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U.S. Department of State  
Testimony before the Committee on Banking, Housing, and Urban Affairs  
United States Senate  
October 20, 2005

Chairman Shelby, Ranking Member Sarbanes, and distinguished members of the Committee, thank you for the opportunity to discuss the Committee on Foreign Investment in the United States (CFIUS), the role of the Department of State in reviewing the acquisition of U.S. companies by foreign investors.

Mr. Chairman, part of the Mission Statement of the Department of State says "Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community." An important part of our effort to create a secure and prosperous world is the Department's role in implementing the Exon-Florio statute, and it is an effort we take extremely seriously.

We bring to the CFIUS process expertise and experience in international economic issues as well as national and international security policy. We consider them to be mutually reinforcing elements of our work. Security and prosperity are interdependent and where one is lacking, the other will be undermined in time.

I believe our internal processes at the Department of State ensure that each and every CFIUS case receives careful scrutiny by offices responsible for both economic, foreign and national security policy. The Bureau of Economic and Business Affairs, the Bureau of Political-Military Affairs, the Bureau of International Security and Nonproliferation, the Bureau of Diplomatic Security, the Bureau of Intelligence and Research, the Office of the Legal Adviser, and the appropriate regional bureau participate in the review of notifications received by CFIUS and forwarded to us by the Department of the Treasury as CFIUS chair. Other experts are also brought in, as needed.

The State Department brings to the CFIUS process background and insight into the political and economic context abroad in which particular foreign investors operate and the aims and motivations of governments around the world. This expertise is gained through the hard work of our Embassy personnel, from the

Department of State's statutory responsibilities on defense trade and nonproliferation, and by our roles in terrorist financing and counter-terrorism policy.

This work extends far beyond CFIUS. The Arms Export Control Act (AECA) and its implementing regulations, and the International Traffic in Arms Regulations (ITAR) give the State Department independent authority to regulate the export of defense articles and services and provides for civil and criminal penalties, whether a U.S. company is foreign-owned or not, when provisions of the AECA and ITAR are violated. Pursuant to these authorities, the State Department manages a registration system of all manufacturers, exporters and brokers of defense articles and services, and tracks foreign ownership as part of this process.

As Deputy Secretary Kimmitt has noted in his testimony, Congress, in crafting Exon-Florio, provided that the extraordinary authority to prohibit foreign ownership or control in a particular transaction should be used only when there is credible evidence that those acquiring ownership or control might pose a threat to national security and when it is judged that other existing U.S. legal authority is inadequate to address the potential threat.

All CFIUS members share the goal of assuring that no transaction reviewed by CFIUS leads to a compromise of national security. Although the confidentiality requirements of Exon-Florio and other factors prevent me from going into cases in an open hearing, I can assure you that the process has enabled the U.S. Government to take appropriate action to address potential threats when they have arisen.

Preserving both economic security and prosperity in a post 9/11 world is a complex challenge, but it is critical to America's future. The belief that an open investment policy is essential to our economic prosperity is long-standing and dates to the founding of the Republic. It's a policy principle borne out by the facts. U.S. openness to foreign investment has helped make the United States the world's most successful economy, which in turn provides the wealth and technology needed to support the world's most powerful and best-equipped military that ensures our security.

Therefore, we have welcomed and continue to welcome foreign investment, and indeed, most State governments in the United States spend considerable time and effort to attract it. Many have been very successful in doing so, and I congratulate you, Mr. Chairman, because Alabama has been a real success story in attracting high quality foreign investment. Just like folks in Alabama, we understand that foreign investment brings quality jobs that pay relatively high wages.

The free flow of capital also makes the rest of the world economically stronger, and creates overseas opportunities for U.S. investors. This is not only sound economic policy, but also our international obligation in many cases. We have enshrined the principle of providing foreign companies operating in the United States the same treatment U.S. companies receive in investment treaties and trade agreements signed with many foreign countries.

Our openness, and the benefits it has produced for us, has been very effective in encouraging others to emulate us, and open their own markets to our investors. Together with our colleagues at USTR, Treasury and Commerce, the State Department negotiates investment agreements that seek to remove discriminatory investment barriers in other markets, and contain strong protections for American investors and their investments.

In this regard, our open investment policy is an important asset, giving us greater credibility when we seek to open other markets. At the same time, this open investment policy must be implemented in a manner that reinforces our security interests.

In conclusion, Mr. Chairman, the Department of State believes Exon-Florio and its implementation by CFIUS have strengthened our national security, while avoiding unnecessary and detrimental restrictions on our open investment policy.

Mr. Chairman, the President and Secretary Rice have entrusted all of us at the Department of State with making sure we do everything possible to protect the national security of the United States and the American people, and to promote the kind of global economic policies, including open investment climates, that will maximize U.S. prosperity. I want to assure you that we take this mission seriously and personally.

Thank you for the opportunity to appear before you today. I would be pleased to answer your questions.