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U.S. DEPARTMENT OF COMMERCE
FISCAL YEAR 2018 BUDGET REQUEST

Chairman Culberson, Ranking Member Serrano, and members of the House Appropriations Subcommittee, thank you for this opportunity to discuss President Trump's Fiscal Year 2018 (FY18) Budget Request for the U.S. Department of Commerce.

When I was confirmed as the Secretary of the Commerce on February 27, 2017, I took on a great responsibility of ensuring that our nation's taxpayer dollars are targeted to those programs and projects that will grow our economy and create a pro-growth environment. The Department of Commerce's FY 2018 Budget Request of $7.8 billion in discretionary funding is a good first step toward accomplishing those aims. The FY 2018 request is a 16 percent decrease (-$1.4 billion) from the FY 2017 Omnibus enacted level ($9.2 billion).

President Trump has previously laid out a budget framework that places an increased emphasis on defense, national security, immigration enforcement, and reducing violent crime and drug epidemics. In addition, the President also has provided a roadmap for placing our Nation on a responsible fiscal path and not increasing the debt.

Our FY 2018 Budget request aligns with President Trump's foundational underpinnings by zeroing in on our key mission areas and core competencies. In support of the President's goals, we had to make very difficult choices, including proposing to eliminate some of our bureaus as well as making sizable reductions in other programs and activities.

Specifically, the FY 2018 Budget proposes to eliminate the Minority Business Development Agency (MBDA) and the Economic Development Administration (EDA). Furthermore, we are proposing to consolidate the Economics and Statistics Administration(ESA) into other Commerce bureaus.

Another proposed elimination is the discontinuation of Federal funding for the Manufacturing Extension Partnership (MEP) program. This would result in a savings of $124 million.

These eliminations and reductions are consistent with the approach throughout the FY 2018 Budget to focus on core Federal missions and reduce funding, such as grants, for programs supporting other levels of government.

Please note that, while we greatly appreciate the support Congress provided the Department in the recently enacted FY 2017 Omnibus appropriations bill, a full-year 2017 appropriation was not enacted at the time the Department's FY 2018 Budget was being prepared. As a result, our FY 2018 Budget Request and the funding levels, policy guidance and decisions contained within are based off the annualized funding level provided by the 2017 Continuing Resolution (CR). However, for the purposes of this hearing, I have updated my budget references to reflect the more recent FY 2017 Omnibus levels.

Our FY 2018 Budget is a starting point for a larger dialogue that I look forward to having with you about where best to allocate resources to enable the Department to carry out its major missions to the best of its abilities. Despite some of the proposed reductions and eliminations, our budget recommendations uphold the proud tradition of this agency's legacy of investing in our greatest resource: The American people.

Enumerated below in greater detail are specific investments that we have prioritized in the FY 2018 Department of Commerce Budget:

Strengthening Trade Enforcement and Compliance:

The United States currently has a $700 billion trade deficit (in goods) and is the top importer in the world. In addition, we are one of the least protectionist countries in the world. The FY 2018 Budget begins to create a more level playing field for Americans by reshaping the International Trade Administration (ITA).

The FY 2018 President's Budget requests $443 million for ITA, which is $41 million or 8 percent below the FY 2017 Omnibus enacted amount. Within that topline, increased funding (+$3 million) is allocated for strengthening ITA's trade enforcement and compliance by adding 29 positions.

These requested funds will help ITA fulfill President Trump's directives to review trade agreements, increase enforcement of our Nation's trade laws, and support "Buy American, Hire American" policies.

Furthermore, the Budget enables ITA to add capacity to address the growing number of antidumping and countervailing duty investigations. In a five-year period from FY 2011 to FY 2015, the number of new investigations initiated each year increased. In FY 2016, 56 new investigations were initiated, which was an all-time high by historical standards. In addition, the requested funds will enable the Department to self initiate trade cases to further level the playing field for domestic manufacturers.

Conversely, the FY 2018 Budget eliminates a number of ITA trade and promotion-related offices and functions, resulting in a reduction of 159 positions.

Although the trade and promotion offices are downsizing, ITA will continue to implement measures to strengthen the effectiveness and efficiency of these activities to minimize the impact on U.S. business, with a specific focus on small and medium-sized enterprises (SMEs).

To bolster ITA's enforcement and compliance actions, the President's Budget requests $114 million for the Bureau of Industry and Security (BIS), a $1 million increase over the FY 2017 Omnibus level (+1 percent). The requested funding will add 19 new special agents within BIS' export enforcement offices across the United States, including New York, Dallas, Chicago, Los Angeles, Washington State, San Jose, and Washington, DC. Resources also will be dedicated to BIS' ongoing domestic and international efforts to curtail illegal exports while facilitating secure trade with U.S. allies and close partners.

I'm especially pleased that BIS' export enforcement office is already taking a proactive approach and demonstrating results. In March, I announced a combined civil and criminal fine of over $1 billion on ZTE, a Chinese telecommunications company, for illegally shipping telecommunications equipment to Iran and North Korea.

As part of the settlement, ZTE has agreed to pay a $661 million penalty to BIS, with $300 million suspended during a seven-year probationary period to deter future violations. Based on a court-approved settlement, ZTE's $1.19 billion fine would be the largest civil penalty ever levied by BIS and the largest criminal penalty ever levied by the U.S. government in an export control case. Over the last seven years, BIS' enforcement offices have collected an average of $74 million in fines, $26 million in administrative fines, and approximately $46 million in forfeitures (on an annual basis).

Supporting Research and Development to Better Serve Our Customers

The FY 2018 Budget strengthens our core research and development programs while meeting the diverse needs of our customers. The proposed request of $725 million for the National Institutes of Standards and Technology (NIST) represents a $227 million decrease (-24 percent) from the FY 2017 Omnibus enacted level. These proposed reductions will occur in areas that have been determined to be lower priorities based on their technological readiness, level of effort required, or where NIST's expertise is no longer required.

Funding in FY 2018 will enable NIST to provide the measurements and standards necessary to facilitate innovation in mission-critical areas, such as advanced manufacturing, communications, quantum science and cybersecurity. In addition, NIST will address high priority repairs and upgrade its facilities. Some of these planned efforts include removing asbestos from NIST's Building 1 facility in Boulder, Colorado, and renovating and modernizing the Radiation Physics Building in Gaithersburg, Maryland.

Equally important is that the Budget allows NIST to continue its outreach and engagement with the public to improve the Nation's cybersecurity posture. For example, NIST recently sponsored the Global City Teams Challenge that brought together universities, companies, and other interested participants to develop solutions for implementing advanced cyber-physical systems concepts to make our communities more livable, workable, safer, and sustainable. FY 2018 funding will help NIST enhance the Framework for Improving Critical Infrastructure Cybersecurity.

I do want to mention a few of the proposed reductions in NIST's Budget. Among the significant proposed decreases is a $69 million reduction to the National Laboratories, which includes a reduction of 285 positions. Additionally, the FY 2018 Budget proposes to cut $25 million and 46 positions from the Standards Coordination and Special Programs Office that primarily focuses on research and development activities.

Also, as previously mentioned, the FY 2018 Budget proposes to end federal funding for the Manufacturing Extension Partnership (MEP) program. The proposed reduction of $124 million will eliminate $110 million in funding to the MEP centers, $4.8 million in contract support for the MEP system, and $9.3 million and a 100 percent reduction of NIST MEP federal employees who support and administer the MEP program. The $6.0 million in the FY 2018 Budget will be used for an orderly shutdown of the program.

Helping to establish policy and standards that govern the Internet, broadband and the digital economy, $36 million is proposed for the National Telecommunications and Information Administration's (NTIA) FY 2018 Budget. This proposed funding level will assist NTIA with its development and implementation of policies to meet challenges related to Internet openness, privacy, security, and the digital economy.

Within its topline, NTIA will strengthen its multi-stakeholder approach to address Internet policymaking, standards development, and related governance issues. These efforts include developing and presenting U.S. government policy positions at interagency, bilateral, multilateral and international organizational meetings and stakeholder forums.

Moreover, NTIA will assist the Department of Commerce, United States Trade Representative (USTR) and other federal agencies to help ensure that U.S. free trade agreements preserve and create jobs for Americans while facilitating economic growth. NTIA will provide issue expertise and policy support, particularly on issues involving e-commerce services and the free flow of information across borders.

Augmenting its existing efforts, the FY 2018 Budget also will enable NTIA to increase its participation in Department of Commerce-led bilateral commercial dialogues to improve understanding with counterpart trade and economic ministries. NTIA will continue to provide technological and policy advice as part of the established trade dispute resolution processes.

Streamlining Government Operations and Improving Efficiency

The Administration's FY 2018 Budget proposes transferring approximately $54 billion in discretionary spending previously allocated for civilian agencies to support defense and national security initiatives. To comport with the Administration's larger policies, the Department proposes to eliminate the

Minority Business Development Agency (MBDA) and the Economic Development Administration (EDA).

The FY 2018 Budget request for MBDA of $6 million is a $28 million decrease from the FY 2017 Omnibus (-82 percent). This reduction would result in the loss of 55 positions. The $6 million request will cover anticipated costs associated with winding down MBDA. These costs include personnel costs and miscellaneous costs (such as records and archives management and the responsible disposal of IT equipment).

The Budget assumes that the orderly wind down of MBDA functions would begin on October 1, 2017 and be completed by February 3, 2018.

Similarly, the FY 2018 Budget requests $30 million for EDA for costs associated with closing the agency. This a $246 million decrease from the FY 2017 Omnibus (-89 percent) and would result in the loss of 98 positions.

Another area the FY 2018 Budget proposes to eliminate is the Economics and Statistics Administration's (ESA) policy support activities. ESA's remaining functions will be consolidated into other parts of Commerce, including the Office of the Secretary, Bureau of Economic Analysis (BEA), and the U.S. Census Bureau.

The consolidation of ESA would provide nearly $4 million in budget savings and would consolidate 15 positions into other parts of Commerce. For example, ESA's Under Secretary for Economic Affairs will better serve the Secretary and Department from the Office of the Secretary and will continue to provide analysis and guidance on matters related to economic policy.

The FY 2018 Budget recommends $97 million for BEA, a $10 million decrease from the FY 2017 Omnibus (-10 percent). The FY 2018 Budget enables BEA to provide timely and accurate economic data and produce key statistical measures, such as gross domestic product (GDP) and personal income statistical indicators. Careful thought was given to which initiatives could be reduced with minimal impact on BEA's core programs. Some of BEA's proposed reductions include discontinuing efforts to separately measure the impact of small businesses on the U.S. economy and ceasing work to provide more frequent and detailed trade-in-services data for some of the most dynamic industries of the U.S. economy.

Empowering the Data Economy:

The FY 2018 Budget request of $1.5 billion for the U.S. Census Bureau (+$27 million or +2 percent over the FY 2017 Omnibus level) is a recognition of the important work that the agency is undertaking to reach a number of its critical milestones.

Of the $1.5 billion total, a $46 million increase is requested for activities related to the ramp up associated with the 2020 Decennial Census. The Budget provides funding for the final year of a four-year plan focused on operational, design, development and systems testing in preparation for the 2020 Census.

In addition, the Budget supports an End-to-End Census Test in 2018, which will allow for a complete test of the major field operations and IT systems planned for the 2020 Census, beginning with the development of the address list and ending with the release of a set of prototype geographic and data products. This test will give the Census Bureau an opportunity to reaffirm that the reengineered 2020 Census will function according to the specified design.

The American Community Survey (ACS) serves as a testbed for the 2020 Census. The FY 2018 Budget proposes a reduction to the telephone non-response follow up operations. This reduction is a decreased effort of telephone operations in order to promote data-driven decisions within this program and increase efficiency.

Requested funding levels in the FY 2018 Budget will help the Census Bureau fulfill a requirement in the United States Code to submit the Census 2020 and ACS questions and some topics to Congress by the statutory deadline (April 1, 2018).

The FY 2018 Budget also supports data collection and processing operations for the 2017 Economic Census and Census of Governments, which provide the foundation for economic data that drive investment and job creation.

Another notable increase within Census is an additional $13 million for its enterprise data collection and dissemination systems. This increase would consolidate funding for enterprise data dissemination and includes support for the Administrative Records Clearinghouse, which enables the strategic reuse of administrative data collected by government programs.

A $24 million reduction from the 2017 Omnibus for Census' Current Economic Statistics Program is proposed in the FY 2018 Budget. This program provides the public and private sectors with national statistical profiles the U.S. economy and its industries. While the reductions will scale back planned research and make operational and methodological changes to surveys, the data and information that businesses use to make investment decisions that drive economic growth will be preserved.

The $3.5 billion request in FY 2018 for the U.S. Patent and Trade Office (PTO) will help American entrepreneurs and businesses bring their innovations to the marketplace. Funded entirely by fees from their users, PTO's focus in FY 2018 will be on accomplishing the pillars of its 2014-2018 Strategic Plan. These goals include reducing patent backlogs, maintaining trademark quality, providing domestic and global leadership in intellectual property, and educating small businesses on obtaining and protecting intellectual property.

In FY 2018, PTO also plans to optimize its workforce with planned examiner staffing reductions through attrition in its patent examiners while also increasing investments in its IT portfolio, and replacing employee laptops and network equipment at the end of their useful life.

Other planned enhancements will be to upgrade PTO IT systems. For example, PTO is implementing a fee processing next generation system that assists in the implementation of fee collection process recommendations. Some of the new features that are planned to be added in FY 2018 include additional capability to request and track refunds as well as reconciling international payments to international applications.

Sustaining Our Natural Resources While Fostering Economic Opportunities:

The FY 2018 Budget proposes $4.8 billion for the National Oceanic and Atmospheric Administration (NOAA), a decrease of $905 million or 16percent below the FY 2017 Omnibus. The Budget is tailored to fund NOAA's core missions of environmental and public stewardship while increasing economic opportunities.

Within NOAA's topline, $1.0 billion is recommended for the National Weather Service (NWS). Funding is included for the Advanced Weather Interactive Processing System Cyclical Refreshment, reducing the risk of system downtime that can impede critical weather forecasts and warnings.

The Budget also supports the Service Life Extension Program on the aging Automated Surface Observing System, which increases accuracy and timeliness of NWS forecasts and warnings, particularly near airports, enhancing aviation safety and efficiency. However, funding for these and other NWS activities required difficult tradeoffs, such as reducing or eliminating components of NOAA's Tsunami Research and Operational Warning program as well as terminating investment in Mid-Range Weather Outlooks.

With its $1.8 billion request for the National Environmental Satellite and Data Information Service (NESDIS), NOAA will continue its work to deploy the next generation of weather satellites and observational infrastructure. The FY 2018 Budget fully funds the Geostationary Systems –R (GOES-R) and Joint Polar Satellite System programs, including a $317 million planned programmatic decrease related to the GOES-16 (formerly GOES-R satellite), which successfully launched on November 19, 2016. Another proposed decrease within the Budget is a $189 million reduction for the continued development of the Polar Follow On (PFO) satellites. The PFO satellites will provide continuity of polar observations beyond the Joint Polar Satellite System program.

The Budget recommends $845 million for NOAA's National Marine Fisheries Service (NMFS) to conduct sound science and an ecosystem-based approach to management to provide productive and sustainable fisheries; safe sources of seafood; the recovery and conservation of protected resources; and healthy ecosystems.

NOAA's FY 2018 Office of Marine and Aviation Operations' (OMAO) request of $332 million includes $75 million to begin the construction of a second Auxiliary General Oceanographic Research (AGOR II) vessel as part of NOAA's multi-year fleet recapitalization initiative. In addition, the Budget includes a $2 million increase (for a total of $34 million) to fund increased lease and fuel costs at a new Aircraft Operations Center (AOC) in Lakeland, Florida. NOAA is in the process of relocating from the MacDill Air Force Base in Tampa and expects to be moved into its new location by June 1, 2017. The FY 2018 Budget fully funds all of the AOC's FY 2018 new leasing requirements and related costs.

To comply with the Administration's overarching policy direction, NOAA is proposing to eliminate a number of its external grant programs, which

approximately total $350 million. This includes $72 million for NOAA's National Sea Grant College and Marine Aquaculture grant programs; a $75 million reduction to the National Ocean Service's Coastal Zone Management and the Regional Coastal Resilience grant programs; and $65 million for the Pacific Coastal Salmon Recovery Fund (PCSRF), which provide resources to restore and conserve Pacific salmon and steelhead.

NOAA also proposes to terminate its Office of Education. This includes terminating the Competitive Education Grants and Educational Partnership Program with Minority Serving Institutions (EPP/MSI) grants. It also includes the termination of Bay-Watershed Educational and Training (B-Wet) Regional Programs where NOAA will continue to provide watershed educational experiences for students through other programs, including National Marine Sanctuaries.

Evolving The Department of Commerce For The 21st Century

We are continually exploring ways to do things better and adopt best practices, both from the government and from the private sector. The $64 million included in the FY 2018 Budget request for the Departmental Management (DM) account is $2 million above the FY 2017 Omnibus enacted level or an increase of 3 percent. Highlights of this request include a $5 million program increase for the Investigations and Threat Management Division, which crosscuts all Commerce operating units in an effort to detect critical threats to the Department's U.S. economic advancement mission. The requested increase also devotes resources for mandated requirements such as, Insider Threat, Transnational Organized Crime, and national strategies for counterintelligence.

In FY 2018, the Department will continue to focus on Enterprise Services to achieve cost savings while improving customer service. The Department is embarking upon updating its IT infrastructure and initiating an IT Shared Services Initiative aimed at consolidating commodity services across bureaus to gain economies of scale, improve service delivery, and improve customer satisfaction. As part of this effort, six IT shared services were identified and prioritized for deployment in the FY2016-FY2017 timeframe. As these IT shared services are deployed, Commerce's Office of Chief Information Officer will focus on the delivery and measurement of achieved functionality and improvements in customer satisfaction and value delivered to our various customers and stakeholders.

Our Budget request also provides $1 million for ongoing renovation and modernization of the Herbert C. Hoover Building (HCHB). Commerce is in the process of modernizing its infrastructure to protect the safety of employees and provide quality service to citizens. This renovation provides the solutions to replace major building systems (mechanical, electrical, plumbing, heating, ventilation, air conditioning, and life safety systems) that are beyond their useful life and deteriorating. Funding in the FY 2018 Budget will support five positions. The renovation project is anticipated to continue through unobligated balances. There are no programmatic increases for further renovation as the Department plans to pause before undertaking the next phase (Phase 5) of the HCHB building renovation.

Finally, in FY 2018, the request for the Department of Commerce's Office of Inspector General is $38 million, including $32 million in direct appropriations, a $2 million USPTO transfer, a $1.3 million transfer from NOAA, and a transfer in total of $2.6 million from Census. The FY 2018 request includes a $1.0 million increase from the Census Bureau to provide oversight and to monitor vital 2020 Decennial activities, which includes the final major test of a new IT system, new strategies to contact households, and improved field operations.

Conclusion

Although my tenure at Commerce has been short, we have hit the ground running and already are creating additional business opportunities by working with a broad coalition of stakeholders to remove unnecessary regulations and increasing consumer confidence. By prioritizing our industries, trade and economic advantages, and our workforce, we will continue to be an economic engine, both in the United States and around the world.

I look forward to working with this Committee and the rest of the Congress to achieve our shared goals on behalf of the Nation's taxpayers.

For additional information about the Department's FY 2018 Budget, please visit the Department's Web site at: http://www.osec.doc.gov/bmi/budget/.