

Michaud Testifies Before U.S.-China Commission

Tuesday, July 15 2008

WASHINGTON

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"The activities of this Commission are very important given China's technological advances in key industries and the changing nature of trade that flows between our countries," said Michaud. "I was honored to be asked to testify. The Commission's work has been invaluable to those of us in Congress who are concerned about the economic, political, and security implications of the U.S. relationship with China. Central to those concerns is the subject of this hearing - research and development in China."

The importance of recent trends is highlighted by last year's report "Next Generation Offshoring: The Globalization of Innovation," released by the Fuqua School of Business at Duke University. The study surveyed 530 companies about their offshoring activities. It found that corporations - large and small - are rapidly shifting core business functions offshore, including product design, engineering, and research and development. These high-value activities are following manufacturing offshore.

According to the survey, the offshoring of product development increased by more than 40 percent in the one-year period 2005-2006. The respondents to the survey reported that in the period 2007-2010 they forecast that offshoring of product development would increase 65 percent for R&D and by more than 85 percent for engineering services and product design-projects.

"To put this shift in some context, only three of General Motor's eleven design centers remain in the United States today," stated Michaud.

According to the Duke study, more than half of all U.S. companies are offshoring jobs. The big new trends are (1) high knowledge, high-pay work is following manufacturing to offshore sites and (2) small companies are increasingly offshoring their production and innovation activities.

"While U.S. investors increasingly depend on their China-based operations for R&D, they also expect patent protections there for their innovations," said Michaud. "Otherwise, such investments will become impractical and uneconomic and quickly will go to other nations that respect private patent rights. Stronger U.S. patent laws, including protecting the secrets of inventors until they have a patent or not revealing the contents of rejected patents, are vital for U.S. innovation and job creation."

Currently, U.S. innovators are plagued by Chinese piracy, counterfeiting, and the unauthorized, uncompensated use of their intellectual properties. Without proper safeguards, in China and the U.S., the infringement of patents will worsen as more companies outsource more of their R&D and design work. While Congress was moving forward with a patent bill, chances to pass it through both chambers are dwindling. Michaud pushed the commission to further examine the role of patents in the U.S.-China relationship as the debate moves forward, likely into next year.

"In anticipation of that debate, the Congress would benefit greatly from the advice of this Commission on two points: protection of U.S. patents in China and premature publication of U.S. patent applications," said Michaud during his testimony.

The U.S.-China Economic and Security Review Commission monitors, investigates, and submits to congress an annual report on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China. The Commission also provides recommendations, where appropriate, to Congress for legislative and administrative action. Public Law 109-108 directs the Commission to focus its work and study on the following eight areas: proliferation practices, economic transfers, energy, U.S. capital markets, regional economic and security impacts, U.S.-China bilateral programs, WTO compliance, and the implications of restrictions on speech and access to information in the People's Republic of China. More information on the U.S.-China Economic and Security Review Commission can be found by visiting their website: www.uscc.gov.

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