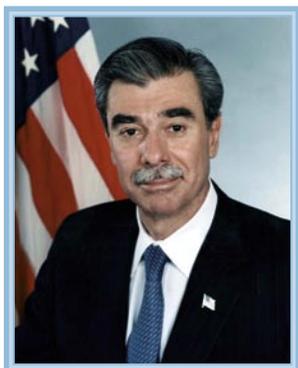


STATEMENT FROM THE SECRETARY



I am pleased to present the Department of Commerce's FY 2006 Performance and Accountability Report (PAR). The report describes the Department's goals and our progress in meeting them. It also provides program data and information about financial management and performance.

The data and details in this report provide an account of the Department's accomplishments in enabling economic growth, fostering U.S. leadership in science and technology, and promoting environmental stewardship.

Competitiveness and Innovation

With innovation essential to the U.S. economic future, one of our priorities is to play a key role in the American Competitiveness Initiative (ACI) aimed at keeping the nation strong and secure by ensuring that it continues to lead the world in science and technology. The National Institute of Standards and Technology (NIST) is one of three key federal agencies in the ACI that support basic research programs in the physical sciences and engineering. NIST research laboratories focus on providing the standards, measurement science, verified data, and test methods necessary to support the development of new technologies and to promote the competitive standing of the United States in the global economy. NIST's world-class scientific and technical staff works closely with private industry, academic researchers, and other government agencies.

NIST's reputation was further enhanced when John L. Hall was named a co-recipient of the Nobel Prize in Physics in October 2005 for his work at NIST to develop the laser as a precision measurement tool. With this achievement, NIST is now the home to three Nobel Laureates. Building on a precision laser calibration technique developed by Hall, in 2006, NIST physicists announced a highly sensitive new tool for real-time chemical analysis. Their new technology may dramatically improve the speed and accuracy of chemistry laboratories, environmental monitoring stations, security site screening for explosives or biochemical weapons, and medical offices where a patient's breath could be analyzed to monitor disease.

NIST researchers continued to push the limits of quantum physics and quantum information technology (IT), announcing a groundbreaking experiment in December 2005 that set a new record for simultaneously confining individual atoms and controlling their quantum states—work that affects the design of quantum computers and could lead to improved precision instruments such as atomic clocks. In June 2006, NIST researchers announced the development of a novel electromagnetic "trap" for ions that may lead to practical quantum computers.

In FY 2006, the Department also assisted economically distressed communities by promoting a favorable business environment through investments in public infrastructure and technology which, in turn, attracted private capital investment and new jobs. For example, an Economic Development Administration (EDA) investment in the city of Tupelo, MS assisted in the construction of a multi-story, 31,609 square foot, small business incubator. The Tupelo/Lee County Regional Business Incubator project will provide area entrepreneurs and existing businesses with an opportunity to obtain the working space, specialized technical assistance, and peer support their business endeavors need to succeed during the difficult early stages of development. EDA's investment of \$1.625 million is anticipated to leverage \$9.2 million in private investment and is projected to create 281 new jobs and 36 new businesses by the end of the start-up cycle.



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Not only did we take direct action to improve the nation's standing in terms of innovation and development, we also improved the economic information used as a basis for important decisions by business leaders, policymakers, and the U.S. public. In FY 2006, we successfully completed updates to geographic reference features for all planned counties. Improving the Census Bureau's geographic data is important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. Census data are used to apportion seats in the U.S. House of Representatives and to allocate billions of federal dollars to states and localities.

Trade

In FY 2006, we advanced two critical priorities by leveraging public and private partnerships and by promoting U.S. exports in strategic and emerging markets. These priorities reinforced our goal to broaden and deepen the nation's export base. Government and industry have worked side-by-side to support passage of several free trade agreements (FTA), advance U.S. positions in the World Trade Organization (WTO), and expand market access and promote U.S. exports in commercially strategic markets.

Our efforts in developing trade with India have resulted in U.S. exports to India nearly doubling in the last three years from \$4.1 billion in 2002 to over \$8 billion in 2006. We continue to advance an enhanced U.S.-India commercial dialogue, launched this past spring by the International Trade Administration (ITA). The expanded agenda for the commercial dialogue now addresses standards, intellectual property rights (IPR) enforcement, antidumping and countervailing duty (AD/CVD) procedures, and commercial opportunities for small and medium-sized enterprises.

We remain committed to removing trade barriers and ensuring compliance with negotiated trade agreements. During the past year, we negotiated and started implementing a key agreement on Mexican cement. This agreement resolved a long-standing trade dispute between the United States and Mexico over imports of cement while at the same time providing improved market access for U.S. cement producers into the Mexican market. Recently U.S. consumers complained of cement shortages. Last summer's Gulf Coast hurricanes exacerbated this problem, leading to the United States and Mexico reaching this settlement. Now, cement shortages affecting consumers in the United States have been eased by a measured entry of Mexican cement into the U.S. market. These imports assisted efforts to rebuild in the hurricane-ravaged Gulf Coast region. The agreement has helped to ensure that resources will be available in the event of future disaster so the long-term impact of these efforts is market-liberalization, including improved access to the Mexican market for U.S. cement producers.

Intellectual Property Protection

People all over the world benefit from economic growth fueled by innovation. Continual development of a vigorous, flexible, and efficient intellectual property (IP) system protects individual rights, encourages investment in innovation, and fosters entrepreneurial spirit. We are committed to promoting the IP system through the protection of inventions or creations via patent, trademark, trade secret, and copyright laws.

In support of the Office of the U.S. Trade Representative (USTR) and other federal agencies, the U.S. Patent and Trademark Office (USPTO) plays a key role in the negotiation and drafting of IP provisions of free trade and other international agreements. These provisions generally require U.S. trading partners to provide stronger, more effective protection for IP than is required under WTO's



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Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement. USPTO has participated in numerous negotiating rounds and/or implementing legislation for all recently concluded and ongoing FTAs.

The Under Secretary for Intellectual Property and Director of the USPTO serves as co-chair of the National Intellectual Property Law Enforcement Coordination Council, which coordinates domestic and international IP enforcement activities. The Department also participates in the Administration's Strategy Targeting Organized Piracy (STOP!) initiative to fight IP piracy.

In FY 2006, we expanded the Trilateral Document Access system that provides patent examiners at the USPTO and the Japan Patent Office (JPO) access to selected application documents in the file wrappers of each other's office. In addition, USPTO's Office of External Affairs (EA) plays a critical role in U.S. efforts to provide IP technical assistance throughout the world. EA's mission is to promote development of IP systems internationally. Some recent initiatives include collaborating with counterparts in the Chinese government to improve China's IP rights (IPR) administration and enforcement, placing IPR experts in six countries to support Embassies and Consulates on all IPR issues, and establishing the USPTO Global Intellectual Property Academy (GIPA) to expand IP training, technical assistance, capacity programs and activities for foreign government officials. EA also manages a hotline that helps small and medium-sized businesses leverage the resources of the federal government to protect their IPR in the United States and abroad.

Environmental Stewardship

In the Pacific Ocean, the Administration has created the world's largest marine conservation area off the coast of the Northwestern Hawaiian Islands in order to permanently protect pristine coral reefs and unique marine species. The Northwestern Hawaiian Islands Marine National Monument encompasses nearly 140,000 square miles of U.S. waters, including 4,500 square miles of relatively undisturbed coral reef habitat that is home to more than 7,000 species. We will manage this monument in coordination with the U.S. Fish and Wildlife Service and the State of Hawaii.

During the summer of 2006, a new geostationary operational environmental satellite (GOES-13), designed to track hurricanes and other severe weather, successfully reached orbit. GOES-13 assumed its place in the National Oceanic and Atmospheric Administration (NOAA) GOES satellite constellation, which provides continuous critical data for severe weather forecasts and warnings, including tornadoes, winter storms, and hurricanes.

In FY 2006, we continued our research in conservation and management of fisheries and marine ecosystems by launching the HENRY B. BIGELOW, one of a new class of fisheries survey vessels (FSV). This ship will support NOAA research efforts primarily in northeastern U.S. waters. Its high-tech capabilities make it one of the most advanced fisheries research ships in the world, enabling NOAA to conduct its fisheries research and assessment mission in New England with greater accuracy and cost efficiency.

Gulf Coast

The 2005 Gulf Coast hurricanes continued to have a major impact in this past year, with the affected communities continuing their efforts to rebuild. These disasters focused our nation's attention and concerns on the devastation caused by major hurricanes and the work of the National Weather Service (NWS) in preparing our coastal regions for such storms. We continue to be proud of our efforts to respond to the enormous human and environmental needs of people who are coping with the devastating effects of hurricanes and other natural disasters. We continued to restore fisheries, assess damage to major fishing ports and seafood processing facilities, assist fishing communities' recovery efforts, re-map ports to enable resumption of shipping and commerce, and extend economic development recovery grants. We will continue to support recovery efforts.



Program Data and Financial Performance

The financial data and performance results described in this report enable us to administer our programs, gauge their success, and make adjustments necessary to improve program quality and service to the public. Bureaus continue to take specific steps to eliminate ineffective or ambiguous performance measures. These steps have resulted in the removal of strategic planning and performance management as one of the Department's top ten management challenges.

In response to the Reports Consolidation Act of 2000, we are reporting that the financial and performance data presented are substantially complete and reliable, in accordance with Office of Management and Budget guidance (OMB Circular A-136 and A-11). Any specific data limitations are discussed in the body of the report. Our financial management systems are in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). For the eighth year in a row, our financial statements have been issued an unqualified ("clean") opinion by independent auditors.

We must also comply with the management control standards established by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123. Continual evaluation of our operations through a variety of internal and external studies enables us to determine whether our systems and management controls conform with the FMFIA. Based on these reviews, for the programs, organizations and functions covered by the FMFIA, the Department's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved with the exception of one material weakness. Although we continue to make progress in improving our IT security posture, we have not reached the point at which this material weakness can be considered resolved. Further information about this issue can be found in the Management Discussion and Analysis section of this report.

In our efforts to make our programs more efficient, effective, and results-oriented, we continue to be guided by the President's Management Agenda (PMA). We have made significant progress in implementing the core government-wide initiatives: strategic management of human capital, competitive sourcing, improved financial performance, electronic government, and budget and performance integration. We also are engaged in activities that support faith-based and community initiatives, one of the PMA components found in selected departments.

In Conclusion

Again, I am proud to submit this report on FY 2006 performance results for the Department of Commerce. I hope the report will provide a useful look at the activities of the Department and its 36,000 employees, whose work continues to result in improvements in the nation's economic situation, and in scientific progress and environmental stewardship that benefit people around the globe. I look forward in the year ahead to strengthening our focus on these critical activities and furthering our mission and management objectives.

Carlos M. Gutierrez
Secretary of Commerce
November 15, 2006