

Testimony of

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Hearing on APEC 2011: Breaking Down Barriers, Creating Economic  
Growth

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Chairman Baucus, Ranking Member Hatch and members of the Committee, thank you for the great honor of inviting me here to speak to you about the impact of the Asia Pacific Economic Cooperation on the international business operations of Nu Skin Enterprises and the broader direct selling industry.

**Background Information on Nu Skin and Direct Selling and APEC markets:**

My name is Rich Hartvigsen and I am Vice President of Global Government and Industry Affairs for Nu Skin Enterprises. Nu Skin Enterprises is a direct selling company, marketing a broad range of personal care and nutritional supplement products through a network of independent distributors numbering nearly 800,000 individuals in fifty-one countries around the world. Nu Skin was founded in 1984 and launched an initial public offering for its Asia Pacific markets on the New York Stock Exchange in 1996. Nu Skin's full, global operations are now represented on the New York Stock Exchange and are traded under the symbol NUS. Nu Skin Enterprises reported global sales of over US \$1.5 billion in 2010. The global revenues of Nu Skin have continued to grow significantly over the years of global economic recession.

I have been in the legal group of Nu Skin for twenty two years and have served in various roles including General Counsel and General Counsel of International Operations. I have been involved in the establishment of most of Nu Skin's international markets and particularly active in the establishment of the company's operations in seventeen of the twenty one member economies of APEC. In addition to the United States, Nu Skin's APEC markets include Australia, Brunei, Canada, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Chinese Taipei, Hong Kong, The People's Republic of China, Mexico and Russia.

I joined the company in 1989, fortuitously, the year of the founding of APEC. At the time, our company name, Nu Skin International, was more accurately a goal statement since we were only operational in the United States. However, we quickly developed ambitious plans to expand our business internationally and have since opened fifty additional international markets.

The economies of APEC figured prominently in our international diversification strategy from the outset and we began opening those markets in 1990 with our initial expansion into Canada. Our expansion into Australia, New Zealand, Hong Kong, Taiwan and Japan soon followed and by 1996 we had added operations in most of the APEC economies. This growth into the market economies of APEC was critical to the stability and growth of our company. It has sustained us in times of economic and business turmoil in other world markets. We have found that there is a very high demand in the economies represented in APEC for products produced in the United States.

From a broader direct selling industry perspective, according to the latest data available from the World Federation of Direct Selling Associations (WFDSA) collated from the collective WFDSA member companies and countries, 2009 global estimated retail sales were US \$117

Billion. These sales were facilitated by over seventy-four million individuals affiliated with the direct selling companies as independent sales representatives. 83% of these direct sellers are women and over 90% of them are working part time. These numbers of people and income earned are material in light of the global recession as they have allowed these tens of millions of individuals around the world and over sixteen million in the United States alone to supplement their family income through the direct selling opportunities they represent. Also of note, over 70% of those global direct sales took place in the APEC economies.

### **Nu Skin's International Expansion and partnership with the APEC Region:**

Nu Skin had not engaged in international business prior to 1990. The path to opening many diverse markets around the globe at times appeared dauntingly difficult and complex. Because the opening of our international markets in the Asia Pacific Region took place at the same time APEC was moving forward with its agenda, it is impossible to precisely contrast the benefits to our international expansion in the region by comparing our business with and without the existence of APEC linking those economies. But the concept of cooperation espoused by APEC and articulated in the Bogor pillars of trade and investment liberalization; business facilitation; and economic and technical cooperation cannot be ignored when considering the amount of trade we currently accomplish in the APEC region as opposed to our trade outside the region. The existence of APEC clearly prevented hurdles to international trade within the region that might otherwise have hampered the international expansion of our business. It is not coincidental that in 2010 over 90% of Nu Skin's global sales were made within the member economies of APEC. Our exports from U.S. operations to other APEC economies represent more than 80% of our total exports.

Similar to the broader principles of cooperation articulated by APEC, Nu Skin's expansion into the economies represented in APEC is not purely of a business nature. We view the people of these markets as our friends. We view their countries as our allies. Our interaction with these individuals both inside and outside the bounds of our business reflects this feeling. In addition to paying back over 40% of our gross revenues generated in each market to the citizens of those countries who are our sales representatives, we have engaged in programs of significant charitable enterprise in our dealings with each of our partner economies in APEC.

To date, through the generosity of its founders, employees and distributors, Nu Skin's Force For Good Charitable Foundation and other charitable endeavors have contributed more than US \$134 million through cash and food donations toward life improving projects around the world. These funds and supplies provide a conduit to partnerships with charitable enterprises in the APEC economies. A high percentage of those funds donated each year go to charities in the APEC markets. In 2010 alone nearly US \$2 Million (excluding projects in the United States) was contributed to charities and humanitarian projects in the APEC region.

A few examples of Nu Skin's Force For Good Foundation's charitable activities in the APEC region include:

- A pledge to raise more than US \$1 Million for the relief funds in stricken areas affected by the recent Japan earthquake and tsunami (ongoing).
- The provision of hundreds of open heart surgeries for children in South East Asian countries and China.
- Building of rural schools in areas of need in China.
- US \$4.8 million in disaster relief to areas devastated by the Sichuan earthquake in China in 2008.
- US \$1 Million in food and cash donated to Tsunami relief efforts in South Asia in 2004.

Nu Skin also promotes an initiative called Nourish the Children. Through the generosity of many thousands of Nu Skin distributors, customers and employees worldwide, this initiative has provided more than 220 million meals to undernourished children around the world. Many of these meals are provided to children in need in the APEC economies and are donated as needed to assist disaster victims. We note these programs not to boast but merely to demonstrate that a spirit of deeper cooperation across borders is fundamental to achieving success with international partners.

### **Our Perception: Successes and Failures of APEC**

We believe there have been many successes and some failures associated with the goals of APEC. APEC articulated a goal for the removal of customs duties between developed member economies by 2010. While duties have been significantly reduced across the region under the auspices of APEC, we understand that because of the voluntary nature of participation of economies in APEC, the goal of free trade between APEC members has not been fully achieved.

While some would view the necessity of a U.S. Korea free trade agreement as a failure of the goal of APEC to remove customs duties between these two partners, we view it instead as an agreement made possible through the spirit of cooperation encouraged by APEC. The ratification of this agreement by the United States Congress is of paramount importance to our business and at current duty rates, would eliminate nearly four million dollars of expense in our company's trade with our friends in the Republic of Korea. We also fully support and ask for swift ratification of the other pending free trade agreements in Colombia and Panama.

The cooperative agenda of APEC has allowed Nu Skin to establish a very large export market with our friends in Japan. In 2010 we reported product sales to Japan of over \$US 450 Million. At the same time, our company continues to struggle with a lack of transparency in Japan's assessment of imported product values where we believe valuations are not always assessed consistent with generally accepted GATT principles but are rather changed periodically without clear justification. These misunderstandings would ideally be minimized through the achievement of transparency goals sought among APEC partner economies. The removal of these misunderstanding with Japan alone would have resulted in savings of tens of millions of dollars to Nu Skin.

Other forms of cooperation greatly beneficial to the global direct selling industry and the entrepreneurs and consumers it serves have been achieved under the auspices of APEC. The best example is the close cooperation of the WFDSA (World Federation of Direct Selling Associations) the Direct Selling Education Foundation (DSEF) and the APEC CEPI (Consumer Education and Protection Initiative). This program represents a public, private partnership between government and private enterprise. The WFDSA and DSEF have teamed with APEC CEPI to fund and cooperate in this initiative endorsed by the APEC Small and Medium Enterprise (SME) Ministerial Conference in 1999 in Christchurch, New Zealand. The program helps entrepreneurs develop and sustain new businesses and micro-enterprises. At the same time APEC CEPI and the direct selling coalition work cooperatively with consumer protection groups to promote ethical business practices and promote consumer rights and protections in the marketplace. These programs are held periodically in APEC economies and are tailored to meet the specific requirements of entrepreneurs and consumers in that economy.

The combination of Nu Skin's high dollar volume of sales in the Asia Pacific Region combined with the elimination of duties achieved by other trade agreements such as those achieved under ASEAN puts tremendous pressure on our company to move much of our manufacturing and administration to markets who are partners in ASEAN. This phenomenon is not endemic to Nu Skin but applies across the broader spectrum of U.S. and other APEC economy based direct selling companies. It also applies to other businesses within the region. If APEC could fully achieve its stated goals to eliminate the high cost of doing business among its member economies, much of this pressure would be eliminated. If these barriers to trade in both regulation and duties are not eventually minimized or eliminated among APEC economies, many of the jobs and much of the business capitalization will, by force of fundamental economic principles, flow to those countries who are members of more favorable trade organizations within the region.

The schedule of APEC meetings to be held within the United States this year provides a tremendous opportunity for the United States to lead in the consideration and assessment of APEC's successes and failures. This creates a real opportunity for the United States to move a positive agenda forward that will help APEC reassess its successes and failures and move forward to achieve its goals in the future.

**Conclusion:**

In conclusion, the experience of Nu Skin and the direct selling industry in general indicates that there is a high demand among the countries of the APEC region for products manufactured in the United States. APEC has paved the way for tremendous expansion of international trade and other cooperation among its member economies and government and private partnership interests within the region. If the United States is to protect the ability of U.S. companies to retain jobs and manufacturing in the United States, it must move forward decisively to help APEC fulfill its agenda.