

**TESTIMONY OF
JOHN K. VERONEAU
BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY
ON
“H.R. 5337
REFORM OF NATIONAL SECURITY REVIEWS
AND FOREIGN DIRECT INVESTMENT ACT”**

May 17, 2006

Chairwoman Pryce, Ranking Member Maloney and other Members of the Committee, I appreciate the opportunity to testify before you today. I am a partner in the law firm of DLA Piper Rudnick Gray Cary. From 2003-05, I served as the General Counsel in the Office of the United States Trade Representative (USTR) and represented the Office on the Committee for Foreign Investment in the United States (CFIUS).

Based on this experience, I am pleased to testify on how I believe H.R. 5337, Reform of National Security Reviews of Foreign Direct Investments Act, could impact the twin goals of protecting national security and promoting investment in the United States. These comments also represent the views of the Business Roundtable, the Organization for International Investment, the Financial Services Forum, and the United States Chamber of Commerce.

First and foremost, we appreciate the deliberative and bipartisan manner in which this legislation has been developed.

The bill takes several important steps to protect against foreign acquisitions that might threaten national security.

It creates a clear statutory role for the Director of National Intelligence to review proposed acquisitions.

It provides for the ability to extend the investigation period if security issues are not resolved.

It provides authority for CFIUS to reconsider previously approved transactions if security agreements are seriously breached.

And, it requires acquisitions by foreign state-owned entities to undergo the 45-day investigation period.

We support strong measures to assure that national security interests are protected. Some provisions in the bill, however, add regulatory burdens that serve no national security interest. These burdens have the potential to discourage investment in the United States while providing no offsetting national security benefit.

As the events of September 11, 2001 painfully demonstrated, threats to our national and homeland security can lie in the most unlikely of places. We need systems to effectively identify, mitigate and counter these security threats.

A potential source of risk stems from the foreign acquisition of U.S. companies. While it is wrong to presume that foreign ownership is inherently a security threat, it is reasonable for the government to undertake an analysis of whether such risks exist.

No president should ever hesitate to block an acquisition that truly threatens national security. But, it is important that the process by which such risks are considered does not hamper legitimate foreign investment.

Since its creation in 1975, CFIUS has been the inter-agency committee charged with determining the national security risks, if any, associated with foreign acquisitions.

In recent months, it has become clear that confidence in the CFIUS process has waned and that legislation is needed to make substantive changes that will enhance confidence. While I believe CFIUS has adapted itself to the post-9/11 threat environment and for the most part has worked well, I understand the need to make changes to restore public confidence in CFIUS and appreciate the intent of H.R. 5337 in serving this goal.

In legislating on CFIUS, it is important that we not lose sight of four key factors:

First, national security is paramount, but it relies heavily on economic security. All prudent steps must be taken to reduce risk. But regulatory systems that overreach by imposing burdens that serve no national security benefit undermine U.S. economic competitiveness.

Second, it is important for CFIUS to focus on the risks *created by the acquisition*. There is a baseline risk associated with the misuse of any U.S. company or asset. The essential question for CFIUS is whether foreign ownership itself creates a new and specific risk. If not, there is no basis to deny the transaction.

Third, the CFIUS process should provide sufficient time to vet thoroughly any security risks associated with a transaction. But it should also provide clarity and certainty for approving transactions that pose no security threat. The vast majority of CFIUS filings are -- and can be -- processed within the initial 30-day review period.

It is important that non-controversial acquisitions be approved on the same 30-day timeline as the Hart-Scott-Rodino regulatory process for antitrust reviews. Otherwise, foreign investors would be unfairly discriminated against and U.S. asset owners would be denied the opportunity to get the best price for their assets.

Great care has been taken over the years to allow CFIUS to meet its national security mission without having a chilling effect on legitimate foreign investment. Having a common timeline for both CFIUS and Hart-Scott-Rodino has been an essential element in achieving this goal. Losing this common timeline would discourage foreign investment and serve no security benefit.

Acquisitions that raise security concerns still unresolved at the end of the 30-day review period can be further vetted in the 45-day investigation period. As such, preserving the 30-day limit on non-controversial filings need not compromise CFIUS' primary goal of protecting national security.

Fourth, CFIUS should not become politicized. Foreign direct investment in the United States is important for job creation and economic development. We should encourage rather than discourage such investment. Efforts to unfairly restrict investment at home will also hurt American interests abroad. The United States -- through pension funds and other vehicles -- is the largest foreign investor in the world and has the most to lose if protectionist forces overtake investment policy.

On balance, these factors were considered in drafting H.R. 5337. The legislation strengthens CFIUS' focus on national security without causing the process to get side-tracked on matters unrelated to security.

In particular, the bill preserves CFIUS' ability to dispose of filings within 30 days if there are no outstanding security matters. This will allow investors to make decisions with confidence that the regulatory process will not become bogged down on non-security matters. More importantly, it will allow CFIUS to focus on the minority of cases that have unresolved security issues at the end of the 30-day review period.

Unfortunately, the bill's preservation of the 30-day review period could be undermined by the requirement that the Director of National Intelligence (DNI) have no less than 30 days to complete its security assessment. The DNI should certainly have sufficient time to complete its work but, in cases where the analysis can be done in less than 30 days, it should be allowed. There is no security benefit in preventing the DNI from completing its work as quickly as the facts and circumstances of a case allow.

Mandating that certain classes of acquisitions must go to the 45-day investigation phase is dangerous because it will force CFIUS at times to spend additional resources on matters where there are no outstanding security matters. Such mandates detract from CFIUS' proper focus on transactions that threaten national security.

We understand the committee's desire to insist that acquisitions by foreign state-owned companies be subject automatically to the 45-day investigation. However, we encourage the Committee to distinguish companies wholly owned and controlled by a foreign government from those where the foreign government is simply a minority investor. If no security threat exists, CFIUS should have the flexibility to approve transactions as quickly as possible, notwithstanding some foreign government ownership.

Finally, we recognize the desire in Congress to impose a statutory requirement to notify relevant committees of CFIUS filings. Extensive and detailed reporting on individual CFIUS filings invites a politicization of the process and risks the disclosure of highly sensitive proprietary information. We encourage the committee to use great caution in imposing notice and reporting requirements, as they can divert scarce CFIUS resources away from their national security focus.

The Department of the Treasury has already taken steps to address concerns with investigations of foreign state-owned companies and to coordinate more closely with the Congress on CFIUS filings. These are important steps in rebuilding confidence in the CFIUS process.

To the extent that Congress believes that statutory changes are necessary to codify these changes and rebuild confidence, H.R. 5337 achieves this goal. It codifies a process to identify and respond to security threats posed by acquisitions while recognizing the economic benefits of foreign direct investment.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: John K. Veroneau	2. Organization or organizations you are representing: DLA Piper Rudnick Gray Cary
3. Business Address and telephone number: 1200 19th Street, N.W. Washington, D.C. 20036 (202) 861-6216	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. 	

Please attach a copy of this form to your written testimony.

John K. Veroneau

Mr. Veroneau joined the law firm of DLA Piper Rudnick Gray Cary in 2005 after serving as General Counsel in the Office of the United States Trade Representative (USTR), the lead federal agency for trade law, policy and enforcement. Mr. Veroneau also served as an Assistant Secretary of Defense and held several senior staff positions in the United States Senate.

From 1989-1997, Mr. Veroneau worked in the United States Senate, serving as Legislative Director to U.S. Senator William S. Cohen (Maine). Legislative Director to now U.S. Majority Leader Bill Frist (Tennessee) and Chief of Staff to U.S. Senator M. Susan Collins (Maine).

From 1997-2001, Mr. Veroneau served under then Secretary of Defense William S. Cohen. In 1999, he was nominated by President Clinton and confirmed by the U.S. Senate to be the Assistant Secretary of Defense for Legislative Affairs.

In 2001, Mr. Veroneau joined the Bush Administration as the Assistant U.S. Trade Representative for Congressional Affairs. In 2003, he was appointed General Counsel at USTR and served as USTR's representative to the Committee on Foreign Investment in the United States.

Education

University of Maine (1983) *magna cum laude*

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