

April 6, 2007

To: U.S. Chamber Board of Directors

From: Tom Donohue

SUBJECT: President's Update – March 2007

In last month's letter, I told you that in March the Chamber would be rolling out a number of major reports, events and announcements. We have done just that -- while at the same time, playing a role in significant legislative, legal and trade developments. So let's get right to it!

Capital Markets Report and Follow-Up Initiative

Over the course of three days in mid-March, the Chamber's bipartisan Commission on the Regulation of Capital Markets in the 21st Century issued a landmark report. The National Chamber Foundation held a major summit featuring SEC Chairman Chris Cox, NASD Chairman and CEO Mary Schapiro, Senator Chris Dodd and Rep. Barney Frank, key players in setting the legislative and regulatory approaches to capital markets and corporate governance. And, we launched the Center for Capital Markets Competitiveness -- an initiative dedicated to making U.S. capital markets the most fair, efficient, transparent, and attractive in the world.

These activities generated extensive news coverage nationally and internationally, including a front-page story in the Wall Street Journal.

The Chamber Commission's report found that markets outside our country are becoming deeper and more competitive. At the same time, the United States is stuck with legal and regulatory regimes developed in the 1930s, a time closer to the Civil War than to today.

Companies increasingly see listing on our public markets as adding unpredictable, uncontrollable, and unnecessary risks and costs, especially in the regulatory and litigation arenas. Not one of the 10 largest stock issues of 2006 was listed in New York.

In the past six months, the Hal Scott Committee and the Bloomberg-Schumer Report also made uncompromising assessments of our financial systems. The day after our Commission released its findings, Treasury Secretary Hank Paulson convened a summit of his own to examine these issues. Several of our Commissioners were included to ensure that their perspective was represented. All of these inquiries have proven beyond a shadow of a doubt that our capital markets have critical problems that must be addressed.

What has been missing is a dedicated vehicle whose sole mission is to advance reforms. That's the purpose of our new Center for Capital Markets Competitiveness. Building on the Chamber's extensive work since the passage of Sarbanes-Oxley, it will advance a vigorous legislative, regulatory, and legal agenda that includes:

- Modernizing the framework governing our markets -- which today has become a patchwork of federal and state laws and regulations, enforced by numerous agencies that often overlap and conflict.
- Urging the SEC to move away from a mentality of regulation-through-enforcement and become more transparent and predictable. What we are seeking to fix is the current enforcement regime which ignores basic due process rights for honest market participants. Government should not be taking actions that destroy whole companies, but rather go after the individuals who may have committed wrongful acts.
- Addressing the unintended impacts of Sarbanes-Oxley. The SEC should be given statutory authority to more effectively and efficiently implement Sarbanes-Oxley.
- Urging businesses to end the practice of issuing quarterly guidance. It promotes short term-thinking and encourages executives to manage earnings.

- Reducing frivolous litigation in our markets. The current system whereby lawyers find some individual shareholders to sue boards on behalf of all shareholders -- with huge fees paid out to the lawyers -- is not conducive to attracting investment.
- Addressing the large systemic risk to our capital markets posed by the possibility that another major audit firm will collapse in the current regulatory and litigation environment. Internationally, we need convergence in accounting systems between U.S. and foreign markets.
- Challenging union-controlled public pension funds that have sponsored a host of shareholder resolutions and proxy battles to achieve what unions could not win at the bargaining table. We will fight any effort to give special interest shareholders greater power than others.

The work of our Commission has been outstanding. All businesses and investors, large and small, owe its members and the staff a huge debt. Now, the Chamber will take this critical set of issues to the next level of action and reform. For more information on the Commission's report and the new Center we have formed, please contact Chamber Senior Vice President David Hirschmann at (202) 463-5500.

General Jim Jones Assumes Command of New Energy Institute

As I have previously reported, the Chamber is forming a new Institute for 21st Century Energy modeled after our highly successful Institute for Legal Reform. It will work in the Congress, federal agencies, the states, the international arena, the courts and the court of public opinion to shape commonsense energy and related regulatory, tax, infrastructure, and environmental policies.

Through a comprehensive program of public education and grassroots action, it will support energy acquisition from traditional and alternative sources, a superior infrastructure to generate power and move fuel to consumers, increased energy efficiency, the expansion of nuclear power, and the sound management of global climate change.

This is a critical undertaking that demands strong, experienced leadership. So we reached out for the best -- enlisting Gen. James L. Jones, former NATO Supreme Allied Commander in Europe and former

Commandant of the United States Marine Corps, as the Energy Institute's President and CEO.

Gen. Jones recently completed 40 years of active duty service. He is a decorated combat veteran who has worked closely with government, business, and civic leaders to protect and advance U.S. and allied interests around the world. He has organized and chaired discussions on energy security and worked to elevate energy security as a core part of NATO's mission.

Chamber board members who attended our meeting in Florida last month had a special opportunity to hear Gen. Jones outline his vision of both his new role and the challenges facing America in an asymmetrical world. He clearly has the credibility, experience, and leadership to unify energy stakeholders behind a common strategy to ensure that America's energy supply is adequate, affordable, and secure, while protecting the environment.

Gen. Jones assumes his post at a challenging time. Earlier this week, the United States Supreme Court ruled 5-4 against the Bush administration's view that the Environmental Protection Agency (EPA) was not empowered by the Clean Air Act to regulate CO2 emissions from vehicle tailpipes for purposes of global warming. Our National Chamber Litigation Center filed an amicus brief agreeing with EPA's position and was disappointed by the outcome. While the Court did not order the administration to take a specific course of action, the decision allowing a group of states to sue the EPA adds still more confusion and complexity to the energy-global warming policy equation.

Trip to Asia and the Global IP and Innovation Forum

I have just returned from a 10-day trip to Asia, conducting more than 50 meetings and events during stops in Beijing, Nanjing, Hong Kong and Tokyo.

The centerpiece of the trip was a first-of-its-kind Global Forum on Intellectual Property and Innovation in Beijing, co-hosted by the Chamber and the China Council for the Promotion of International Trade.

This two-day event greatly exceeded our expectations, with more than 600 people attending from around the world. Representatives from governments, industry associations, corporations, international organizations, and academia from the United States, China, Japan, Korea, the European Union, Hong Kong, Singapore, and India, highlighted the importance of

protecting and enforcing intellectual property rights (IPR) in order to stimulate investment in innovation and research and development.

We were very encouraged by the sense of shared responsibility that was espoused by all stakeholders to promote IPR education in schools, government, among businesses, and the general public, and to facilitate the sharing of best practices in IPR management, protection, and enforcement.

It was no accident that we held this forum in China, where stronger penalties and enforcement, along with public education, are urgently needed. While the Chinese have taken some encouraging steps -- particularly in Jiangsu Province, which we visited after Beijing -- IP theft, counterfeiting and piracy have been increasing because rapid economic growth has created more opportunities for criminal elements.

Through our comprehensive initiative to address counterfeiting and piracy challenges, the Chamber will continue to press for positive changes in the global environment affecting innovation, IPR protection and enforcement, and the protection of patents.

The trip was highly productive on other fronts. During private talks with senior Chinese leaders responsible for trade, investment, procurement rules, the banking system, currency, and the protection of intellectual property, I had the opportunity to press for visible action to address the imbalances in the important U.S.-China commercial relationship.

The new Congress will be watching closely when leaders from both countries meet in Washington in late May for another round of the Strategic Economic Dialogue. Given the Chamber's credibility with the Chinese leadership, I believe we successfully conveyed the message that these talks must show progress and build on some recent positive steps already taken by the Chinese leadership.

During a brief stop in Hong Kong, I had an opportunity to tell Chief Executive Donald Tsang and other leaders about the Chamber's continuing commitment to this vibrant East Asia commercial and shipping hub, which has consistently ranked as one of the world's freest and most open economies.

In Tokyo, I met with Japanese Prime Minister Shinzo Abe, urging him to accelerate domestic economic reforms, open Japan's economy to greater U.S. investment, and work with our country to advance economic progress and

political stability in Southeast Asia. Another important topic was the need to create a level playing field for American financial services and package delivery firms during the upcoming privatization of Japan Post -- the massive government-owned banking, insurance, and mail delivery institution.

I also met with both American companies in Japan and eight CEOs of major Japanese corporations doing business in the United States, firming up substantial support for Chamber programs. For more information about our IP and Innovation Forum and all our activities in Asia, please contact Chamber Vice President for Asia, Myron Brilliant at (202) 463-5489.

Korean Free Trade Agreement Signed

While in Asia, we also spent many hours on the phone with trade negotiators and American companies, trying to help bring the Korea-U.S. free trade negotiations to a positive conclusion.

The Chamber is pleased that the Bush administration and the Korean government agreed on terms that are acceptable to most industries in both countries. We understand that American companies did not get everything they hoped for and we are still waiting for all the details. Yet overall, this is a good agreement that will go a long way toward opening the world's 10th largest economy to U.S. exports and bring substantial benefits for American manufacturers, farmers, and service providers.

Bilateral trade between the United States and Korea grew to \$78 billion in 2006, with our exports growing by 17%. Korea is the United States' seventh largest trading partner and is uniquely positioned geographically between Japan and China to be a springboard for U.S. economic and strategic interests in Northeast Asia.

This is the largest and most significant trade expansion agreement since NAFTA. You can expect to see the Chamber play a leading role in what promises to be a difficult fight to win its approval in Congress.

We are also engaged in efforts by the administration and Congressional leaders to reach an accommodation that would extend Trade Promotion Authority for the current and future presidents so that a possible Doha agreement and other trade pacts could be negotiated and approved on a fast-track basis. Congressional leaders want certain labor and environmental

provisions routinely included in such agreements, even though they are unrelated to trade.

From our perspective, some compromise is possible -- but the devil is in the details. The Chamber would not support using trade negotiations as a back-door ploy to rewrite U.S. labor laws or to undercut intellectual property protections for American products and innovations. Still, given that only a few months ago pundits were declaring the trade agenda dead and buried in this new Congress, we are pleased and encouraged that all parties are trying to find a good way forward.

For the latest state of play on trade issues in Congress, please contact Chamber Executive Vice President Bruce Josten at (202) 463-5310.

Chamber Ready for Next Round in Union Card Check Fight

As expected, last month the House passed a bill that undercuts employee rights by replacing secret ballots in union elections with a card check process. Yet, with a massive grassroots lobbying and media blitz orchestrated by the Chamber, we helped shrink the margin of passage and sent a strong message to legislative supporters that they will pay a political price for their vote.

Now the battle shifts to the Senate, where the rules give us a much better chance to block this outrageous measure. The card check process called for in the bill would force employees to make their choices in front of union organizers and fellow employees who support unionization, leaving them vulnerable to threats and other pressure tactics. A united and mobilized business community is calling on the Senate to uphold the right of workers to vote in private, free of coercion or influence, on whether or not to join a union.

For more details, contact Randy Johnson, Vice President for Labor, Immigration and Employee Benefits at (202) 463-5448.

Education Report Card Provides Impetus for School Reform

As I reported last month, the Chamber issued “Leaders and Laggards”, a report card that graded public schools in every state and found serious shortcomings in the performance and management of our educational system. Our work triggered a spirited and constructive conversation in state capitals and communities across America. Using the report card as a catalyst, the

Chamber is now trying to turn the talk into action as Congress debates the renewal of the landmark No Child Left Behind (NCLB) school reform act.

On March 13, Chamber Senior Vice President Arthur Rothkopf testified before a bicameral hearing held by the Senate Health Education Labor and Pensions Committee and the House Education and Labor Committee to urge its members to swiftly strengthen and renew NCLB. This law, which recently reached its 5th anniversary of enactment, has ushered in marked improvements in our nation's education system. But we have a long way to go, particularly in our high schools where tragically, over 30 percent of students don't graduate.

Education is an issue that will define our global economic success -- or failure -- in the 21st century. That's why education reform is one of the Chamber's top priorities.

Please don't hesitate to contact me at (202) 463-5300 if you ever have any questions. In my absence, feel free to call David Chavern, the Chamber's COO, at (202) 463-3101.

Until next month...