaping huge rewards as China's export-based economy is growing 3 times faster than the rest of the world. Meanwhile, factory jobs are disappearing in the USA and the world. Even manufacturing plants in Mexico are moving to China. Multinationals that benefit from Chinese protectionism really don't want it to stop and often accuse those that do of protectionism.

The irony is that domestic manufacturing companies are the victims of protectionism not the benefactors.

China managed its currency to be undervalued about 40% and since then allowed it to appreciate only 3.5% a year while the underlying rate of appreciation was 5%.

China's strategy is to delay as long as it can and make corrections as small as it can.

Market driven exchange rates simply put all nations back at the starting gate for the race to determine who will win the battle to competitively produce goods and services *assuming all other things are equal*. Of course, all other things are *not* equal and because of this our nation's inability to compete with China and the rest of the world means that our currency will continue to depreciate and the standard of living of all Americans will decline and our nation will grow weaker.

This is because all other major trading nations use revenues generated by Value Added Taxes (VATs) to reduce the tax and health care burden on their production of goods and services and the most ambitious are developing energy policies which give them a competitive edge.

The loss of manufacturing jobs to date in the USA is only the tip of the iceberg. Future losses will go far beyond this and extend to food and service industries.

What should be done to counter this protective behavior by other nations?

First, the USA cannot continue to negotiate FTAs as long as the other country is free to manipulate its currency and VATs to offset any tariff reduction.

Second, Congress should pass the Ryan/Hunter bill. If this is not successful, then the USA must take stronger measures, even if it means stepping outside WTO rules.

Third, the USA must reform its tax and health care systems and institute VATs on a scale that gives production of goods and services in the USA a competitive advantage.

Fourth, the USA needs to ensure that its businesses have access to substantial low cost, clean energy so that they are able to compete on the world stage *and* keep the environment clean. My written testimony points to nuclear.

When Paul Revere tried to rouse the countryside with his wake up call, what did the people do? We all need to wake up and listen. But we must be careful who we listen to....

Honorable members of Congress, Revere does not take disclosure laws lightly. In the interests of full disclosure, we believe all witnesses should answer, "Does your company have or is it considering investing in facilities in China or Japan? Does your company sell to or import components or products from there?"

Thank you for your attention.

Wake up, America!

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