

MR. MCEACHRON: Thank you. I'd like to thank the entire Commission for inviting the software representative to come down and speak to you. I hope if some of you are coming to Seattle in two weeks for the WTO ministerial, we have weather anything like this, my advice is assume that we won't. Bring your raincoat. Make sure it's a washable raincoat, as well.

CHAIRMAN WEIDENBAUM: We're going to be in Seattle tomorrow for another hearing.

MR. MCEACHRON: You'll need your raincoat tomorrow as well.

I'm here on behalf of the Business Software Alliance, a trade association representing a handful of the principal U.S. and one Canadian package software companies. That is a kind of software you would typically buy at retail. Word processors, spreadsheet, communication products and the like. Rather than a custom programming industry.

We are just one segment of the information technology industry that was described as being such a vibrant part of this economy in the last 10 years. We think we're a very important part. We are very pleased with the policies that have allowed us to grow and innovate our products during that time. At this point we believe American companies have something like a 70 percent market share worldwide for the kind of product

we deliver, that is a mass market, prepackaged, preprogrammed software product that is appearing not only on personal computers but a wider and wider range of computing and communication devices.

We employ hundreds of thousands of people in the United States, contribute many billions of dollars in tax revenue here. We think -- the BSA thinks, as the result of a study commissioned by Nathan & Associates that the packaged software industry was responsible for about a 13 billion dollar positive contribution in the trade balance equation.

Mindful of what Professor Friedman said about wanting more detail in his statistics, I would be the first to admit that our industry is not yet being reported upon in the national statistics with the kind of specificity that allows us to be more precise than that. But we do think it's a very important and positive balance that creates jobs and tax revenue here in the United States, and as well as a tremendous incentive for further investment and innovation.

I'll leave to the Commission to decide whether or not the creation of those things is a net positive or a net neutral or a negative for our economy or the world economy.

There are some constraints on further growth we think that we'd like to bring to your

attention. Primarily software piracy, when we're talking about international markets. Most of the packaged software industry companies earn more than 50 percent of their revenue through international sales. The overall rate of software piracy -- that is, the percentage of our products actually in use that has never been paid for around the world, worldwide is slightly above 40 percent. So, if you can think of a 40 percent market foreclosure, that's bad. That's sort of a western European standard. The United States runs about 25 percent piracy rate. Ambassador Hills has heard this speech from us before in years gone by.

PRC was raised as an example of a trade imbalance. The software piracy rate in the PRC is well above 95 percent. So, nine out of 10 copies of our business productivity software products that PRC companies are using to make their goods and services more competitive have not been paid for. We think that resulted in about a \$1.2 billion loss, which would shift the other side of that formula right to the bottom line.

So, to deal with software piracy, continued vigilance by USTR and other federal government agencies would be helpful. Full implementation of the TRIPS obligations, both by developed and developing countries would be helpful. And government leadership, whether

in the issuance of Executive orders reminding governments that they too need to obey their own copyright laws, or to multilateral bank leadership in prohibiting the use of unlicensed software in their projects.

I agree that the skills shortage is a second potential constraint. Our education system in the United States is not turning out enough skilled workers and our immigration policy is not allowing us to bring in enough workers either temporarily or on a permanent basis to fill that gap. So, some combination of action on those two barriers would help on the skills side.

Finally, to a lesser extent, our own export policy is a brake that -- as regards encryption software. We are not an international leader in the export of encryption software because our own government is imposing a trade restriction. As a result, European and other companies are picking up the slack and building products that are needed by our international customers.

The third area I'd like to address is the potential for explosive growth, electronic commerce. We think that just as the United States, because of strong intellectual property rights protection and other aspects of our internal market, has been a leader

up until now in the personal computer software industry and related industries, we have the potential to be a leader as electronic commerce takes off. We believe as an industry that application of the existing agreements, as applicable in GATT and GATS, the general agreements on trade and services, and of course TRIPS, as I mentioned earlier, which is part of GATT, are very important. We think the TRIPS agreement should be enhanced over time to include some of the modernization that took place in the WIPO Copyright Treaty that was negotiated in December of 1996, if you will, taking copyright law into the digital age. We are not in favor of reopening the TRIPS agreement immediately. We think that there's more harm than good to be done in the Seattle round, if I may call it that.

We think -- I certainly agree that making permanent what is currently a temporary ban on imposition of customs duties on electronic transmission of products, whether it's content that is a software program or content that is entertainment, that is something that should continue.

Finally, we certainly agree that liberalizing the means of access to the Internet, which essentially means continued deregulation of the telecommunications industry, is a very good thing for consumers and for the economies as a whole, all of

which will lead to a more and more robust electronic commerce industry that we believe American companies are well positioned to lead in by innovating further, creating more jobs, and what that does to the balance of payments. We predict it will reduce the deficit. Whether that's a good thing or not I leave to economists rather than lawyers and trade association folks. Thank you very much for the opportunity to speak.