

TRADE PROMOTION AUTHORITY

HEARINGS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SEVENTH CONGRESS
FIRST SESSION

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JUNE 20 AND 21, 2001
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TRADE PROMOTION AUTHORITY

WEDNESDAY, JUNE 20, 2001

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 9:35 a.m., in room 215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Breaux, Graham, Kerry, Lincoln, Grassley, Murkowski, and Lott.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. While all of us gathered in this room represent different constituencies, I truly believe that everyone here shares a common goal. We want to promote a trade policy that advances our National interest. We want American farmers and companies to be successful on the world stage. We want to create and maintain high-paying jobs. We want to do these things in a way that preserves our environment.

Every single one of us shares these goals, and I am convinced that opening markets can advance these goals, provided, of course, that trade is fair and is consistent with international and U.S. trading rules.

I also believe that fast track authority has been helpful in completing these agreements, and that is why I have supported fast track in the past for Presidents of both parties.

In the coming months, I will work with my colleagues and the administration to explore the possibility of extending fast track. But I must confess to increasing pessimism as to whether we can achieve that goal this year.

What has changed? Why the controversy? Simply put, the topics of international trade negotiations have changed. In the early efforts, the United States focused only on tariff reductions, but we soon realized the need to address additional issues. We began to look for solutions to non-tariff barriers like quotas and product standards and, by the late 1970's, we began to address government subsidies.

In the 1980's, the issue was intellectual property. On this issue, there is a great parallel with the current discussions on labor rights and environmental standards.

Initially, developing countries hotly opposed the U.S. position on intellectual property and they wanted it addressed through the largely ineffective World Intellectual Property Organization. In our

own country, many argue that trying to address this issue “muddied the waters.”

But after years of hard negotiation, the developing world relented and intellectual property protection became an integral part of trade agreements. They remain so today.

Now the issue is standards on labor and environment. Again, some developing countries opposed U.S. efforts to broaden that agenda. Some in this country would also prefer to ignore these issues or push them off to international organizations with a spotty track record. Equally troubling is the ongoing effort by some trading partners to undermine the U.S. trade laws.

Unfortunately, I feel the gap on these issues is widening. I base this fear largely on three things. First, the administration’s Statement of Trade Principles, which offered little beyond rhetoric on these issues; the efforts of some to move fast track legislation that completely ignores these issues; and the very troubling statements by President Bush Monday where he referred to labor and environmental arguments as “all kinds of excuses not to trade.” We simply will not get where we want to be by trotting out trite partisan rhetoric. So, that is the bad news.

What is the good news? There still is some time, and a good bit of time, to form a true bipartisan consensus on trade. With concerted effort it may be possible to forge consensus this year, and I stand ready to work toward that goal.

But on this topic no bill is preferable to a bad bill. If that means working beyond this year, I believe we must take the time to do it correctly.

Fortunately, I do not believe this will end trade negotiations that are under way or planned. The lack of fast track authority is certainly not a valid reason for halting WTO talks.

Indeed, in 1986, the year the Uruguay Round was launched, the differences between the Congress and the administration were so deep that the bill containing fast track was actually vetoed by the President. Fast track did not pass the Congress until 2 years into the negotiations.

As my good friend Clayton Yeutter, who was USTR for President Reagan and is testifying today, said at that time, “We don’t have to have fast track authority next year. It would be desirable to have it, but not necessary to have it.”

In my opinion, Ambassador Yeutter’s statement is just as true today. Indeed, looking at our trade agenda, it is tough to discern the absolute urgency that some have applied.

The United States-Jordan Agreement was completed without fast track. Talks with Chile and Singapore have begun before any prospect of fast track. These negotiations in these other countries can, and should, continue without disruption regardless of the fast track debate in Congress.

Negotiations for the Free Trade Area of the Americas seems to be proceeding, and has been for some time. These talks are unlikely to yield anything requiring Congressional approval until the year 2005. That is the FTAA time table.

In conclusion, let me be clear on two points. First, I want to reassure all of our trading partners that, with fast track or without fast track, a good trade agreement will win congressional support.

Second, I will work to build the necessary consensus to pass meaningful fast track legislation. If that can be accomplished this year, I will work hard to win the approval of the Finance Committee, and eventually from the entire Congress.

If it takes beyond this year, I will continue to work hard to build the necessary consensus. But in the end, achieving the right result is far more important than any artificial deadline.

With that, I would turn it over to whomever is here, which is nobody. I noticed that the Senator from Mississippi was here earlier.

I would now like to turn to my very good friend, Chuck Grassley, the Senator from Iowa. Many have heard me say this, and I will say it again. I know we always speak for each other on this. We work very closely together on matters here at the Finance Committee, and I am just very honored, Senator, that we are continuing that cooperation and working in a bipartisan spirit.

I know we would all like to hear what you have to say on fast track, or TPA, or whatever we are going to call it these days.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Thank you very much.

Obviously, I am very pleased that Senator Baucus, now Chairman, is holding this hearing because trade promotion authority is very, very important. It is an important and timely topic. These hearings now are coming at a very appropriate time, as we are also hearing the President's leadership on this area as well.

I see these hearings as part of the hard bipartisan effort that is required for the Finance Committee to approve legislation renewing the President's trade promotion authority this year. These hearings on trade promotion authority are particularly important because it is time that we have straight talk about trade.

Unfortunately, whenever we have attempted to talk about the benefits of international trade during the last 6 months, we have concentrated, legitimately, but too much, on just the labor and environment issues.

These are very important issues. We have to address them in some fashion. I hope to do that in a constructive, bipartisan way this year. But they are not, and should not, in my opinion, be the central focus of the trade debate. So, this morning I would briefly make two points.

The first, deals with the benefits of 50 years of continuous U.S. leadership in the world trading system, and why trade promotion authority is vital to maintaining this leadership.

The second point, is to briefly explain why, if we are serious about maintaining American leadership in global trade policy, there is no good alternative to renewing the President's trade promotion authority this year.

With regard to American leadership in world trade, I think the facts speak for themselves, going way back to the start of the system in 1947, when we helped do that. The total value of world trade was around \$50 billion. Today, the total value of world trade is around \$7 trillion.

This is a huge jump in the total value of world trade, and it is largely due to the scrapping or the reduction of tens of thousands

of tariffs, quotas, and other non-tariff trade barriers in the eight series of rounds of global trade negotiations since 1947.

Another way of expressing this value. Trade rules that we helped put in place today permit world trade in goods and services to be successfully conducted at the rate of close to \$1 billion per hour every hour of the day. This is not just a World Trade Organization success story, this is an American success story.

As a result of this American-led effort to open world markets, hardworking American consumers make their paychecks stretch farther because they have access to more and better competitively-priced goods.

American businesses and farmers have prospered. In my home State of Iowa, our farmers sold \$3.2 billion of agricultural productions in international markets, more than at any time in history, within the last few years.

We have been so successful in international trade that people can legitimately ask why. Part of the answer is because we are so efficient and productive, but a major reason is that, for the last 50 years, America has been a leader in breaking down trade barriers.

Trade barriers are a lot like the barnacles that get encrusted on the hull of a ship. They build up over time, they slow down the ship, they are hard to scrape off. That is exactly what we did over eight rounds of global trade negotiations, scrape away a lot of the trade barriers that slowed the world economy, that hurt our competitive export-oriented businesses and farmers.

America was able to lead this effort for one simple reason: we developed credibility on this issue with the rest of the world. Our trading partners believed us when America made commitments. Without this credibility, the conviction that we mean what we say, our trading partners have no assurance that our trade negotiators can ever close a deal without that credibility.

So think about the last time that maybe you bought a car. A lot of us have had this experience. You go to a dealer, you tell the salesperson what you want to pay. The salesperson talks to the sales manager.

The sales manager writes down a different number, usually higher. The salesperson gives you the new number. Maybe you agree, but if you do not, you are back to square one. Sometimes you get so frustrated that you just simply walk out.

That is what negotiating without trade promotion authority is like. Our trade negotiators are not able to put their best deal on the table because they know that Congress could change it, perhaps dozens of times or more.

So, without trade promotion authority, negotiations just drag on, and on, and on. Negotiators on all sides put off making the crucial offers and compromises that can close the deal. We should never put our trade negotiators in this difficult position.

This leads me to my last point. If we believe that American leadership in trade is really important, there is no good alternative to renewing the President's trade promotion authority.

Some opponents of trade promotion authority say that you can open just as many markets by negotiating individual free trade agreements one country at a time, one region at a time. But just look at this chart, if you would. Of the estimated 130 free trade

agreements in force around the world, only two include the United States. Clearly, the one free trade agreement at a time strategy does not work.

Critics of trade promotion authority also claim that its special fast track procedure limits Congress' ability to monitor and oversee trade negotiations. I want to tell you that the opposite is true.

Without trade promotion authority, Congress loses its most effective instrument for managing and overseeing trade negotiations. That is because one of the essential features of any fast track authority is that there must be extensive consultation and coordination with Congress throughout the process.

Now, in contrast to that, there is no such requirement for most bilateral trade negotiations. Without trade promotion authority, the President can, if he wants, negotiate one bilateral free trade agreement after another without prior consent of Congress.

The bottom line is, if you want maximum credibility for trade negotiators and maximum accountability for Congress for negotiations, there is no substitute for trade promotion authority.

So, I welcome these 2 days of hearings. I commend Chairman Baucus for his leadership in this area, and for being a believer in free trade as well and voting that way in his years in Congress.

I am glad to see that we are moving this process forward, and I look forward to working with you Chairman Baucus, to get trade promotion authority out of committee and to the floor, hopefully this year.

Thank you.

The CHAIRMAN. Thank you very much. I appreciate that.

We will now hear from two esteemed colleagues from across the Hill. First, Hon. Charles Rangel from the State of New York.

Mr. Rangel?

**STATEMENT OF HON. CHARLES RANGEL, A U.S.
REPRESENTATIVE FROM NEW YORK**

Representative RANGEL. Thank you, Chairman Baucus and my dear friend Senator Grassley.

I am pleased to be here with my brother and the Ranking Member on the Trade Subcommittee, Ways and Means, Congressman Levin.

When you talked about, what is the good news, you are the good news, as Chairman. This does not mean because you are a Democrat or because my friend Senator Grassley is a Republican—even though I support ethanol. Notwithstanding your status, you can count on my continued support—but because of the tone you set that, when you are dealing with foreign policy and trade policy, I think we all enjoy a sense of pride in that policy being bipartisan.

I think, by having the Senate in Democratic control, that some of us feel that even if you are losing on these issues, that we never really got a chance to have it debated.

That is what this country, and that is what this Congress should be all about, not just winning, but being able to go back home and talk to your constituents and say, through you, their concerns were heard.

Certainly you two have demonstrated—most recently on the tax bill—a bipartisanship that may be a little too much for me to con-

sume, but nevertheless I am confident that whether we are talking about trade promotion authority or fast track, that everyone will have an opportunity to try to develop a bipartisan approach to this very, very important subject matter.

Because, as you said, Mr. Chairman, there is no one that is concerned about maintaining our competitive edge, expanding economic growth, from realizing that in order to do this we have to find new markets, we have to break down the barriers of trade.

Some of us believe that we can do these things and protect certain values that are not just American values which we are so proud of, but international, humane values.

If we can do this as we protect investors and intellectual property rights, as we should, then we should also have on our agenda, what did we do to make certain that our trading partners maintain core standards in protecting labor and in protecting the environment which we inherited and which we would like to leave in better shape than we have had.

So it is not that we would want to dictate and superimpose our standards on other countries. As a matter of fact, the government of Jordan were the ones that were setting the standards and we were agreeing with them.

Countries have the same sense about their people as we do about ours, and their countries and their environments. They now find, instead of the House responding to an agreement that passed last year, was negotiated last year, that we are asking them to disable their agreement in order to reach our lack of standards.

So we are here to say, help us to try to create the atmosphere for us to get together to see what we can do and do not put up barriers between us based on party labels.

Yesterday in the Congressional Daily the leading story with the headline is, "GOP House Leaders to Seek Trade Vote Before August Recess. The House Republican leadership has decided to try to put presidential trade negotiation authority to a vote during July, bringing the simmering war over the measure to sizzle far sooner than many had expected.

"According to Congressional and K Street sources, last week's introduction of a measure by Ways and Means Trade Subcommittee Chairman Philip Crane, (R-IL), was a part of an effort to jumpstart the consideration of the bill and secure a vote before the August recess."

The hurtful thing about this is not that Chairman Phil Crane is not my friend, but he has never, never, never discussed this subject matter with me since we have been in the Congress.

This is the same subcommittee chairman and the same committee that effectively negotiated the African Growth and Opportunity Act, that worked on the Caribbean Basin Initiative, that we worked with on normalization on trade with China.

Yet, this subject matter has not been discussed with any Democrat, not the Ranking Member of the Trade Subcommittee, not by the Chairman, not with anyone. Unilaterally, we find out about this in the Congressional Daily. What a way to start on bipartisanship.

The President said Monday, in a speech that he gave and you spoke of briefly, "and I mean a trade promotion authority too that is not laden down with all kinds of excuses not to trade."

Did we act like we were looking for excuses not to trade when we worked with Republicans in the House and the Senate in order to get these trade agreements through last year?

"I want a bill that does not have codicils on them that frighten people from trading with us." What have we said as Democrats, as members of the Congress, that would frighten our trading partners?

"I would like to remind people that, if you are a poor nation, it is going to be hard to treat your people well." Well, now. "If you are a poor nation it is going to be hard to have good environmental policy." What do you know?

"Trade is the best way to eliminate poverty. Therefore, our trade agreements ought to be free from codicils which prevent us from freely trading." That is the President.

So you see what we are up against on the House side. We want to join with you in saying that we do not believe there are any obstacles that, in sitting down together, we cannot overcome because we have a same, common goal, and that is to continue to improve the quality of life of U.S. citizens, to encourage and support economic growth, and to have a free trade policy that protects us here, and at the same time allows us to enjoy the benefits of trade.

So, we welcome the atmosphere that you have set, Mr. Chairman. I have the deepest respect for Mr. Grassley because he has already indicated his willingness to work with us on this subject. Whatever influence you have on the House, suggest to them that we, and others that happen not to be Republicans, are anxious to sit down and to work with them.

Thank you so much.

The CHAIRMAN. Thank you very much, Mr. Rangel. That is a very important statement and I am sure many appreciate it. Thank you.

Representative RANGEL. I ask unanimous consent that my prepared remarks be included for the record.

The CHAIRMAN. They will be included.

[The prepared statement of Representative Rangel appears in the appendix.]

The CHAIRMAN. Congressman Levin?

STATEMENT OF HON. SANDER LEVIN, A U.S. REPRESENTATIVE FROM MICHIGAN

Representative LEVIN. Thank you very much, Mr. Chairman and Senator Grassley. It is a privilege to be here.

Your hearings come at an important moment, and I have prepared some testimony and I ask that it be entered into the record.

The CHAIRMAN. Without objection.

[The prepared statement of Representative Levin appears in the appendix.]

Representative LEVIN. Let me hit what I think are the high points. My concern, and Mr. Rangel's concern, is not about the niceties of process, really. It is about where this approach is heading. As I see it, we are facing the danger of a dead end on trade

legislation. Those of us who want expanded trade need to take notice.

The bill introduced by the House leadership, as Mr. Rangel has said, represents both a denial of the changing nature of trade and the need for bipartisanship.

It would also diminish rather than enhance—and I want to make this point clearly to Mr. Grassley and to everybody else—as I see it, the role of Congress during the negotiation phase. Compared with the fast track proposal approved in 1988, we need more than consultations, we need participation.

Indeed, this bill moves us backwards, not forward. Contrary to what one of my colleagues said on the introduction of the Crane bill, this is indeed a thinking thing.

The issues are complex. International trade has gone global increasingly—and this is such an important point—including evolving economies, often with far from free markets and weak rule of law.

The rules of engagement now require that international trade address these new issues. Any proposal that excludes these issues, like the Crane proposal or other proposals that might marginalize these issues, will not move ahead.

There is a way forward, and we showed this last year, as Mr. Rangel has said. Just look at what was accomplished in 1999–2000: the Africa CBI legislation, the Jordan FTA, the Cambodia agreement, China PNTR.

These were controversial in some cases. But the key point is that, in each of these initiatives, we went beyond simply trying to expand trade. We expanded it and started trying to shape it. We looked up trade as a tool, not an end in and of itself. But the danger is that now we are moving in the other direction.

Unfortunately, the approach of the last year is not the approach being taken this year. We are not getting the policy right. Mr. Rangel referred to the President's statement on Monday, and I want to pay a little more attention to it because several of his assertions reinforced the misconceptions on which the Crane bill is based.

As mentioned, the President stated, "We want a trade promotion authority bill that is not laden down with all kinds of excuses not to trade." Dealing effectively with the role of labor and environmental standards in trade is neither an excuse not to trade, nor a new form of protectionism. We have to incorporate these issues because of their very relevance to international economic competition.

Developing economies, at times, recognize these connections. There was a recent article in the New York Times that succinctly captured this when they talked about textile workers in El Salvador.

The president of El Salvador said the difficulty in this region is that there is labor that is more competitively priced than El Salvador. He was saying, in El Salvador we are trying to enforce core labor standards, and in other countries near us they are not. That is an economic trade problem.

Second, President Bush goes on to state—and Mr. Rangel has quoted this—"If you are a poor nation it is going to be hard to treat your people well." When poor nations abide by core labor standards, their people are helped, not hurt.

It also means something to the workers in industrialized countries with whom they will be competing. It is mutually beneficial. It is misguided to argue that poor nations cannot afford to allow their workers the right to associate and bargain.

Third, as to environmental standards. The President stated that, "If you are a poor nation, it is going to be hard to have good environmental policy." Among other things wrong with this statement, as I see it, is that it does not square with the President's rationale for withdrawing U.S. support for the Kyoto Treaty on Global Warming.

In announcing that withdrawal, President Bush offered this explanation: "It exempts the developing nations around the world and is not in the U.S. economic best interest."

Fourth, as quoted by Mr. Rangel, the President concludes, "Trade is the best way to eliminate poverty. Therefore, our trade agreements ought to be free from codicils which prevent us from trading freely."

I hope this statement of the President can stimulate, in this committee and in the House, a forthright and respectful debate about whether, in addition to more trade, which we need, we also need to shape its terms, the content of competition, in order to preserve our own economic interests and assist the elimination of poverty.

Globalization is here to stay. The question is whether we should blindly embrace it or seek to shape it to the benefit of American workers, farmers, and businesses.

I close by briefly saying why, and how, I think there is a way back from the brink. The first step to doing that, would be to act immediately on two outstanding trade issues: passage of the Jordan free trade agreement and approval of the Vietnam agreement, with an indication to address labor issues in any subsequent textile apparel agreement.

This might regain momentum of action on both expanding and shaping trade, and on building confidence to help move on to the other issues involved in crafting and approving fast track legislation.

Senator Grassley, you are right, there are other issues, some of them imbedded in the new dynamic of the evolving economies, including agricultural issues. We have had some discussion among our House Democratic ranks on that.

The second step, is that fast track, TPA, needs to take full account of the changed realities in each aspect of fast track: the negotiating objectives, the Congressional executive consultation and collaboration process, and the approval process.

In short, we need a state-of-the-art framework for Congressional executive collaboration to expand and shape international trade.

I close with what is my judgment, and I must say I deeply feel it about the year 2001. Trade legislation, with all of the issues now imbedded in it, cannot be railroaded through the U.S. Congress.

If that were to happen on basically a partisan basis, not a bipartisan basis, it would be winning a battle but losing a war. The answer, the only alternative, is a genuine effort to place new trade policy on the right track.

Thank you very much.

The CHAIRMAN. Thank you very much, Congressman Levin. I, for one, very much appreciate your tone, as well as that of Congressman Rangel. In my judgment, it is the only tone, the only approach that is going to work here. We all have the same goals, as I mentioned in my statement, and I deeply appreciate your reinforcing that. I have no questions.

Senator Grassley?

Senator GRASSLEY. I thank you all for your testimony. More importantly, I want to thank you for the discussions we have had in the past on this, and what we will have in the future, and look forward to working with you and at least making sure that you get proper consideration of your points of view. I cannot do that in the House, but I can make sure that it is done here in the Senate.

Representative LEVIN. It will happen one way or another in the House. [Laughter.]

The CHAIRMAN. Senator Graham?

Senator GRAHAM. Thank you, Mr. Chairman and Senator Grassley. Thank you, Congressman Rangel and Congressman Levin, for your thoughtful insights.

I would like to ask a couple of questions. One, I did not hear your comments, Congressman Rangel, but I am certain you covered this subject, as did Congressman Levin. That is the issue of, what is the appropriate role of Congress in, particularly the complex negotiations that we are going to have with WTO and on regional multilaterals.

Could you elaborate as to what you think are the key issues in terms of Congressional involvement?

Representative LEVIN. I would make two points, briefly. The first, is that the issues have changed since 1988. When we consider fast track, I find it hard to find anybody who remembers very much discussion about it. There was some. I think we have to ask ourselves, Senator, honestly, why is it so different this year?

I think the forthright answer is that there is far more trade than there was 15, 20 years ago. The nature of that trade has changed, and more and more of it is with different economies, with different economic structures, and different rules of law.

Whether it is core labor standard issues, environmental issues, agricultural issues, e-commerce issues, whatever the issues are, they are a different quality, as well as quantity, than they were 20 years ago. If we do not face up to that, we are going to hit a dead end.

So I think the second point is that that has important ramifications for the role of Congress. I think Congress needs to have a more participatory role than it did in the past because of the quantity and quality of these issues.

I do not think, in the end, that means there not being negotiating authority. What I think it means, is that we have to work together to enhance our role and it has to be more than consultation. It has to be participation.

Now, in the 1988 bill there were provisions for the two committees to handle resolutions to withdraw fast track. That was a safeguard provision in the 1988 legislation. It is not in the Crane bill, as I read it.

There have been other suggestions in terms of, for example, the vote in the Senate. I think Senator Baucus has referred to that.

I would urge that we work together, Senator, to see what other instrumentalities there might be for Congress' role to be enhanced without eroding the ability for the United States, in the end, to have one negotiator.

I know in the early 1990's, for example, there was consideration of a more formalized mid-course review. There is also, I think, the issue of how we handle regional and bilateral agreements and whether it is the same as with the WTO.

The WTO agenda has not even been set, and there are some suggestions that we would act on fast track or trade promotion authority before we even knew what the agenda was for the next WTO round.

I think we need to think through how we handle the issue of fast track relating to the WTO when we do not really know what will be on the agenda. I think what that connotes is a need for looking at an enhanced role in Congress.

Senator Grassley, I would urge, together, we talk about what there is beyond consultation. I think the experience of all of us is, consultation can be somewhat deep, but very shallow.

We have essential authority when it comes to trade, and I am looking for a partnership with this administration and not for a secondary role in being consulted at the will of this administration, or any administration. I do not care who would win the next election, I would say the same.

Thank you.

Senator GRAHAM. Sandy, is there a model in existence or that has been used in the past that would capture your sense of participation beyond consultation?

Representative LEVIN. I do not think there is a precise model. I think the reason for it is because there has been such a change in the dynamic of trade. This is part of my plea: new dynamics require new responses.

I think that is true, Senator, both substantively and procedurally. We have been working hard on the issues, some of us, on how we increase the participation of Congress without eroding the ability to have one negotiator.

But I sum it up this way. If we are going to have a single negotiator on the dramatically enhanced set of issues, we are going to have to make sure that, if someone is in the driver's seat or the back seat, that Congress is not in the back seat.

The CHAIRMAN. Thank you very much, Senator.

Senator Lincoln.

Senator LINCOLN. Thank you, Mr. Chairman, for your leadership on this issue and for holding this important hearing.

I certainly feel a certain urgency in dealing with these trade issues as I look at my own home State, and over the past three to 4 years, how our rural economy has basically collapsed. Our export markets for crops and livestock are drying up and forcing commodity prices further and further down. I know that the prices for Arkansas' main crops are extremely depressed right now.

But, now more than ever, our farmers and our rural communities that they help support need us to continue to push for greater mar-

ket access overseas. They also need us to reassert our role as a global leader in the push for greater market freedom and fairness.

They need us to lead the effort to establish a sound and transparent rules-based, global trading system within our trading partners, particularly in the developing world, so that they can thrive and grow healthy economies capable of maintaining that strong demand for our good.

I mean, it is not going to do us any good unless, as you mention, we help to build that quality of life and those economies.

It is not just agriculture that is hurting. Arkansas is the second largest in steel production, forestry is our number one. Our other industries and workers also need us to strengthen the rules by which we and our trading partners are playing. I believe in the importance of preserving the integrity of the trade laws.

If our ultimate goal is to ensure a higher standard of living through market freedom, then we are better served by a rules-based system market participants know that they can trust. I think that is a lot of what we are trying to put together here, and in working with you gentlemen and the House members, we hope that we can.

Certainly understanding what people can expect and knowing that not only we will be a player but that we have set forth for ourselves guidelines and rules, I think that certainly the map over there, the charts that we have seen, if we are going to be a player and continue to be a player in this global marketplace, we have to be at the table, otherwise we are going to miss out.

But I think it is absolutely essential, if we are to convince people that market freedom offers the better path to a better future, that we have to be at that table and we do have to have that rules-based, transparent system in place.

So I do think it is important for us to be addressing this. I appreciate both of you gentlemen being here, and I hope you will continue to work with us as we move forward on this very critical issue to our States, and I think the economy of this Nation. I appreciate you bringing your ideas and testimony here, and would love to work with you further.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Representative RANGEL. I accept, and support the eloquent statement that the gentle lady has made. I would hope that one of the dramatic steps that we could take as a Congress is to remove the unfair embargo that we have on the people in Cuba so that we could open up our markets to our farmers and others as we show the world that when we say we mean free trade we mean it, and not political trade.

Senator LINCOLN. Well, the gentleman knows that roughly 50 percent of our rice from Arkansas went to Cuba many years ago, and we would be anxious to see that happen as well.

Representative LEVIN. Senator Lincoln, I, too, want to just say briefly that I would welcome the chance to work with you. We have worked together on other controversial issues.

Senator LINCOLN. Yes, we have.

Representative LEVIN. Let me just say three quick words on agriculture. I think, increasingly, the issues are not only market ac-

cess, but competition. I read briefly in one of the periodicals this morning the reactions of some of the agricultural groups to some of these issues.

I think if we are realistic we are going to understand that, especially the evolving economies, will be competing with us agriculturally. They want to compete even more, whether it is orange juice, or sugar, or whatever.

Second, on steel, I think it shows the changing nature of trade, because 20 years ago almost all steel was back and forth among industrialized nations. The steel crisis this time involved Brazil, China, Russia, et cetera. Third, we have to be at the table. We have to be there within the right framework. That is the challenge.

Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Murkowski, any questions?

Senator MURKOWSKI. Thank you, Mr. Chairman.

The CHAIRMAN. I might, at this point, say that I have to leave briefly. When you gentlemen finish, we have a panel next.

I know Mr. Sweeney is among those on the panel. I want to thank him for coming, and I apologize to Mr. Sweeney and to the others on the panel, Mr. Scher, Wolff, Hormats, and Yeutter. But I will return forthwith, and Senator Grassley is going to be chairing the hearing.

Senator GRASSLEY. Senator Murkowski?

**OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S.
SENATOR FROM ALASKA**

Senator MURKOWSKI. In deference to the two gentlemen, Congressman Rangel and Honorable Sander Levin, let me just make an observation relative to steel and the last remarks that you made.

It is rather interesting. Our State is somewhat noted for energy production. We did, 27 years ago, build an 800-mile, 48-inch wide pipeline across the breadth of Alaska. It took a good deal of the production of the Japanese, Korean, and Italian mills to produce that steel because we were told we could not produce it competitively, we did not have capacity for that size.

For the benefit of those of you who are interested in the steel industry in the role of America, I would remind you that we are planning to build a 3,600-mile gas pipeline that would enter the United States in the Chicago City gate, 48-inch, X80 or X100. That is roughly one-inch thick.

It would take the capacity of Japan's steel mills' and Korea's steel mills' total output for 2 years if, indeed, we have to go overseas for that pipe. I would hope that America's steel industry and the Congress can address this extraordinary opportunity to rejuvenate our steel industry.

Mr. Chairman, let me just reflect on the issue of free trade and protectionism that has been going on in the Congress for a long, long time. The champions on both sides are becoming more sophisticated. The arguments are the same. Does trade lead to winners and losers? The answer is, clearly, yes. But that is what competition is all about. That is why it is going to be interesting to see

whether our steel industry can be competitive in this extraordinary order.

Further, does economic growth put pressure on underdeveloped societies and labor and environmental issues? The answer is, clearly, yes. It did in this country as well.

But I would ask if short-term pains of competition and other pressures on society outweigh the benefits of trade. No, I do not think so. Not now, and probably not ever, for that matter.

Does government have a role in easing the plight of firms and individuals negatively affected by trade? The answer is, clearly, yes. Sound economic policy should ease the transition of individuals and their companies to move in competitive areas.

Can the United States help other countries overcome some of their short-term labor and some of their environmental problems resulting from rapid growth? There is no question on that either.

Through technology which we have, and other means, we have many, many tools to help the developing world. I think that is one of the fallacies in Kyoto, is that we did not insist that we were going to use our technology to help the underdeveloped countries reduce their emissions.

But is limiting benefits of trade the way to address these problems or is that simply to damn other countries to remain underdeveloped? Ultimately, I think the prime lesson of the U.S. economic history is this: trade is really a very powerful engine for economic development. With economic development comes, certainly, higher standards of living, greater demand for higher environmental, health, labor, and other non-trade standards.

Demanding that other countries adopt the social standards of the wealthy countries as a prerequisite to trading rights is a sophisticated form, in itself, of protectionism. Underdeveloped countries see it for what it is, an attempt to keep them underdeveloped.

I think there is a better way we can work closely with other countries to ensure that they do not lower labor or environmental standards to increase trade.

My colleague, Senator Graham, across the aisle and I hope to introduce very shortly a bipartisan bill with the colleagues on both sides of the aisle which recognizes this important middle ground. So, I look forward to working cooperatively with all to achieve positive results with a flexible approach that puts trade first.

If we demand adherence to radical social agendas, I do not think we achieve our objective. I worry about those who are promoting a radical agenda in the trade context of seeking advancements, and perhaps achieve little or nothing.

We know that trade itself is the answer to labor and environmental concerns. We can choose to ignore the lessons of history. We would do so, I think, at the expense of American leadership, American jobs, and American prosperity.

So, thank you, Mr. Chairman, and thank you, gentlemen.

Senator GRASSLEY. I thank you all for your kind attention, and staying with us for a long period of time, to our colleagues in the House.

I will now call the second panel. We have Mr. John Sweeney, president of the AFL-CIO, Washington, DC; Mr. Harold McGraw, III, chairman and CEO of The McGraw-Hill Companies, New York,

NY, chairman of the Emergency Committee for American Trade; Mr. Chuck Merja, former president of the National Association of Wheat Growers, Sun River, MT; and we have Mr. Mark Van Putten, president and CEO of the National Wildlife Federation, Reston, VA.

Mr. Sweeney, I understand that you are on a tight time schedule, so we will let you go first. I do not know whether you will have time for questions, but if you have to go and people want to ask you questions, we can do that right after your comments before the other three testify.

Mr. SWEENEY. Thank you. I would be happy, Senator, to respond in writing if there are any additional questions, but I have to leave around 11:00.

Senator GRASSLEY. All right. You proceed then, would you please?

**STATEMENT OF JOHN SWEENEY, PRESIDENT, AFL-CIO,
WASHINGTON, DC**

Mr. SWEENEY. Thank you. Thank you, Senator Grassley and members of the committee. I am glad to have the opportunity to talk with you today on behalf of the 13 million working men and women of the AFL-CIO about proposed fast track legislation.

How the Congress chooses to delegate trade negotiating authority to the executive branch will have an enormous impact on the content of new trade agreements, as well as on the process of negotiating these agreements.

Our members recognize that their jobs, their wages, and their communities have been profoundly affected by past trade agreements and they want their voices heard as these important decisions are made.

Today our country finds itself in the middle of a heated debate over the rules and the institutions of the global economy. Ordinary citizens from all walks of life are educating themselves, forming new alliances and sometimes even taking part in street demonstrations as they conclude that the global community needs a dramatic change in trade, investment, and development policies if we are to build a global economy that truly works for working families here in the United States, as well as around the world.

These ordinary citizens reject the status quo of growing global inequality, persistent poverty, financial and political instability, egregious human rights abuses, and environmental degradation.

It should come as no surprise that American workers reject trade proposals that ignore continued job loss at home. We have lost almost half a million manufacturing jobs since the first of this year.

These outcomes are not inevitable. They result from the rules and the institutions we put in place. The Congressional debate about fast track legislation is a crucial starting point to begin addressing these serious problems.

Last week, Congressman Phil Crane introduced a fast track bill called Trade Promotion Authority Act of 2001, H.R. 2149. Astonishingly, Mr. Crane, with the support of the Republican leadership of the House of Representatives, chose to completely ignore the debate that has raged in the halls of Congress and on the streets of Seattle, Quebec, and Washington DC over the last several years, a de-

bate about how to reverse some of the devastating impacts of unchecked globalization on workers, on family farmers, and on the environment.

Instead of acknowledging and correcting the failures of current policies, Mr. Crane's bill simply offers more of the same and would send our negotiators to the table with virtually the same set of instructions that produced today's global inequities.

In fact, H.R. 2149 represents a giant step backwards even from the flawed fast track rejected by the Congress in 1997 and 1998. Even many in the business community now acknowledge that our trade policies must address the crucial issues of labor and environment, although we are far from consensus on precisely how to do so effectively.

Polls consistently show that a huge majority of the American people believe our trade agreements should include workers' rights and environmental standards. But H.R. 2149 does not even mention workers' rights and environmental standards, not as negotiating objectives, not as ancillary issues to be considered, and certainly not as what they ought to be, key national priorities.

Instead, Congressman Crane's bill imposes new constraints and procedural hurdles that would apply to any workers' rights and environmental protections included in a fast track bill, but not to the principal objectives included in the bill.

Unlike the 1997 fast track bill, H.R. 2149 contains no positive goals with respect to promoting respect for workers' rights or supporting the work of the International Labor Organization.

While these previously proposed provisions were far from adequate, it is remarkable that this bill does not even make a pretense of addressing these concerns. The lack of any positive agenda in this fast track bill to improve the protection of workers' rights is simply reinforced by President Bush's budget.

President Bush proposes slashing in half the funding the United States allocated in the year 2000 for international labor initiatives, including ILO programs to prevent child labor and promote respect for core workers' rights.

All in all, this bill is an insult to the millions of Americans whose lives have been adversely affected by current globalization policies and an affront to those who have struggled to come up with constructive solutions to complex policy problems.

I commend Chairman Baucus, Senator Grassley, and this committee for scheduling a mark-up on the Jordan Free Trade Agreement next week. As you know, I share the view that this agreement marks an important advance in that it incorporates enforceable workers' rights and environmental protections in the core of a trade agreement under the same dispute resolution as all the other provisions.

I urge the Finance Committee to act expeditiously to pass it without any amendments and to resist any attempts to undermine or weaken its provisions with executive actions such as side letters or memoranda of understanding.

I thank you for this opportunity.

Senator GRASSLEY. Thank you, Mr. Sweeney.

[The prepared statement of Mr. Sweeney appears in the appendix.]

Senator GRASSLEY. Now, Mr. McGraw?

**STATEMENT OF HAROLD MCGRAW, III, CHAIRMAN AND CEO,
THE MCGRAW-HILL COMPANIES, NEW YORK, NY, AND CHAIRMAN,
EMERGENCY COMMITTEE FOR AMERICAN TRADE,
WASHINGTON, DC**

Mr. MCGRAW. Thank you, Mr. Chairman, members of the committee. Thank you for the opportunity to be here today. I am Terry McGraw, Chairman and Chief Executive Officer of The McGraw-Hill Companies. You probably know us by some of our brands: Standard & Poor's, McGraw-Hill Education, Business Week, and others.

I am here today as chairman of the Emergency Committee for American Trade, ECAT, an association of chief executive officers of major American companies with global operations who represent all principal sectors of the U.S. economy.

Stated simply, global expansion is critical to the future success of most large companies, and most importantly, increasingly to small- and medium-sized businesses as well.

Currently, 20 percent of The McGraw-Hill Companies' revenues come from foreign sources. Our goal is to double that number in the next 5 years.

The United States stands today as the world's largest trading nation, and our open trade policies have helped propel global economic expansion. As we all know, since World War II a six-fold growth of the world economy together with a tripling of per capita income has enabled millions of families to rise out of poverty and enjoy higher standards of living.

Jobs directly supported by exports reached 12.1 million in 2000, almost 3 million more than in 1990. Imports have helped support another 10 million jobs domestically.

In this time of economic slow-down and uncertainty, the impulse to close our market can gain strength. America, which has a competitive advantage in so many products and services, ought to be hopeful, rather than fearful, about the effects of more open trade.

The United States has an economic, political, and moral obligation to keep moving forward to liberalize trade. Central to our ability to expand trade and investment is trade promotion authority to restore U.S. leadership on trade internationally, to promote economic growth, and create opportunities for American companies, their workers and their families, and to assure effective executive/Congressional collaboration on trade policy.

Yesterday, I helped launch a broad-based business and agricultural coalition called US Trade to support the bipartisan renewal of TPA this year. Let us look at the facts. America is sitting on the sidelines while the rest of the world is engaged. There are now 134 free trade agreements in force around the world; the United States is party to only two. If America does not play a leadership role, much of the impetus for the new negotiations in the western hemisphere and in the WTO will be gone.

It will be harder to open new markets, reduce barriers, or support the economic growth and standard of living enjoyed in this country. The Free Trade Area of the Americas could join a population of 800 million people with a combined GDP of approximately

\$11 trillion; yet many of these countries maintain some of the highest tariff and nontariff barriers in the world.

For example, in 1999, piracy of intellectual property in Brazil alone totaled \$920 million, an issue of great concern to content companies such as mine.

We need bipartisan leadership to break through. This committee has led from the very beginning on the original fast track bill in 1974, and we need it again today. Those of us who champion trade should search for common ground with people of good will who seek safe and healthy workplaces, improved labor standards, and individual freedom.

We at ECAT agree that there are serious international labor, environmental, and other issues to be addressed, but not necessarily within the four corners of trade agreements.

Not all of the world's labor and environmental problems can be solved through trade agreements. I have traveled extensively to developing markets. These countries and their citizens want U.S. businesses to locate there. They provide better jobs, better working conditions, and higher wages than local companies.

As the World Bank and others have documented, trade liberalization itself is among the most effective forces to improve labor and environmental standards worldwide. We should not mandate the inclusion or exclusion of labor and environmental issues in all trade agreements.

Progress is often best made through cooperative work, technical assistance, and other tools in organizations with the expertise, such as the International Labor Organization.

Let us not undermine the role of the NGOs in monitoring and affecting bad working conditions and environmental concerns. We are committed to working with the Administration and all members of Congress to support efforts to pass trade promotion authority this year.

Let me conclude by saying that, while trade promotion authority is largely a negotiation between the Administration and Congress, there are two principles that we believe must be retained.

First, the availability of trade promotion authority procedures should not be conditioned on any particular outcome. Congress has never done so before. To do so now would tie the hands of U.S. negotiators and cause our trading partners either to refuse to come to the table or to follow our precedent.

Second, we should retain three key procedural guarantees for our negotiators to be taken seriously: an up and down vote within time certain; limited debate and no amendments to the implementing legislation—there remains, however, much room for modification, perhaps longer periods for debate or greater executive consultation—and Congressional input.

Mr. Chairman, President Clinton should have had trade promotion authority. President Bush needs it, and future presidents deserve it. Differences do not have to mean deadlock.

Thanks very much.

Senator GRASSLEY. Thank you, Mr. McGraw.

[The prepared statement of Mr. McGraw appears in the appendix.]

Senator GRASSLEY. Now, Mr. Merja?

STATEMENT OF CHUCK MERJA, FORMER PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, SUN RIVER, MT

Mr. MERJA. Thank you. Mr. Chairman and members of the committee, fair trade is a very important issue to all of U.S. agriculture. We need to act quickly to reinstate trade promotion authority.

The United States needs to be actively engaged in regional and world trade negotiations. However, our past methodology is not good enough for today. Instead of giving carte blanche negotiating authority to the administration, I would strongly recommend a bipartisan agreement between Congress and the administration which gives the administration negotiating authority and which also lays out negotiating objectives, along with a process whereby we can evaluate whether or not those objectives are being met.

We will be challenged to reach an agreement about goals and a process of evaluation this year, but we must. To delay approval of TPA beyond this year puts us in danger of having the process unduly influenced by the politics of an election year.

We must limit the scope of trade promotion authority to trade issues, but please recognize that, for agriculture, competitiveness issues are trade issues. If producers in the United States do not have a way to differentiate our products grown under more stringent environmental regulations or do not have access to production methods that our competitors can use, it is arrogant and inaccurate to think that U.S. producers will hold any competitive advantage in world markets, including our own.

We must be competitive because about 80 percent of Montana wheat and about half of the entire U.S. wheat crop are exported every year. So, we are very dependent upon open and fair trading systems.

I am a little paranoid about our success, though, because after all of the rhetoric and hoopla about free trade, level playing field, knocking down trade barriers, no agreement is better than a bad agreement, et cetera, the simple fact of the matter is that U.S. wheat producers hold a smaller share of the world market today than we did when we put CUSTA, NAFTA, or WTO into place roughly 10 years ago.

The European Union, which by all measures has the highest cost of production of the five major exporters of wheat in the world, has gone from being a wheat importer roughly a quarter century ago to the position of now holding the largest market share of world wheat trade.

They did so, not by being competitive, as one would expect in a fair trade system, but through shrewd negotiation and intractable focus on gaining market share, and the rest of the world let them.

Another issue that is in my back door, is that at a time of record-high U.S. producer-owned inventories of wheat, Canada pushes the equivalent of 100 percent of the U.S. durum carry-out and one-sixth of the U.S. spring wheat production into the United States, right into, or through, the primary production areas for those crops here in this country.

Furthermore, those crops have crop protection products used to produce them that are identical or analog to products used here, but are not registered here. Many of these products are priced at

40 to 60 percent of the products found here, giving foreign producers just a few miles away a significant competitive advantage.

Even though we agreed to harmonize these products a dozen years ago, we have not. In fact, EPA enforces chemical companies' marketing plans by putting U.S. producers who try to use these products in jail.

We do not pay much attention to the fact that Argentine soybean farmers whose currency about at par with ours have access to \$8-a-bag soybean seed, and herbicides at \$8 a gallon, while U.S. producers pay \$40 for the same bag of soybean seed and \$35 a gallon for the same herbicide active ingredient.

Not only with this have a major impact on soybean farmers here, but wheat is a rotation crop for the Argentine soybean producers and it will put U.S. wheat producers at a competitive disadvantage, too.

Several agricultural writers have recently commented that \$6 beans are a relic of the past because of this competition; \$4 wheat might be, too.

In closing, I would like to say that these couple of examples point out that we definitely have some things to correct from the past round, that we have issues to deal with prospectively, and we are being left out of current bilateral and multilateral negotiations. Therefore, I urge you to work together to form a workable trade promotion authority.

Thank you very much.

Senator GRASSLEY. Thank you, Mr. Merja.

[The prepared statement of Mr. Merja appears in the appendix.]

Senator GRASSLEY. Mr. Van Putten?

**STATEMENT OF MARK VAN PUTTEN, PRESIDENT AND CEO,
NATIONAL WILDLIFE FEDERATION, RESTON, VA**

Mr. VAN PUTTEN. Thank you, Mr. Chairman and members of the committee. I am Mark Van Putten, president of the National Wildlife Federation, America's largest conservation, education, and advocacy organization.

In addition to our over four million members and supporters, our federation consists of State affiliates such as the Montana Wildlife Federation, the Iowa Wildlife Federation, the Florida Wildlife Federation, and the Environmental League of Massachusetts.

Today we have an historic opportunity to demonstrate leadership and forge a new consensus on trade policy by developing trade promotion authority that reflects the values and interests of all Americans.

A new consensus on trade is achievable and within reach, yet the challenges are significant. The greatest and most immediate risk to the trade agenda is attempts to exclude certain issues, such as environmental issues.

This approach to trade promotion authority will only polarize the debate and paralyze the process rather than begin the hard and deliberate work towards building consensus.

The National Wildlife Federation wants to get to yes on trade liberalization. We support further trade liberalization if United States and international policies and institutions are reformed with com-

mon sense measures to integrate economic and environmental priorities.

One of the greatest challenges facing the members of this committee and the administration is that the international trading system is in a crisis of plummeting public confidence. Until trade rules reflect such core democratic values as environmental stewardship, new trade agreements will not win the public support needed to implement them.

So how do we get to yes? Three common sense principles must be incorporated into trade promotion authority in trade negotiations before any new trade agreements qualify for fast track treatment.

First, trade liberalization should support, not undermine, environmental protection. Trade liberalization can advance environmental protection, but it will not necessarily do so without a thoughtful approach that integrates these values into trade liberalization.

Even more troubling, trade liberalization can undermine environmental protection here at home as well as abroad. For example, NAFTA's Chapter 11 investment provisions have recently been used to challenge environmental safeguards.

It creates the potential for challenges to environmental protection using trade agreements where such challenges would be rejected under domestic U.S. law. These problems with Chapter 11 need to be corrected and must not be replicated in any new trade agreements.

Agreements must also ensure that nations enforce environmental laws and agree not to lower environmental standards to gain trade and investment advantages. Mechanisms to ensure compliance with environmental provisions in trade agreements should be on par with commercial provisions.

The second principle, is that the United States needs to promote global consensus. Liberalized trade abroad can be vital to securing the means for less developed nations to implement policies for sustainable development and environmental protection, but these results, too, are not a given.

Trade agreements must be accompanied by a systematic program to assess and improve international environmental performance through cooperation, capacity building assistance, and technology transfer. That is why the National Wildlife Federation supported NAFTA nearly 10 years ago.

The United States should evaluate the lessons of NAFTA and strengthen and extend the commitment to environmental cooperative institutions under NAFTA and beyond.

The third principle, is that trade negotiation and dispute procedures must be reformed to make them more accountable, democratic, and open.

So how do we embark on the road to consensus in incorporating these principles? This consensus will not be built in a day, but as work goes forward there are immediate opportunities to do so.

The first step must be that this administration must lead. This administration must reject approaches, like the Crane bill, that represent the failed approaches of the past. They will fail again if this is the way we approach this issue.

Second, the administration should support Congressional approval of the Jordan agreement as is, with no strings attached in the form of interpretive agreements that erode the progress that was accomplished in that agreement.

In my written remarks I include additional examples of ways in which the administration could lead in helping to forge this new consensus.

It is in the interests of everyone who wants trade to succeed to establish public confidence in the institutions and policies governing trade. Fortunately, consensus solutions are within reach, and we look forward to working with this committee, the administration, and all concerned to find that common ground. Thank you.

The CHAIRMAN. Thank you very much, Mr. Van Putten.

[The prepared statement of Mr. Van Putten appears in the appendix.]

The CHAIRMAN. I would like to begin, Mr. Sweeney, and ask about the Jordan agreement, because I think it is a model. Not the only model. Trade agreements vary, countries vary, conditions vary, but at least there is an agreement that it is a basis for some agreement, particularly the non-derogation provisions that no country can lower its environmental labor standards for it to gain a competitive advantage.

Is that a principle or concept that you think makes sense?

Mr. SWEENEY. As I have said before, we believe that the Jordanian agreement really provides a good starting point for exploring how best to protect workers' rights through trade agreements. We do that, knowing that the chamber of commerce in Jordan and the labor movement in Jordan support it, and that the Jordanians have very good labor laws.

However, it is not necessarily a model for a fast track bill because it cannot be applied in a blanket way to every country. Countries whose laws do not meet ILO standards must either come up to those standards before entering into a trade agreement, or agree to some appropriate transition plan.

The CHAIRMAN. There are really two issues. One is current labor standards, as you see it, in some countries, and in other countries who do not have core labor standards. You are saying, in that case, in your judgment, that the Jordan agreement does not suffice because those countries have not developed stronger core labor standards.

Mr. SWEENEY. Right. Yes. That is what I am saying.

The CHAIRMAN. All right.

Mr. McGraw, what about the Jordan agreement, the non-derogation provisions?

Mr. MCGRAW. I think most on the business side look at the Jordanian Free Trade Agreement as a foreign policy issue designed more to promote peace in the region and, therefore, support it.

I would not support it as a model for going forward. I think anything that has mandated outcomes that suggest trade sanctions is not necessarily helpful in terms of a model for all free trade agreements going forward.

The CHAIRMAN. Maybe you were going to get to this point, but I want to focus more precisely on the non-derogation provisions. That is, no country will take actions to lower their environmental

or labor regulations or laws in order to gain a competitive advantage.

Mr. MCGRAW. We would support that.

The CHAIRMAN. All right. What more can you support?

Mr. MCGRAW. Well, I think some of the language in the Jordanian agreement having to do with intellectual property rights was particularly well done, and I think is something we would feel very supportive of in going forward.

But certainly from our standpoint, from a business standpoint, the worrisome part, again, is falling back into the trade sanction argument. We do not think those kinds of mandated types of outcomes are very helpful.

The CHAIRMAN. What about an approach that says, all right, here is the menu of actions the country can work for or can agree to. One might be sanctions, one might be fines. I could come up with a whole long list.

It is up to each negotiator to try to gain the best advantage for America, clearly, that he or she could get. But there is a menu. What is your reaction to that?

Mr. MCGRAW. I think on any particular free trade agreement one has to look at the country in question and what we are trying to do. The reason that we support so strongly trade promotion authority is because it is a trust, it is a dialogue, between Congress and the Administration to make sure that there is meaningful discussion in terms of negotiating objectives and what concerns are there.

The thing that we would not want, is to have U.S. negotiators hampered in any way in terms of being able to have the freedom to negotiate the best possible deal you could.

The CHAIRMAN. Right. But would a menu give our negotiator that freedom?

Mr. MCGRAW. Again, I would not hold to any one particular set of ingredients for that kind of agreement. I think, on each particular free trade agreement, there should be a meaningful dialogue about what negotiating objectives should be included.

The CHAIRMAN. What comparison can one draw, or conclusions can one draw, from the intellectual property era? That is, developing countries did not want it and asked to negotiate separate intellectual property agreements.

Some American companies did not want to be part of the world organization. But yet we proceeded and we got a better deal, probably, than we would have had we not proceeded that way.

The world is changing. Back then, one could say, and I think there is some truth, that at that time intellectual property provisions were more front and center.

If you look at Seattle, this increased globalization, one can say, now we are front and center on environmental issues, labor issues, and so forth. I am sure some of the developing countries have concerns. Obviously they have concerns, concerns that we should respect, and do respect.

But, yet, the argument is that that does not mean we should not go forth, fully respectful of those countries' positions, and try to find some way to address the new, current world order, knowing that 20 years from now it is going to be something else. But here, today, it is labor and environmental issues and trying to, if you

will, sort of harmonize a bit so that we can have more trade worldwide.

Mr. MCGRAW. Well, Mr. Chairman, I think the question is, how far do you want to go? How much do you want to solve on the back of a particular trade bill? I think the weight gets a little bit much when we start talking about specifically mandating outcomes for labor, environment, and a host of other issues at the same time. I think those all have to be individually negotiated.

On intellectual property rights, the basic tenet there is that if you are pirating, essentially if you are stealing, it is very difficult to have a meaningful relationship with that partner.

Intellectual property rights was all about putting the enforcement features in place such that you do have a basic rule of law that will respect the kinds of relationship factors that one would have in a trading agreement.

The CHAIRMAN. These hearings are always very frustrating. You start getting into something, and the light goes on. My time has expired.

Senator Grassley?

Senator GRASSLEY. I will follow up on your discussion, Mr. McGraw, by asking you, one of the principles in your testimony dealt with the issue that trade promotion authority should not mandate outcomes to particular negotiations.

I believe that that was a principle carried forward in every previous grant of authority for the President to negotiate. I would ask you why you feel that, even today, in potentially the ninth round, that that would be very important.

Mr. MCGRAW. Well, again, as I said in my comments before, I think that whenever you get into a position of mandating an outcome in any way by placing any restrictions on the negotiations you put us in an inferior position for the U.S. negotiator to be able to get the best possible agreement and to bring it back. The process should go forward and the process should work.

If the Administration comes back with a free trade agreement that is insensitive to the objectives and concerns from Congress, Congress has the final authority. It can vote it up or down and dismiss it, and the Administration would be responsible for that.

But I think to hamper in any way those U.S. negotiators from being able to develop the best possible deal, is not in our best interests. It puts us in an inferior position.

Senator GRASSLEY. Yes.

Mr. Van Putten, in an effort to see if there is some common ground, I would like to quote from the bill that Congressman Cane introduced on the issue of transparency.

“The principle negotiation objective of the United States with respect to transparency is to obtain broader application of the principle of transparency through (A) increased or more timely public access to information regarding trade issues and activities of trade institutions; (B) increased openness of dispute settlement proceedings, including under the World Trade Organization.”

To me, these objectives seem to correlate very nicely with one of your main trade objectives. I wonder if you would acknowledge a good faith attempt here to address one of your principle concerns.

Mr. VAN PUTTEN. Senator, I acknowledge that that does partially address our concerns. Our concerns for transparency, however, have not just been that we be allowed to be knowledgeable observers, but that we in the nongovernmental organization community have some of the same participation rights that we enjoy in our system.

For example, one of the specific transparency issues that we have pressed, in the WTO context and otherwise, is the right to participate through friends of the court, or amicus brief, in dispute resolution procedures.

I did not hear that specifically mentioned, but I nevertheless would acknowledge that that appears to put us in the position of more knowledgeable observers on the sidelines of many of these discussions.

Senator GRASSLEY. Mr. Merja, as you know, 4 out of 5 WTO member countries are from the developing world. You probably know of their strong opposition to labor and environment provisions and trade organizations because these poor countries want to grow their way out of poverty. They see trade as a way of doing it. They also know that rich developed countries have, in the past, erected barriers for products made in developing countries.

The President's comments Monday have come up for discussion a couple of times this morning. I would like to read one paragraph from that, and then ask you a question following on what I just said about developing countries.

"I would like to remind people that if you are a poor nation, it is going to be hard to treat your people well. If you are a poor nation, it is going to be hard to have good environment policy. Trade is the best way to eliminate poverty. Therefore, our trade agreements ought to be free from codicils which prevent us from freely trading." Now, we have only quoted the last part of that sentence this morning, but I gave you the whole quote.

My question to you is, if we do not launch a new round because we insist on provisions that poor developing countries will not accept, will they not be the biggest losers, meaning the poor and the weak countries?

Mr. MERJA. That may be. But I think that there is room to both, Senator. For us to give away issues that are competition issues, competitiveness issues for U.S. agriculture for the sake of a clean agreement, I think, is not a very wise thing to do.

Senator GRASSLEY. Thank you, Mr. Chairman.

Mr. SWEENEY. Mr. Chairman?

The CHAIRMAN. Yes?

Mr. SWEENEY. As Senator Grassley advised the committee, I really have to leave to go out of town to a rally. I apologize to the members of the committee.

The CHAIRMAN. Thank you very much. I know you changed your schedule, Mr. Sweeney, to come today, and we deeply appreciate that.

Mr. SWEENEY. Thank you.

The CHAIRMAN. Thank you.

Senator GRASSLEY. Thank you, Mr. Sweeney.

The CHAIRMAN. Senator Graham?

Senator GRAHAM. Mr. Van Putten, you said in your statement that you thought that environmental standards should be on a par with commercial provisions in a trade agreement. Could you elaborate on what would constitute being on par?

Mr. VAN PUTTEN. Yes, Senator. I think, as Congressman Levin articulately stated earlier in this hearing, the world of global change is not only a world of more trade, but a much more complicated world with trade implicating the ability to achieve shared international environmental values and meet standards as well as the ability of particular countries to meet minimum standards and to chart a course of having perhaps even more restrictive standards themselves.

I must admit to a sense of, listening to the debate and my colleague on the panel a moment ago commenting on, you have to have intellectual property protection because you cannot trade with pirates, so to speak.

Our view is if, as part of trade liberalization, the environmental commons are degraded or our ability to advance sustainable development and protect our shared environment is degraded, as a result of that we cannot trade for that purpose either.

The fundamental view that we have is that trade liberalization is not an amoral enterprise, that it is something that directly implicates the ability to achieve shared human aspirations, the ability to protect the planet, and that recognizing that in the body of trade agreements is not loading it down with something irrelevant that gets in the way.

So we are looking for mechanisms that recognize that essential, integral relationship between market integration, trade liberalization, protecting the planet, and achieving sustainable development. Some of that is appropriate within the four corners of trade agreements.

As I said in our second principle, the United States must lead in achieving a global consensus and in addressing some of the issues of developing countries that have already been mentioned. Some of that can occur through other mechanisms such as the NAFTA institutions in which we have invested a lot of energy to try to make them succeed.

So, I think there needs to be an effort to recognize, within the body of trade agreements, that these core environmental concerns are on a par with concerns like intellectual property and protection of investors.

At the same time, that is necessary, but that is not sufficient. We need the technology transfer, the capacity building. We need vital institutions through entities like the NAFTA parallel agreement to also advance the development of that global consensus that includes the developing world.

Senator GRAHAM. Mr. Merja, I come from a State which is a large agricultural State, very diverse, and produces many products that are import-sensitive. You mentioned some of the areas in which the big grain States also are facing import challenges.

Do you think that there should be, in the authority granted by the Congress to the President to negotiate, any particular references to import-sensitive agriculture, and if so, what should it say?

Mr. MERJA. Well, I think that every country will have to ask and answer that question for themselves, as will we. I think that there will be some industries in this country that are diminished because of trade liberalization. There will be industries in this country that are enhanced. As an agriculturalist, I hope I am on one of the sides that is enhanced.

To answer your question directly, I think that we need to take care of some industries that are in the United States, in different States, when we put the law into place.

Senator GRAHAM. Mr. McGraw, I want to say how much several of us who have had an opportunity to work with the ECAT coalition have appreciated its reasonableness in trying to arrive at a resolution with some of these issues.

I would comment on your testimony, that you, like the rest of the panel, expressed an interest in improving labor and environmental standards. How do you think, within a trade structure, it would be the most appropriate way to proceed to do so?

Mr. MCGRAW. Well, thank you for your comments, Senator. The question really becomes, what is the best way to deal with some of those issues? As I was saying to you, Mr. Chairman, I believe that placing a whole host of requirements on the back of a free trade agreement is not the most helpful way to be able to generate the kind of results that we would like to see in all of those issues.

Therefore, I think we have to make sure that the U.S. negotiator is given the flexibility to be able to work with Congress in terms of developing what the principle negotiating objectives should be, and then to go forth and try and get the best possible agreement and bring it back. So, it would not be, again, loading up any one particular model in a free trade agreement. I think the flexibility is a part.

I also heard in Senator Lincoln's comments the word trust, and that is what trade promotion authority is all about. It is a trust, it is a dialogue, between Congress and the administration.

We have got to be able to get to that so that business can then go out and do the kind of work that will bring that expansion and will be able to bring that higher level of prosperity. But we need that dialogue to take place.

Senator GRAHAM. Thank you.

The CHAIRMAN. Thank you very much, Senator.

Senator Kerry?

**OPENING STATEMENT OF HON. JOHN F. KERRY, A U.S.
SENATOR FROM MASSACHUSETTS**

Senator KERRY. Thank you very much. Let me begin by saying, Mr. Chairman, I think we ought to be really wary of the notion that we have to proceed rapidly to come to a conclusion on the question of how we are going to approach the fast track request or the trade promotion authority, as it is now being framed.

I think we have to remember that the FTA process was obviously started without fast track authority. There are no legislative changes required in it until, I think, 2005.

If you look back, historically, we have gone significantly down the road with many of our rounds before the authority was actually requested. I think one could really make a very strong argument

that we are sort of launching a round here which we could begin to sort of play out a little bit before the playing field really closes in on us.

I think, politically, it would be perhaps impossible, but certainly damaging, to proceed too rapidly in a way that is sort of force-fed. I think the Crane bill may indicate that.

The reason I say that, is the following. I hope it is an important observation. I voted for fast track, I have voted for NAFTA, I voted for permanent normal trade authority with China. I suppose I would, therefore, fall very much into the so-called free trade camp here. My disposition is to want to do it in the future.

But—and here is the significant but—I do not think any of us can avoid analyzing and responding to the very significant shift in dynamics globally that are occurring and have occurred. I am not talking simply about responding politically to the streets of Seattle or to other demonstrations.

I am really talking about sort of looking at globalization and the wave of technology as it has moved, and the impact of trade on other nations, other cultures, and the response, politically, of leaders and of all of those countries.

I think that we need to think very carefully, globally, about what is happening to the consensus for our economic system, which is, after all, what trade is based on.

If you look at some of the discussions at a place like the World Economic Forum over the last four or five years—I saw Bob Hormats is here, and others who participated in that—there is an enormous amount of energy expended by CEOs, by finance ministers, trade ministers, prime ministers, presidents, and others to grapple with this question of “putting a human face” on globalization, which is, after all, in the end, really putting an economic benefit in the pockets of people at all levels in each society.

I think good analysis of what has happened in the last years would come back and say, whoops, it is not being passed on sufficiently. There has been the creation of a huge amount of wealth, there has been an enormous transfer of wealth.

But not necessarily enough of the populations of enough of the countries that are trying to be part of this consensus feel as if they are sharing in that wealth. That is why there is increasingly, I think, a question mark about what the up side benefits are.

So I would say as a “free trader,” if I want this consensus to continue, if I want our economic system to be embraced as fully as we would like most people to embrace it, which means embracing transparency, embracing accountability for conflict resolution, or accountability for piracy and for intellectual property, you have got to build the consensus among all the political entities that make up the fabric of our trading partners’ politics, too. I do not think we are doing a good enough job of doing that.

I think my preference would be to find a dual track, a way in which we adequately satisfy the environmental component, the labor component, and come to cloture on the components of the trade part. But we are not doing it.

The fact is, for all the talk of ILO and ILO standards, it is not happening. The United States, in fact, is one of the worst offenders.

So, I think, Mr. Chairman, we have to really proceed very thoughtfully here, and carefully.

I think there are ways I think the trading partners could do a much better job of proving their bona fides on the environment, for instance, by setting up a trading partner global environmental development fund that assists countries in technology transfer, in technical assistance, that combines some of this wealth transfer with a more legitimate effort to make our trading practices raise the environmental standards. That could be on a separate track.

Similarly, there are ways to do it with respect to labor. But if you do not even include those items, as John Sweeney said, on the table as part of the discussion, nobody is going to have any confidence whatsoever that we are serious or that we are even looking for that other track.

If you are not even willing to make them part of the discussion, it is hard to figure out how you could, in good faith, come out with a dual track or a separate track. You are not going to build a consensus.

What I fear, Mr. Chairman, is we are going to lose the consensus, we are going to have impossible politics in our own country, and then we are going to see a set-back ultimately because we are going to get into antidumping, countervailing trade practices, all the kinds of things that are tit for tat, and lose the constructive atmosphere within which we have been trying to work.

So I think there is much more on the table than simply this particular fast track proposal, I think these hearings reflect that, and I know your approach will. But I hope this committee and others of us will really work hard to try to work through that.

The CHAIRMAN. I appreciate that, Senator. That is a good statement.

I have just a couple of quick questions, and other Senators may as well.

Mr. Merja, what do you view as priorities for agricultural producers in the WTO round, or generally in future trade agreements? What is number one, number two?

Mr. MERJA. Mr. Chairman, I think that we need to really focus on competition in this round, and we need to continue our effort in trade distorting entities and subsidies, state trading enterprises, export subsidies, trade-distorting domestic supports, and resolving these cross-border price differentials for crop inputs. Without keeping competitive advantage or having some ability to compete, there is not much point in opening markets, I do not think.

The CHAIRMAN. Mr. Van Putten, some suggest parallel agreements, international environmental agreements, ILO has been suggested, WTO.

What are your thoughts about going down that line, the degree to which, say, multilateral environmental agreements like CITES, or the chlorofluorocarbon agreement could trump trade, or vice versa. Is there a role there for multilateral environmental agreements?

Mr. VAN PUTTEN. We think there are some sets of issues. You referred to the non-derogation principle earlier. You just referred to another one, appropriate deference to multilateral environmental institutions.

Those would be the kinds of principles that would seem to us more essential that they are within the four corners of an agreement than as Senator Kerry just spoke to.

There are many other activities that will assist the developing world that we think need to be done, linked to trade liberalization, but there are opportunities outside of the four corners of trade agreements to do that.

I think, as one of the other panelists said a moment ago, the degree of flexibility here is a function of trust, trust in the negotiator, trust that the negotiator actually believes that environmental values are integral to this discussion.

That is why, both in my testimony and in our conversations with the administration, we have suggested a series of confidence-building, trust-enhancing measures they could take, such as moving the Jordan agreement with no strings attached, that would help build trust and confidence in the negotiator.

I suggested earlier that rejecting the approach of the Crane bill, which you will have the opportunity to press Ambassador Zoellick on tomorrow before this committee, would also be a real trust-enhancing measure because it would indicate, as Senator Kerry just said a moment ago, a true commitment to have these issues part of the dialogue and figure out how we can incorporate them into future trade liberalization efforts within agreements and through parallel efforts.

The CHAIRMAN. Thank you.

Senator Grassley?

Senator GRASSLEY. I do not have a question, but I do have a comment, an observation. That is, as we debate here whether or not these negotiations and trade promotion authority ought to be given, it seems to me we should not be oblivious to the unparalleled growth and prosperity that we have had in the last five decades under this sort of regime that we are talking about continuing now, and giving the President the authority to be a leader in that continuation.

We have done more globally to address poverty in the last 50 years than we have done in the last 500. Since 1960, we have child death rates cut in half in developing countries; malnutrition has fallen by one-third. These sorts of advances that I have just described have taken place much more rapidly in the countries that are open to trade.

While we are debating whether or not the President ought to be able to negotiate this issue or that issue, I do not see that the conditions of the environment and the conditions of workers around the world have improved any during the period of time that the President has not had trade negotiating authority, and that has been for the last 6 or 7 years. Just think in terms of what we can do when we keep this process of the last 50 years going.

I also kind of feel badly about an elitist attitude that white people in the western world have about looking out for the welfare of people in the developing nations and the poorer parts of the world.

For us to think that these political leaders, or even the people in the country, do not have an interest in improving their environment, they want their people to have cleaner water, they want to have their people breathe clean air.

When we deprive them of the economic means of doing that, we are depriving them of the clean water and the clean environment. They do not want to degrade their environment. They want to have what we have. One way of doing that is to help them improve their economy so they have got the wherewithal to have clean water and clean air.

That is not going to happen if we shut down this process that has worked so effectively over the last 54 years of reducing trade barriers so that we can expand this world economic pie with a growing world population.

There is going to be less for more people if we do not expand that economic pie, and that is not going to happen without trade. It is a success machine that we should not be questioning. We ought to keep the process moving along.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Kerry?

Senator KERRY. Earlier, I wanted to follow up on a question Senator Baucus asked you about property rights. You talked about how critical it is for companies to be able to obviously negotiate out that difference.

What do you say to those people who make the argument, well, just as it is critical to a company to not be competitively disadvantaged with respect to the enforcement of a property right—I ask this because I am interested in how you will respond to it, the argument is always thrown at us.

What do you say to the people who say, well, it is also important that the company not be competitively disadvantaged because it is competing against somebody whose labor pool is forced labor, or child labor? Or this company has to live up to XYZ standards with respect to emissions and water, and so forth, and the companies they compete against have no standards at all. What is your response to that? Why is one right important to argue about and the other right is not important, but they both have a relative disadvantage competitively?

Mr. MCGRAW. Well, I think I come back to the Chairman's opening comments when he talked about the level of trade 20 years ago and the level of trade today. The level of sophistication, the size, and the meaning of what trade does in terms of growth, jobs, and prosperity is huge. Also, the complexity.

When we first started taking a look at our trading relationships and we started looking at intellectual property right protection, it was that if we cannot get that kind of an agreement, we are going to have problems with any other kind of basic understandings in our trade relations.

As we got going and got through the 1990's, a lot of labor and environment and agricultural kinds of concerns and needs came forward. The question became, all right, how much can you actually achieve and accomplish in one free trade agreement with that particular country to get all the ends that you so desire?

That is why we have taken the approach that now it is labor and environment, as well as some other concerns, but there is going to be more. Therefore, I think we need to maintain that flexibility. There has got to be a better dialogue.

That is why we really think that there is an urgency for trade promotion authority to be agreed between the Administration and Congress to make sure that we are discussing what are the most relevant and pertinent needs that we want to immediately see.

Senator KERRY. Well, there is nothing to stop them from discussing those now.

Mr. MCGRAW. Absolutely not.

Senator KERRY. There is nothing to stop them from coming to Congress and saying, hey, we have a breakthrough because we have these other items included, and therefore would it not be terrific if you passed this?

Mr. MCGRAW. Well, I think that would be the merits of any one particular grant with that. I would not leave any party out. I think it is very important not to undermine, again, NGOs in any way in terms of being able to participate.

I know there have been problems with the International Labor Organization. Yet, when we take a look at India, we take a look at Pakistan, we would be nowhere if it had not been for the International Labor Organization. So, there is an important role for a lot of parties to play. The pertinent and most relevant aspects that we want to achieve should come from that dialogue.

One more statement: I would say to your other question about the gaps of prosperity that you talked about, and those are very real and they are at the heart of the whole globalization debate.

Coming up at the end of September, we are going to be coming to the conclusion of the Trade Adjustment Assistance programs. I believe we need to not only reinstitute that, we have to take another very hard look at being more creative in terms of some of these trade adjustment assistance programs.

There are just not trade-related, there are technology-related, as well as other kinds of issues. But that is very much at the heart of some of the separation of thinking on globalization.

Senator KERRY. Yes. Well, here in the Congress, obviously, there is sort of this ideological cement that has been cast around these positions. I mean, it seems to me what Senator Baucus asked about the Jordan agreement is very reasonable.

Certainly the non-derogation component, the notion that you are not going to bottom-down, you are not going to, sort of, dumb down the system at some point, seems to me sort of a diminimus kind of standard to measure against.

Do you think it is appropriate that so many people just maintain a hard line? Since the administration succeeded in achieving that, why not back off and say, let us see how it works?

Mr. MCGRAW. Senator, I think the Chairman was talking about the Jordanian agreement in the context of a model for going forward. Again, for the Jordanian agreement, I do not believe—I am not an expert here—America had any problems with their labor or environmental conditions; therefore, it was sort of a moot kind of situation.

But to use it is a model going forward, again, I think comes back to putting mandated outcomes before us. It also limits our U.S. negotiator, again, to be able to have the flexibility to get that best possible agreement. Trade sanctions, when you start using that

kind of language, I think we all agree that those are terribly flawed and they are injurious to our own interests.

Senator KERRY. Well, we obviously have come to the conclusion here that unilateral trade sanction regimes do not work that well, and we have too many out there already that are pretty ineffective.

But it seems to me, again, if that is the way people want to negotiate and that is what they have come to, whether or not you apply it as your model—certainly it is going to be a model no matter what. It can either be a model for inefficiency, a model for effectiveness, or a model for one way to negotiate. It is there.

My sense is that what we want to do is try to build the consensus, I guess, is the bottom line of what I am getting at. I think there is a rigidity around here on both sides, incidentally, that works against that goal.

The CHAIRMAN. Thank you both very much. Thank you, Senator.

Senator KERRY. Thank you.

The CHAIRMAN. Thank you, Mr. McGraw, and thank you panelists, for the time that you have taken and the contributions you have made.

Our next panel is batting clean-up here. It is USTR alumni gathering, experts on the subject who have been in the trenches and fought these wars.

First, is Hon. Bob Hormats, former Deputy USTR, now with Goldman Sachs; Hon. Peter Scher, former Special Trade Negotiator; Hon. Alan Wolff, former Deputy USTR, now with Dewey Ballantine; and the Honorable Clayton Yeutter, former USTR.

Gentlemen, thanks very much for being so patient, sitting back there and listening to all of this. I imagine some of it is constructive, hopefully.

Why do you guys not have at it, and we will just continue? Mr. Hormats, why do you not begin? You are at the far left there. Why do you not start?

STATEMENT OF HON. ROBERT HORMATS, FORMER DEPUTY USTR, VICE CHAIRMAN, GOLDMAN SACHS INTERNATIONAL, NEW YORK, NY

Mr. HORMATS. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before the committee again to discuss international trade issues.

Let me just make a few broad points to start. The debate that we witnessed in the last two panels was quite interesting. I want to underscore my view—that I do think that TPA is particularly important at this time.

I think it is important for a number of reasons. One, because it does give the power of Congressional legislation to back our trade negotiators, and that gives them a greater degree of credibility than the absence of TPA.

Second, it is particularly important at this time for another reason. That is, there are a variety of doubts around the world, in many quarters, about the direction of American international economic policy and the appearance that the United States is pulling back from involvement—constructive involvement—with the rest of the world.

A vote on TPA, now that the administration has raised this issue and put it to the Congress, will be seen as a referendum on whether this country will sustain its leadership role on global economic issues or will let it lapse.

If it were to let it lapse, the void might be filled by others whose interests are not the same as ours. That chart that you have put up, Senator Grassley, I think makes the point that if there is a void and the United States is doing very little or nothing, others are not sitting on their hands.

They are going ahead and negotiating those preferential agreements, many of which—indeed, most of which—are disadvantageous to American companies.

Now, some American companies can benefit because they can invest around those barriers, but most small- and medium-sized companies cannot. It is very harmful to labor and it is very harmful to the agricultural interests in this country if there are more and more barriers that are constructed as a result of those kinds of preferential agreements.

Then there is a broader point. That is that there is no substitute for the leadership of the President on these issues. Virtually nothing happens on trade, as all my colleagues on this panel and others know, without the leadership of the President.

It is good that he gives a speech, but I think he is going to have to do a great deal of work up here, and with Americans in general, to demonstrate that he regards his TPA as a very high priority.

Obviously the Congress has a key role because it is a central player in all key trade issues, but Presidential leadership is extremely important.

Third, let me get to the question that has been often debated as to how to deal with labor and environmental standards. Senator Kerry made an interesting point. That is, labor and environmental standards are important, in part because there are substantial interests groups in this country that want them to be addressed. The major difference is how they are addressed—but they are issues that need to be addressed.

The danger comes in two respects. One respect, is believing that trade leverage is a way of leveraging countries to change their environmental laws, to change their domestic policies to make changes that will get rid of poverty.

Most of the poverty in this world, most of the environmental problems in this world, have nothing to do with trade. They have to do with the state of development of the economy and the policies of the countries themselves. We cannot use the WTO or trade leverage to force major non-trade related changes in domestic policy.

I think you made the point, Senator Grassley, very well. Many of these countries want to improve their environmental standards, their labor standards on their own. The problem is, many of them do not have the resources to do it. In some cases, the governments do not have the will to do it.

The irony is, it is the countries that are most closed to trade, those countries that were behind the Iron Curtain, or Burma, or North Korea, the countries most closed to trade and investment, that are the ones with the most regressive environmental policies and labor policies. Opening up these countries is a way of giving

them the resources to make the changes, and the foreign investment which also induces those changes.

So it is my view that dealing with environmental issues and labor issues is important, and it ought to be a U.S. objective. But U.S. negotiators should not be pinned down as to how to achieve those objectives. They should be given the flexibility to make progress where it can be made without any specific outcome being mandated, or without any specific test for success being imposed in the legislation. I think that is one important way of addressing these issues.

I think is also important to utilize other institutions. At the last hearing which you chaired earlier this year, Senator Grassley, Carla Hills and you had a discussion of the ILO. Other institutions that are designed to deal more directly with these issues strike me as a more appropriate vehicle for working with countries to improve labor and environmental protection than trying to apply trade leverage.

I think if we start mandating particular outcomes in the TPA legislation or coming up with a cookie-cutter approach that applies to all countries, we are just going to get into trouble. We will slow the process of trade liberalization and we will not improve standards for the environment or labor in any of these countries.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Mr. Hormats.

[The prepared statement of Mr. Hormats appears in the appendix.]

Senator GRASSLEY. Now we go to Mr. Scher.

STATEMENT OF HON. PETER L. SCHER, FORMER U.S. SPECIAL TRADE NEGOTIATOR, MAYER, BROWN & PLATT, WASHINGTON, DC

Mr. SCHER. Thank you, Senator, for this opportunity. Since Mr. Hormats, you, and others have so eloquently articulated the case, why trade promotion authority is so important, let me use my few minutes this morning to talk about, in my view, how I believe we can realize the benefits of trade at a time when there is growing deep public skepticism about globalization.

Given the clear economic and social successes of previous efforts, as you talked about, Senator, earlier to promote trade, support should be easy. But we know, of course, it is not.

Our challenge is to figure out how to regain support from the American people for moving our agenda forward. Trade promotion authority is the obvious starting point for this discussion. It is critical.

It is critical because it signals to our trading partners that negotiators can engage in talks under a clear grant of authority. Frankly, it symbolizes our national commitment to trade expansion.

But the debate has largely become a debate over labor and environmental standards, the threshold question being, are they even appropriate and legitimate topics for trade negotiations. For several reasons, I believe they are.

As other witnesses talked about, first, it is a matter of economics. The manner in which a country treats its labor and environmental

standards can be very relevant to the economic position of our own companies.

However repugnant, slave labor and child labor do confer a competitive advantage. Countries that weaken or derogate their environmental standards place U.S. companies at a competitive disadvantage as well.

So if you accept that there is some relevance to these issues, the question is, what kind of commitment should we be seeking as we negotiate these agreements?

In terms of labor standards, I would suggest that it is reasonable for the United States to promote so-called core labor standards, as defined by the ILO, which address forced labor, child labor, the right to collective bargaining, and employment discrimination. Virtually every country in the world has already signed on to these conventions.

On the environmental side, my view is that while the recent United States-Jordan FTA is not a basis for every other trade agreement, it did strike the right balance, recognizing the right—as Mr. Hormats talked about—that countries establish their own levels of domestic protection, but saying that countries should not lower their standards to obtain a competitive advantage in global markets.

This, in my view, may not be the type of approach that can be duplicated in other agreements, but it is the right balance. It respects sovereignty, but also recognizes the impact that these issues can have on global competition.

Once we have established these obligations, the difficult question arises, how do we enforce those obligations? In my own experience at USTR and in government, effective enforcement requires a credible threat that there is a consequence to pay for a country failing to fulfill its obligations. We have seen this time and again whether it is in IPR protection or in reference to getting the European Union to comply with their obligations.

Sanctions have taken up much of this debate. Sanctions may not be the only way to enforce obligations, nor are they always the best way. But I agree with those who suggest that they should certainly be available, along with other tools, for negotiators to come up with the best enforcement mechanism for a particular agreement.

Mr. Chairman, I recognize that these issues are difficult. I recognize that you are hearing a lot of conflicting advice, those that believe trade should be the vehicle to address every social ill, and those that believe there is no place in trade negotiations for a discussion of these issues.

I think there is a middle ground. Let me just throw out, quickly, the four elements that I believe are critical to building a new consensus on trade.

First, preserving national sovereignty. In setting standards, our starting point should be the sovereign right of nations to establish their own levels of domestic protection.

In labor, this could mean accepting, as most countries already have, the core labor standards of the ILO. In the environment, it would be compliance with one's own environmental laws.

Second, there should be no second-class standards. When obligations are undertaken, they should be upheld.

Third, there should be limits. Disputes over labor and environment issues should not be part of a trade agreement, except where those disputes are directly related to trade.

We should not make our trade agreements the forum for resolving every dispute on labor and environment, but we should also not allow countries which have open access to our markets the right to use their own environment or labor standards to gain a competitive advantage.

Fourth, enforcement is the key. Sanctions are not a cure-all for compliance. We have seen that in our dealings with Europe. But U.S. negotiators need the flexibility of an array of options that should include sanctions, as well as other tools.

Senator, I think there are other people, let me just say in closing, that have talked about the fact that these issues underscore the evolving nature of trade.

Twenty years ago, people did not want to talk about agriculture, they did not want to talk about intellectual property, they did not want to talk about services. Now those are clearly relevant to the debate and their place on the trade agenda is not disputed.

In the agriculture sector, as you know, Senator, our greatest challenges are no longer just high tariffs and restrictive quotas, but often phony scientific barriers that countries use to block our exports of beef, of grains, of products made through biotechnology.

Negotiators need the ability and the flexibility to address these changing issues and our trade negotiating authority must reflect the realities of the trading system of the 21st century.

Thank you, Mr. Chairman, for your time.

Senator GRASSLEY. Thank you, Peter.

[The prepared statement of Mr. Scher appears in the appendix.]

Senator GRASSLEY. Now, Mr. Wolff?

**STATEMENT OF HON. ALAN WILLIAM WOLFF, FORMER
DEPUTY USTR, DEWEY BALLANTINE, LLP, WASHINGTON, DC**

Mr. WOLFF. Senator Grassley, thank you very much. I appreciate the opportunity to appear before the committee today.

When I was general counsel of USTR in 1974, I spent the better part of a year working with the committee on the original fast track. I then served at USTR with Clayton Yeutter. Two years later when I was Deputy Trade Representative, I had the pleasure of working with the committee on the use of fast track for the first time.

I think we are all in agreement that our negotiators need a statutory mandate from Congress setting out America's negotiating objectives. It is equally necessary to set forth new procedures for Congressional review, approval, interaction with the executive branch, and the implementation of the agreements reached.

For full credibility, this statute must be in place prior to the substantive phase of any major negotiation, whether that negotiation is a Free Trade Agreement for the Americans or the World Trade Organization's new round.

Before 1974, most trade agreements were turned down, spurned by the Congress, or gutted. We need to avoid repeating that sorry history. Further trade liberalization and promotion of a rules-based system are strongly in the best interests of the United States.

We have to work on e-commerce, a subject that is not really addressed at all explicitly in the WTO.

Some of the WTO agreements are defective. We have seen a lot of problems in the dispute settlement process. They have not solved our problems with the EU over agriculture, and a number of other areas.

Some areas, clearly, should not be reopened. This is a rules-based system. We should not reopen the rules on sanitary and phytosanitary standards, on intellectual property protection, nor on antidumping or the remedies against foreign subsidies. We would only see the rules weakened and we cannot afford that.

These times require a more active role for the Congress. I see four central tasks in creating the new negotiating authority.

First, forge a new national consensus. I think you are starting that process here today and you are hearing different points of view.

We need to have broad support across the country in this post-NAFTA environment, where there is a lot of distrust over trade agreements. We have to restore faith in this process and this committee has a central role in doing that. I think you ought to hold field hearings, as well as hearings in this city.

Second, establish new procedures for consideration and approval of agreements. We are now contemplating deeper integration of our economy with other economies, now. In earlier, simpler times, the existing fast track worked. I think we are going to need new procedures.

What am I talking about specifically? I would provide that the Senate Finance Committee and the Ways and Means Committee, and other committees of jurisdiction—but primarily these two committees—would be required to act on resolutions of endorsement at particular points in the process.

I would include representatives of this committee in the negotiating process—on the teams, not outside the room. We did that in the Tokyo Round. There should be also formal recognition in the statute of the non-mark-up process by which you create the legislation. That is not explicitly spelled out now.

I would use the regular legislative process and not fast track for antitrust law changes, for Title 7 changes on countervailing and antidumping, and for 201 import relief changes.

I would recognize in the law that rebalancing amendments are necessary and appropriate. In other words, the kinds of things that get a bill through this Congress ought to be appropriate for you to include, since you will be drafting the implementing bill.

Third, I would improve the institutional support for U.S. participation in the WTO. Senator Dole and Senator Moynihan, at the time the Uruguay Round Agreements Act came through, called for a judicial commission to review how the dispute settlement system was working.

I think that is sorely needed, even more desperately needed now than it was then. I think you should also add to the resources available to support the executive and legislative branches in the trade negotiations.

Fourth, we need to better define the boundaries of appropriate WTO authority. You already have in the statute a provision which

mandates that no direct implementation WTO agreements occur without Congressional approval.

But WTO dispute settlement outcomes can affect executive branch agencies' administration of the law, and I think that has to be cordoned off, set straight, that this committee, this Congress, will have to pass on anything that takes place in Geneva before it takes effect here.

My conclusion is that it is important to get this mandate right. We need major new negotiations in a number of areas. We should get right the related process for obtaining Congressional approval, with a much more active role for this committee and for the Ways and Means Committee.

With the requisite effort, the U.S. negotiators will have the Congressional support they need to enter into the detailed, substantive negotiations. If we do not do that, we put the continuation of the President's trade agreement program at risk, because there will be inadequate public support.

Senator GRASSLEY. Thank you, Mr. Wolff.

[The prepared statement of Mr. Wolff appears in the appendix.]

Senator GRASSLEY. Now, to Clayton.

STATEMENT OF HON. CLAYTON YEUTTER, FORMER U.S. TRADE REPRESENTATIVE, HOGAN & HARTSON, LLP, WASHINGTON, DC

Mr. YEUTTER. Senator Grassley, it is good to be here this morning. I am pleased to see you again for the first time in quite a few years. And I am pleased to be here on this particular subject.

You already have copies of my prepared testimony, so I am now going to concentrate on some of the comments that were made this morning, if I might do so.

First of all, I want to compliment you, Senator Grassley, for what you had to say about the importance of economic growth as that relates to the labor and environmental issues.

If we get a new trade round rolling, and if it accomplishes what we hope it will accomplish, that will do more to help nations throughout the world to improve their worker rights practices, and their environmental practices, than anything we do specifically on those two subjects within the context of a trade round.

It is economic growth, as you pointed out, that provides the wherewithal to achieve improvements in these respective areas, and that has to be the overriding objective.

My second point would be that I was concerned, Senator Grassley, with comments to the effect that we really do not need to be in any big hurry about getting trade promotion authority approved. I certainly believe the Congress should proceed in a systematic fashion on this subject, and I know you will do that. You should be deliberate about it.

But at the same time, we need to recognize that time is short. There are deadlines at issue here, imposed outside the realm of the U.S. Congress, that will have to be confronted, one of which is the meeting of the WTO ministers in Qatar in November.

It would be highly desirable to have trade promotion authority done by the time that Qatar meeting is held, because we had a debacle in Seattle 18 months ago and we cannot afford another deba-

cle in Qatar. If that occurs, we could readily jeopardize the entire WTO system. And we would lose great credibility for the United States if that meeting is not handled well.

So let us see if we cannot get TPA done between now and then, which would be the ideal situation. If that proves to be impossible, it seems to me, Senator Grassley, that the Congress, as well as the executive branch, are going to have to send some very strong signals to the effect that TPA is coming, and coming soon.

This is a different situation from the one that Senator Baucus commented upon earlier as we went into the Tokyo and Uruguay Rounds, because we have been spinning our wheels on this issue here in the United States for the last five years. As a consequence, the United States does not have a lot of credibility on this issue at the moment.

So we have to handle the Qatar session well, and it has to be done in a cooperative vein between the Congress and the executive branch of the United States, lest the wheels come off that train when we are in Qatar.

Second, as we get to the labor and environmental issues, which have been the big stumbling block of the last several years, the question is, how do we handle them?

My view, Senator Grassley, is we ought to figure out what it is that we can reasonably expect to achieve in the WTO on these issues and what we ought to reasonably expect to accomplish outside the WTO.

As I was listening, for example, to Mr. Van Putten this morning, there is a lot of what he said that I can agree with. Some of what he suggested can be accomplished in the WTO and would not trouble me in the least. Some of what he suggested should, in my opinion, be accomplished outside the WTO, and we ought to separate the two.

There has been a lot of discussion this morning of intellectual property as the example for what we might do in worker rights and the environment. But I must say that intellectual property was a very tough hill to climb when we launched that subject in Punta del Este in 1986. We got over it, fortunately, and now IP is an important part of the system.

But we should also note that the Congress did not in any way tie our hands going into Punta del Este, or thereafter, in terms of what we did on intellectual property.

What ultimately occurred, is that we were able to figure out a proper continuing role for the standards-making organizations in intellectual property, then also figure out what it was that we could do productively and successfully within the context of the WTO.

I believe we have to do something similar to that in the labor and environmental areas, where we do what we can in the way of standardization outside the WTO, then figure out what it is we can reasonably accomplish within the WTO.

This is an issue of harmonization worldwide. If we had harmonization of labor standards and harmonization of environmental standards, accompanied by effective implementation, this would all be a moot question. So what we need to do is work on harmonization in whatever fora are most appropriate, then try to make

whatever additional rational and reasonable contributions we can within the WTO.

I would only say, let us not micro manage this process. We have to be careful that we do not overload Ambassador Zoellick and his team, asking them to do things that they cannot realistically accomplish in an organization where we have to proceed on the basis of consensus.

My time is up, so I will stop right there, Senator.

Senator GRASSLEY. Thank you, Clayton.

[The prepared statement of Mr. Yeutter appears in the appendix.]

The CHAIRMAN. Thank you very much, all of you.

It just seems to me, and I would like the panel's reaction to this, that the goal here, as has been suggested earlier today, is to move toward trust, and cooperation, and compromise, and bilateralism, et cetera. Rome was not built in a day, it was step by step. You cannot do everything all at once.

To build trust step by step, I am suggesting that, in addition to putting together provisions of TPA, that in the meantime, or in advance, we could build some trust by working on and passing some other agreements. For example, get Jordan passed, Chile, Singapore. There could be others.

At the same time, working to ensure that WTO does not trump the ILO or other multilateral environmental agreements, or enforcing our trade laws, or something. It is building trust on both sides, actually. It is deeds, not words, doing things, not just talking about it, some of the things I just suggested.

In your judgment, does that help build trust so that we can then get the provisions of an FTA passed with a large consensus, or sizeable consensus? Because it is not something that is going to be sustainable if it barely passes. It is going to have to pass by a significant margin of Congress, and roundly endorsed by the President, et cetera.

Who wants to start?

Mr. YEUTTER. I will start, if you wish, Mr. Chairman.

Of course it builds trust to do some of these things, and we ought to get that legislation passed, that is, the bill relating to Jordan, and we ought to do the Vietnam bill as well.

Not only does it establish some trust within the governmental system here in the United States, but it provides some credibility internationally as well because we are finally doing something rather than, as I said a few minutes ago, just spinning our wheels—which is most of what we have been doing, particularly on this issue, in the last several years—so we ought to do those things.

But at the same time, Mr. Chairman, there will be a heavy burden on you and your colleagues in this committee, and also on the Ways and Means Committee, to begin to build that trust on a much broader basis, domestically and internationally. Obviously, a lot of responsibility rests on Ambassador Zoellick's shoulders, as well.

Many people around the world, Mr. Chairman, today do not really believe that the United States is going to get anything done in

this area. There is a lot of frustration, a lot of disillusionment, with the WTO and with our role in the WTO.

Many are questioning whether we, the United States, really want to make the WTO an effective organization going forward or whether we would prefer to join other folks in doing what Senator Grassley was talking about, negotiating more individual free trade agreements.

I am certainly not an opponent of free trade agreements. As you know, we negotiated the United States-Canada Free Trade Agreement when I was USTR, which was a very major one. But we have to recognize that these free trade agreements are all discriminatory in their nature. Right now, everybody else in the world is doing them and they are discriminating against us.

So, that is not a very effective route. We have to be very careful that that does not become the route of international trade policy, because the Japanese are now embarking upon that course of action in a very major way in Asia, and the European Union is doing it in a very significant way, too.

Some countries would be delighted to have us mark time on TPA, because they would just as soon proceed with discriminatory free trade agreements. So, we have got to be careful that we keep our eye on the global ball here.

The CHAIRMAN. Mr. Wolff?

Mr. WOLFF. I think, Mr. Chairman, it is imperative to build trust in passing additional trade legislation. Getting these agreements in place, seeing the China accession go forward, and passing this NTR vote, are very important steps.

I think it is also extraordinarily important to build a consensus for going forward. It would be a disaster, I think, to have a partisan vote in the House or the Senate on a new fast track proposal that does not enjoy broad support.

The Congress has always, in past examples of fast track and in approval of trade agreements, for the last 26, 27 years, had a very strong majority. The Tokyo Round passed by a vote of 90 to 4 in the Senate. That is the sort of endorsement that we need going into an agreement and coming out of an agreement. We have got to get it right.

I think Clayton is right. He said earlier that we need to send a signal before Qatar of what the Congress wants to have occur there, and have support for our negotiators if we are not ready with fast track, and we may not be.

The CHAIRMAN. What is the signal?

Mr. WOLFF. The signal could be a resolution, beyond the trade agreements that you pass, setting out objectives for Qatar. I would hope you would be able to enact TPA between now and then, but it may be unrealistic to put trade promotion authority together. That may not be possible, because we do need a consensus at home. As I say, a divided vote would send a horrible signal going forward.

Mr. HORMATS. Passage of those bilateral agreements is one very important step. I very much agree with the fundamental point of your question, Mr. Chairman, on that. I think, the sooner, the better.

As Clayton pointed out, and I mentioned in my testimony as well, there are a lot of doubts out there around the world as to

what direction we are heading on trade, and on a whole lot of other issues. This would help to clarify the sense of direction of the United States and give our negotiators a greater degree of credibility.

I would also make two additional points. The Qatar meeting is very important in November, but there is another meeting taking place prior to that.

I do not think there is time for Congressional legislation, but I do think what Secretary Paul O'Neill says when he meets with his finance minister colleagues in Rome in a couple of weeks, and what the President says, in the G-7, G-8 summit in Italy in Genoa in the middle part of July, is going to be looked at as important in indicating the direction this administration wants to take on trade.

That is an important signal that the rest of the world is going to be looking at prior to the meeting in Qatar.

One other point about credibility and trust. The administration has come up with what it calls these tool box proposals. There are two areas that we have all talked about, and I think the point has been made in the earlier set of hearings that were set on the same subject, that there are institutions outside of the WTO that can be very useful in addressing environmental and labor issues, one is the ILO, then there are various groups, the United Nations' Environmental Program.

How those are dealt with in the President's budget and by the Congress are going to be signals as to whether we are credible in using these outside extra-WTO institutions.

In terms of the budget for the ILO, the administration says it wants to raise and strengthen the profile of the ILO. My impression, actually, is that they have cut back in the budget on that. The UN Environmental Protection Program, similarly.

If we can demonstrate that we are credible in using those institutions, it seems to me we take some of the pressure off of using the WTO as a lever and as a sanction device on trade.

I think that would be helpful in terms of credibility with labor and environmental groups, but also avoid using the WTO as a vehicle for leverage and for sanctions which I do not think it should, or can, in most cases, be.

Mr. SCHER. Mr. Chairman, I obviously agree with everything that has been said. I would just add one thing. As we look at the Jordan agreement, the Vietnam agreement, these other efforts, I think one of the mistakes we collectively make is we put these agreements on a certain pedestal that they may not deserve. They do not have to define the past and the future of trade policy.

These are agreements that are designed for a particular set of circumstances, and we need to treat them as such. I happen to believe the Jordan agreement has a reasonable set of provisions that make sense for what we are trying to do with Jordan. I think we should be looking at those as we look at future agreements, but we should not necessarily assume that we are locking ourselves into passing an agreement.

I have not heard anyone suggest that the United States-Jordan agreement should be simply applied to the United States-Chile agreement, or the United States-Singapore agreement. They are examples, they are models, but we should not treat them as the de-

fining moment in trade policy. I think that is one way we can start moving beyond some of the rancor and division on these issues.

The CHAIRMAN. Thank you.

Senator Grassley?

Senator GRASSLEY. Well, do not be oblivious to the fact that we can do what we want to here in the Congress, and we might say we want to negotiate labor and environment, and maybe the 77 developing nations of the world will not even sit down at the table with us. So if there is not a consensus on what we are going to do, this process is not going to work.

We have got to look at whether the last 54 years has been a successful process and regime that we want to continue, and if it has been harmful to the United States. We have probably benefitted as much as anybody has.

You said that it is important, what Secretary of the Treasury says in Rome. It is important what the President says with the G8. The President did speak about this with the European Union in Grotenberg last week, so I think he is already going down the line of saying that a new round is very, very important.

You advocated a deference to the International Labor Organization standards as a benchmark. Is it appropriate to defer with them? And I agree in deferring to the ILO on setting standards. But what is wrong with deferring to them then on the enforcement of those standards?

Mr. SCHER. Again, I think that it has been used by others in the past. I think the intellectual property issue is a good analogy. There is a World Intellectual Property Organization that plays a very, I think, important role. But that does not mean that the WTO does not deal with TRIPS, does not deal with very similar issues.

I think, by totally deferring the issues to the ILO, one might be suggesting that there is no role in global trade for those issues. The fact is, they do impact global trade. There are countries that use those standards, that lower their standards to gain a competitive advantage.

I think, by shutting them out of the WTO discussion, we are doing a disservice to our own companies, workers, and farmers who are trying to compete with countries that use those standards to gain advantage.

I think they should be discussed in both fora. I think we need to strengthen the ILO. I think we need to build it up, utilize its enforcement mechanisms. But I also think we need to recognize that these issues are relevant to the global economy, just as we realize that health and environmental issues are already relevant to the agricultural community.

Senator GRASSLEY. Also, remember that the ILO recently negotiated an agreement on rights of workers, creating political obligations, and the United States has accepted those political obligations. So, I think we are setting an example.

Mr. Wolff, as you know, labor and environment provisions are not the central focus of any WTO agreement. Yet, there are some who say we should, nevertheless, insist on those.

At the same time, antidumping is the subject of one of the agreements already negotiated on the Uruguay Round. Some, including yourself, say that this subject should not be discussed.

How do you explain a contradiction that, it seems to me, we should negotiate on something that is not even in the WTO agreement, but not negotiate on something that is one of the WTO multilateral agreements?

Mr. WOLFF. We just finished a major negotiation of new international rules. We put into place rules on intellectual property, rules on sanitary and phytosanitary standards, rules on antidumping, and rules on subsidies and countervailing duties as well.

With respect to intellectual property protection, the developing countries would like to roll back their obligations under that code. That is the sole reason that they want to reopen that issue. I think we ought to resist very strenuously reopening that issue.

In antidumping, there are a lot of countries that very much want to dump in this country. I think that a very important part of the original GATT and the WTO consists of the interface mechanisms we have—countervailing duties, antidumping duties. We have, now, a lumber case with Canada, we went through import relief in wheat gluten, and very recently, in lamb. There are a series of interface mechanisms, because economies differ, because foreign countries subsidize their production.

That bar chart over there (referring to a chart with a large bar next to a much smaller bar) could easily be foreign subsidies in agriculture versus United States subsidies, or it could be foreign subsidies in steel, and the United States subsidies in steel would not even appear on the chart at all.

If we reopen those rules right now, we are going to see them weakened and it is going to really cost employment in this country.

Senator GRASSLEY. Do you not have to assume we are going to give in if they are on the table? That is not a fair assumption for our negotiators, that they are not going to consider America's interests as they are negotiating.

Mr. WOLFF. Well, I think that it is, as I say, premature to reopen this topic. If there are abuses in antidumping, and there may be abuses in some places around the world, that is a question of implementation of these agreements. We have the means to deal with problems in implementation.

Do I assume that there will be a weakening? Absolutely. I do not think any of us can identify an ally of the United States abroad who will be in favor of maintaining antidumping as it is today. They, in many cases, want to be freely able to dump in this market.

The Canadians want to dump their lumber here, and there are about 60 countries that want to dump their steel here. Who wants these antidumping rules? Who are the leaders of the pack? The Japanese, the Koreans, the Chinese, and it is because their economies differ so much from our own.

If we do not preserve these interface mechanisms, I think we will erode support for the trade agreements program and will divide domestic support completely, will divide industry, and will divide agriculture on whether this new round is worth having, and I would hate to see that happen.

Senator GRASSLEY. I just have one more question. But in response to what you just said, then it kind of leads into what I

wanted to ask Clayton, the United States is the leader in this area, and has been for 54 years.

It seems to me impractical to think that if a great country, the United States, is going to keep something off the table, that we are even afraid to talk about it, and every other country, under a consensus organization process, has the right to leave something off the table, then are you going to have anything left on the table to negotiate? I suppose maybe if there is a universe of stuff out there you might have something to negotiate. But it seems to me that we do not have to fear anything.

When you were before the committee in 1986, Clayton, you were emphatic in telling us that the only way that the United States could achieve any significant gains for agriculture at the negotiating table was if we had a comprehensive round of trade negotiations. I think I read that to be: nothing left off the table.

Do you see anything new that would change your mind about the need for a comprehensive round? In your opinion, what would happen if we tried to say to our trading partners, here are some things we cannot talk about?

Mr. YEUTTER. No, I have not changed my views, Senator Grassley, since that time. I disagree, to some extent, with my distinguished colleague to the right, Ambassador Wolff, on whether or not antidumping ought to be excluded from the negotiations.

When we went into deliberations over the Uruguay Round agenda in Punta del Este in 1986, we went in with the viewpoint that you have just expressed. That is, we, the United States, were basically willing to talk about anything.

In my view, that served us well, both in the ensuing negotiations on the Uruguay Round agenda and in terms of putting some of our trading partners, like the European Community on agriculture, very much on the defensive (because they have wanted to take issues off the table).

When we indicated that we were willing to discuss anything and everything, that put others in a position where they had to rethink their strategy and their tactics.

I would personally like to see us go into the next round of negotiations, once again, with a broad agenda. I felt it was a mistake for the United States to go into the Seattle meeting arguing for a narrow agenda. I believe that was contrary to our long-term best interests. I believe we ought to be willing to talk about anti-dumping, or anything else.

I do not disagree with Ambassador Wolff's comment that other people are going to try to get us to weaken our laws, but it seems to me that we ought to be willing to have a full-scale debate on those subjects.

I would just say, as a wrap-up to this, because labor and environment issues, Mr. Chairman, are such a difficult challenge for all of you in this context, I do not see those as impossible issues to deal with in the context of trade promotion authority. I believe that, with a little creativity, you, Senator Grassley, and your colleagues can get over those hurdles.

But what I hope you will say to your colleagues in the Senate, and also to those in the House, is that you have to be realistic

about what you can expect to United States negotiators accomplish on these difficult subjects at this time.

We cannot impose our will on 140-some nations in the WTO. We have to persuade them of what it is we want them to do in the workers' rights area, and in the environmental area. We did not impose intellectual property rights on them, even though we obviously argued vigorously for what we sought in that very contentious area, too.

Ultimately, we persuaded other nations to agree to the language that came out of the Uruguay Round on intellectual property, and we are again going to have to persuade them on whatever it is that emerges from the next WTO round on worker rights and on environmental issues.

If what we demand of other countries through TPA legislation is a non-starter, then we simply turn off the process and we go nowhere, as Senator Grassley indicated earlier.

Mr. Sweeney, for example, said something to the effect this morning that nations ought to agree to the implementation of core labor rights before they can sign on to trade agreements.

Well, I think they ought to agree to implement core worker rights, too. But if you say they are going to have to sign up for this before we get a new trade round under way, it seems to me that we have shot down the possibility of a new trade round.

Maybe I misinterpreted precisely what he had to say. I hope so, because I do not believe we can put that kind of a contingency on a new trade round, or on TPA.

Senator GRASSLEY. That sort of a position on the part of the labor unions of America would be completely contrary to the leadership that they showed on globalization through the 1940's, 1950's, 1960's, 1970's, and 1980's.

Mr. YEUTTER. That it would, Senator Grassley.

Senator GRASSLEY. Thank you all.

Mr. WOLFF. Can I just clarify one point in response, Senator? I would not have this committee and the Congress exclude any issue from negotiation. I think, constitutionally, you cannot do it. I do think it would be a very major error to reopen some of the rules. I think that would be very costly, and I think United States negotiators should resist it.

Senator GRASSLEY. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Just a couple of questions. I think most countries have already signed up to the ILO. It is just not enforced. But, in principle, most countries already have. I think the United States has, and most countries have, if I am not mistaken.

Mr. SCHER. Virtually every country has, Senator.

Mr. YEUTTER. But enforcement is the issue. That becomes a question of, do we find a way to put some teeth in the ILO, which would be my preference, or do we somehow shift enforcement responsibility to the WTO? That brings up the whole question of how one handles the issue of sanctions in that context.

I agree, by the way, with what Ambassador Hormats said about the administration's support for these international standards-making organizations. That may have some relevance here.

It is awfully hard for the administration to cut back its financial support for the ILO, but at the same time argue that the ILO should be the mechanism for handling this issue.

The CHAIRMAN. It is my impression on trade remedies that, all things being equal—and of course they are not—the United States trade remedy laws are the major enforcer, frankly, in the world. I do not think they are abused. Maybe they are abused, in part, but probably not for the most part.

I can understand some other countries want to refine, at least, some of our provisions, whether it is countervailing, antidumping, or whatnot. But when you say it is all right do discuss them, does that mean that we should weaken our trade remedy laws? Clayton, what do you think?

Mr. YEUTTER. No. But I do think we have to find superior mechanisms for ensuring enforcement within the context of the WTO, or elsewhere, for that matter, in all our international agreements. Sanctions just have not worked out well, as you know. In fact, agriculture ends up being one of the real losers in a lot of the sanctions that we apply.

So if what we say is that for nations that fail to implement in the intellectual property area, or the worker rights area, or environmental area, or any other area, and our principal weapon of choice for dealing with that failure is to be economic sanctions, then I have to say that probably hurts us more than it hurts them. We need to find a better way.

The CHAIRMAN. Well, maybe part of the solution is to just to, frankly, reform some of our trade remedy laws. I mean, a lot of companies still complain that it takes so doggone long to get anything through, a year, a year and a half, by the time you go through all of the hoops.

It just seems to me that, in this modern era of modern technology, with data processing, and computers, and so forth, we ought to be able to determine what the margin in, what injury is, much more quickly than we do now, which would give a lot more comfort to a lot of our companies who are being discriminated against or being taken advantage of by other countries.

Mr. YEUTTER. I agree, Mr. Chairman. I believe we have a grossly inefficient process today in the implementation of some of these laws. I also believe that, even though we have improved dispute settlement in WTO a great deal, we need further improvements as well as a look at creative ways to deal with some of these issues.

We really have not done much with mediation and arbitration, for example, in the WTO context. Those dispute settlement mechanisms merit greater attention because the whole process is too slow. It is too slow in the WTO, it is too slow here in the United States.

Mr. HORMATS. Can I add?

The CHAIRMAN. Yes. Sure.

Mr. HORMATS. I think that is a very useful and interesting point. That did come out of the meeting in Grotenberg that the President had with the Europeans—to try to use ways of expediting the dispute settlement process in the WTO. A lot of issues get bottled up and takes a long time to be resolved. Things do not work, frustrations build.

If they are non-legal remedies or non-disputatious remedies, that can be utilized, as I think they are going to try to do, that would be very helpful in the process and would improve the credibility of the dispute settlement process, I think, quite substantially if they can make it happen.

The CHAIRMAN. Right.

Mr. WOLFF. If I could add a point. I agree substantially with what Clayton Yeutter said with respect to the excessive use of sanctions.

I think it is very regrettable that we got into this litigative warfare with the EU the way we did on a series of issues, which was not entirely productive. Now the FSC (Foreign Sales Corporation), and a number of other United States measures that are being challenged that are just spite cases.

I would draw a line between sanctions, the spread of sanctions, and the trade remedy laws, which are offsets to trade-distorting practices that are understood as such under the WTO rules.

I would not call those—and I do not know that Clayton Yeutter was doing so—those sanctions. Making those remedies faster and more effective would be a very important part of an implementing bill.

That is one reason why I think that, when you draft your TPA or fast track legislation, it ought to make clear that what is “necessary and appropriate” for inclusion in an implementing could include related areas like strengthening the trade laws.

This was a major element in getting the 1979 package through. I think it was an element in getting the Uruguay Round Agreements implementation act through.

With respect to dispute settlement in Geneva, the system has a lot of rot in it. It needs to be fixed. The windows have to be opened, the doors have to be opened to let the sun shine in, and to fix a lot of what is going on there.

Again, I would suggest that the judicial review commission idea that Mr. Moynihan and Mr. Dole put forward, and President Clinton agreed to at the time of the Uruguay Round Agreements Act, should be put in this new bill, to have an independent review, not to overturn those decisions, but to give an understanding to the Congress, to the people, to the President, the executive branch, as to whether dispute settlement is effectively and correctly being administered.

The CHAIRMAN. Members of Congress, as you know, were a little frustrated under fast track that the administration goes ahead and negotiates the agreement, there is some kind of consultation, but most members of Congress think it is not real.

As a consequence, there is the thought that any trade agreement that is brought under the auspices of TPA would have to have a 60-vote majority to pass rather than 51, in order to encourage the administration to deal more closely with members of Congress, the argument is, to get a better consensus on trade. What does everybody think of that?

Mr. YEUTTER. I would not endorse that suggestion, Mr. Chairman, because these are such contentious areas, and seemingly becoming more contentious in a globalized world. It seems to me that

puts a high burden of persuasion on the executive branch bringing back these agreements.

The CHAIRMAN. Maybe it should have that burden to get consensus.

Mr. YEUTTER. I would say, however, that I would hope that we could achieve 60 percent or more support in the Congress on any of these major agreements. In the past—we would have to go back and calculate—I would imagine that most of our trade agreements have met that standard. So, I would rather not have it. But, at the same time, I would much prefer that that be achieved in every major agreement that emerges.

It seems to me that the way of assuring that that happens is to make sure that the participation of the Congress in the process is meaningful. We worked awfully hard at that when we negotiated the Uruguay Round, as you well remember. I believe we honored the spirit of that participatory, cooperative environment in those years.

I do know that has not always been the case in relationships between the executive and legislative branch, and that clearly is troublesome from your standpoint here in the Congress. You do need to be very much involved in this process from beginning to end.

Ambassador Wolff earlier was suggesting that you be a part of the negotiating delegation in many of these areas, and I think that is most appropriate. You do not have the time to get into the midst of the negotiations, but there is nothing that ought to preclude you from being in the room in those negotiations if, and when, you want to be there. I certainly had members of Congress there on numerous occasions.

The CHAIRMAN. All right. Peter?

Mr. SCHER. Mr. Chairman, let me say, I think, clearly, Congress needs to be involved. I would say, having been involved in a number of negotiations, I think particularly about the China WTO negotiations.

As negotiators, we knew that whatever we were bringing back needed the approval of Congress, so we were very aware of the particular issues of concern to many members of Congress. I mean, we knew, for example, that coming back without some resolution of TCK wheat would not bode well for the future of that agreement.

I do think that some look at some better institutional processes for Congressional involvement in trade negotiations is warranted. One of the difficulties I have felt as a negotiator was the number of committees on both sides of the Congress we had to report back to on a continuing basis, and it became very difficult. I mean, it was very time-consuming. We were back up here literally every week, every other week. I know you have talked about some sort of trade office in Congress. Maybe there is some way to sort of institutionalize that to, frankly, make it more focused.

The other difficulty, as you know, is Congress does not always speak with one voice. Trying to define the issues that Congress is truly concerned about and making sure that we resolve them in a way that is going to be favorable from Congress' perspective, I think, would be very useful.

Mr. Chairman, I would just go back to one thing on the dispute settlement that was raised in the earlier round. I think there are

clearly problems in the dispute settlement system. I agree with what Mr. Hormats said, that we should be looking at mediation and arbitration, or other ways to try to resolve disputes.

I will say that, if you compare the system now, the old GATT system, in my view, it is far superior. It was a completely ineffective system in which obligations were not taken very seriously.

So, I would hope we would not throw the baby out with the bath water and figure out, where can we fix the system in terms of time delays, in terms of interim procedures to try to resolve disputes. Frankly, I think one of the things that should be looked at is a more careful examination of which disputes the United States brings.

If you look at the number of disputes that we are bringing now compared to what it was a few years ago, it is enormous. Trying to have some sort of standards to decide whether or not we bring a banana dispute, or certain other disputes, I think, would be very useful.

Mr. HORMATS. That is a very important point, I think, prioritizing disputes. Where it is going to become even more interesting and complicated, is when China becomes a member of the WTO, with the very complicated process of implementing the WTO agreements internally in China. With changes in law, and regulation, and practice, there are going to be lots of complicated issues.

If we start using the formal, legalistic dispute settlement process for every one of those, it is going to bog the whole thing down. Therefore, I think prioritizing and figuring out which ways to deal with which issues, I think, is a very, very thoughtful suggestion.

Mr. SCHER. And Congress, this committee and others in Congress, can play a very constructive role in helping to deal with the variety of pressures that the USTR and the administration will be under to bring multitudes of cases.

Mr. WOLFF. In answer to your question about whether to require 60 votes to approve a trade agreement, I would put my emphasis on the front end of the process, which is where we are today, in crafting the mandate and getting a consensus, and in having committee votes, checkpoints throughout the process. There was provision for a committee vote in the Canadian Free Trade Agreement process, for example, so that there is an assurance that the administration knows it has your support to begin with.

Once you get to the floor, it is too late. It means an all-out effort to gather votes, on an up or down vote. I think that the emphasis should be on getting the deal right to begin with, and building the consensus to begin with.

The same is true with respect to China and dispute settlement. We are not going to be able to obtain WTO compliance by bringing dozens, hundreds, or any great number of cases. We have got to put the resources into helping the Chinese with legal reform, to the extent that they want that help, through multilateral institutions, bilaterally.

We do not have a bilateral program at all—the Germans do, the Japanese do—with respect to legal reform in China. Only a small number I understand, of the judges in China have formal legal training. There is going to be a problem in enforcing some of these rights.

Even in more developed countries such as Taiwan, it is hard to get any judge trained in intellectual property protection. They hardly exist. So, there is a lot to be done at the front end before try to load dispute settlement with a lot of problems that should have been cured up front.

Mr. HORMATS. One thought on China. I think that is right, helping the Chinese to implement this very complex series of changes they are going to have to make. It is my impression that there was earlier legislation which actually prohibited the United States from providing certain kinds of technical assistance to China.

The CHAIRMAN. That is correct. Right. That is correct.

Mr. HORMATS. Which I think ought to be changed very, very quickly. We want them to be able to do this, and technical assistance is one way of helping them. I think the business community will be universally in favor of doing that. There is sort of an antiquated law restricting that, that I think ought to be changed.

The CHAIRMAN. I guess that is another level of arguing our policy toward China, generally, as to Taiwan, Korea, and all of that, which I think is very important in the signals that it does send, either positive or negative.

Thank you very much. This has been very helpful. Thank you. The hearing is adjourned.

[Whereupon, at 12:32 p.m., the hearing was recessed, to reconvene at 9:30 a.m., on Thursday, June 21, 2001.]

FAST TRACK TRADE NEGOTIATING AUTHORITY

THURSDAY, JUNE 21, 2001

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to recess, at 9:33 a.m., in room 215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Rockefeller, Breaux, Conrad, Graham, Torricelli, Lincoln, Grassley, Hatch, Murkowski, Nickles, Gramm, Lott, and Snowe.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The hearing will come to order.

Since there is a vote that has just begun, we are going to adapt to the situation. I am going to give my statement, and Senator Grassley, who is on his way over to vote, will return by the time I get over there. So, we hope to have a seamless hearing here.

Secretary Evans, Ambassador Zoellick, I thank you very much for joining us today.

Yesterday, I spoke about the changing range of issues for trade negotiations. As the range of issues evolves to cover increasingly complex and sensitive issues, that is, intellectual property, labor rights, and health and safety standards, the political consensus on trade becomes increasingly difficult to hold together.

Establishing a consensus on cutting tariffs or eliminating quotas was relatively easy. Internationally, there is at least a grudging consensus that these steps are desirable, but at home presidents and Congress have generally seen eye-to-eye on these issues.

But it is substantially harder to define and enforce standards for protection of drug patents or computer software. Internationally, these intellectual property standards have been enormously controversial.

Even domestically, as we have seen in the recent debate over the availability of AIDS drugs and importation of pharmaceuticals from Canada, there are still points of substantial controversy, yet we have managed to establish a consensus and forge trade agreements on this difficult topic.

On labor and environment issues, consensus is also difficult to achieve. But just because a problem is hard does not mean it can be ignored. Just because we will likely struggle for some time with

the appropriate role for labor rights and environmental issues does not mean that they can be left off the trade agenda.

I suspect we all know that Congress simply will not approve fast track or TPA until labor rights and environmental standards are meaningfully addressed. In that spirit, I plan, today, to put forward some specific ideas for addressing those problems.

On environmental issues, several approaches are promising. In new agreements, following on the model of the United States-Jordan Agreement and NAFTA, we must discourage companies from lowering environmental standards to distort trade or investment.

In the WTO, we must ensure that the world trading system not become a barrier to enforcing vital multilateral environmental agreements.

We must also strive to construct a dispute settlement system in current and future agreements that does not inhibit legitimate environmental measures, while allowing action against true protectionism.

On the labor front, the five core principles of the ILO are already generally accepted around the world. These principles, along with assurance that labor standards will not be weakened to distort trade, can guide us in future trade negotiations.

In its tool box, the administration suggested a number of steps that can be taken outside of trade agreements on these issues. That is a fine start. However, labor and environment must also be at the core of trade negotiations if we are truly going to level the playing field.

Many have questioned the administration's credibility here. A true commitment to improve international labor standards cannot begin with a decision to cut in half U.S. spending on the ILO and international labor activities.

In order to establish credibility needed to pass fast track, I urge the President to immediately restore this funding and begin taking substantive steps to address labor and environmental issues in other forums.

Indeed, the simple reality is that international trade negotiations are only possible if there is political support. Opinion polls indicate that the public harbors deep reservations about trade.

In addition to indicating broad support for addressing labor and environmental issues, these poll underline that the public will only support free trade if they also perceive it as fair trade.

Thus, U.S. trade remedy laws are critical to retaining public support for trade. Recent international agreements have already unduly restricted these laws. Any further restrictions threaten to compromise the very core of these statutes.

There are also strong public policy reasons for these laws. But let me make this point clear: there is no political support for weakening U.S. trade laws. Any agreement that compromises these laws will not pass the Congress. This is a point that our trading partners and our trade negotiators would do well to bear in mind.

In addition to the substance of negotiating authority, we must take a hard look at the process. As my good friend, former Senator Jack Danforth noted many times, the constitution assigns Congress—not the President, but the Congress—primary authority over international trade matters.

Through fast track, TPA, and other devices, the Congress has ceded a breathtaking amount of its authority to the President. It is time to rebalance this relationship.

First, in the Senate, I believe fast track agreements should be subject to normal debate time limits. On highly controversial agreements, this would require cloture to be invoked to pass the agreement.

This would give Congress more control over the direction of negotiations without unduly raising the bar. I note that all recent agreements have passed the Senate with more than 60 votes.

Second, the President should not be able to decide unilaterally if an agreement meets negotiating objectives and is thus qualified for fast track consideration. Perhaps an especially constituted joint committee of Congress should be required to concur with this judgment for a proposed agreement to earn fast track consideration.

Finally, I am working with Senator Byrd on a proposal for a Congressional trade office, which was also endorsed by the Trade Deficit Review Commission. I believe that it is necessary to give the Congress the information it needs to function as a true partner in trade agreement negotiations.

Let me conclude with a challenge. I know this administration wants to move quickly on TPA, but moving quickly means finding consensus. Refusing to address key issues sets the stage for deadlock.

I will continue to do my part. I hope to move swiftly to pass the Vietnam and Jordan agreements. Both agreements were on the administration's trade agenda and, in the spirit of moving forward in a bipartisan fashion, I want to call upon Secretary Evans and Ambassador Zoellick today to endorse the swift passage of these agreements without amendments.

I also urge the administration to come forward with ideas. It is not enough to sit back and hope that Congress works this out. I offered a number of constructive proposals that I believe will help us meet in the middle. Today, I hope the administration will do the same.

No one is here to make their statements. The committee will stand in recess. We have a vote. Let me find out how much time is left.

Why does everyone on the panel not come forward? Then we can start.

We are very honored to have you here, Congressman Crane. I know that you have introduced a fast track bill in the House and have a speedy time table in mind. I am very honored that you took the time to come over here. Why do you not begin?

**STATEMENT OF HON. PHILIP CRANE, A U.S. REPRESENTATIVE
FROM ILLINOIS**

Representative CRANE. Very good. Thank you very much, Mr. Chairman.

It is a pleasure to be here to discuss what I believe is urgent legislation to empower the President with authority to negotiate trade agreements in the economic and national security interests of the American people.

My message is one that most of us in this room should appreciate: the United States is losing out. As each month passes, our economic potential is compromised further.

After decades where Americans set the pace, other countries are writing the new rules for international trade as our President stands by essentially crippled in his ability to participate.

The sheer number of free trade agreements in force around the world, 134 of them, is as startling as it is disturbing. The United States is party to just two of those free trade agreements, covering about 11 percent of world trade.

Europe, for its part, participates in free trade agreements with 27 countries and is now moving into our hemisphere, most recently concluding an agreement with Mexico, and seeking expanded trade ties with Mercosur nations right in our backyard.

The activity of our two closest trading partners, Canada and Mexico, is instructive. Since implementation of the historic NAFTA agreement in 1994, Canada has gone on to negotiate FTAs with Chile and Costa Rica. Currently, Canada is conducting talks with Japan, Singapore, and the four countries in Central America.

Likewise, Mexico has concluded trade agreements with 31 countries and is now in talks with Japan, Korea, and others. It is obvious to anyone paying attention that our exporters are being squeezed by their international competitors.

Our competitors are enjoying the benefit of their government's aggressive pursuit of FTAs. As trade barriers continue to fall for our competitors, America's exporters and workers face higher tariff differentials and more and more discriminatory rules, unfamiliar product standards, and unnecessary threats to their investments.

I hope that your series of hearings spells clearly the direct connection that exists between increasing international trade and creating jobs and economic activity at home.

Fully one-third of the economic growth that has occurred in the United States since 1994 is directly attributable to expanding imports and exports. It is essential that this key engine of economic growth keep in running.

Because future trade agreements will offer vital opportunities to expand and ensure the success of U.S. businesses and workers in the marketplace of the 21st century, we must do all we can to remedy the current situation and reach prompt agreement on the specifics of trade promotion authority, namely TPA, legislation.

Last week, the House Republican leadership and 57 co-sponsors joined me in introducing H.R. 2149, the Trade Promotion Authority Act of 2001, which is attracting five or six more co-sponsors daily, and we are now up to 80.

Our effort is broadly supported among House Republicans who are largely united in their view that TPA is an exception to normal legislative procedures that must be well-defined and not open-ended in what the President is permitted to negotiate.

Only those matters that are directly related to trade should be included in an implementing bill qualifying for TPA procedures. My legislation give the administration the authority and flexibility to negotiate and bring back to Congress the best deal possible, addressing goods, services, agriculture, intellectual property, investment, and e-commerce.

It allows use of TPA for issues not included in the negotiating objectives of the bill, as long as the negotiating priority: (1) is directly related to trade; (2) is consistent with U.S. sovereignty; (3) is trade-expanding and not protectionist; and (4) does not affect the country's ability to make changes to its laws that are consistent with sound macro economic development.

This legislation leaves the President free to use his executive authorities to negotiate issues that do not meet these tests. However, the President should use his regular legislative procedures to implement any needed changes in U.S. labor and environmental laws.

Much of the trade debate is focused on whether trade agreements should be used to force countries to change social policies. While improving standards on labor and environment is a high priority, I believe using trade as the hammer to force these changes is counterproductive because it injects so much uncertainty into the trade and investment climate. Instead, we should focus on the fact that trade itself improves labor and environmental conditions.

As a country's standard of living improves, the income level of the workers within those countries increases, giving people the resources to care for the environment and the ability to improve their working conditions. Increasing trade with the rest of the world in countries like ours is the best way for a country to improve its standard of living.

Finally, my bill would ensure that the TPA procedure provide extensive opportunities for meaningful consultations with Congress before, during, and after the negotiations.

Indeed, I want to remind colleagues that a vote for trade promotion authority is a vote on the procedural rules for considering implementing agreements. A member is still free to vote against an agreement in the future if he or she does not support the agreement.

Because expanding exports is key to creating new high-paying jobs, our future will not be secure if the President does not have the tools he needs to open foreign markets and to shape trade agreements in our favor.

Put simply, H.R. 2149 is about strengthening our position in the world. Success must not be measured in partisan terms. I stand ready to discuss with any of you any specific suggestions you have on my bill. We now have legislative language before us, so we should make this discussion quite focused. I look forward to working with you.

Thank you.

Senator GRASSLEY. Thank you, Congressman Crane.

[The prepared statement of Congressman Crane appears in the appendix.]

Senator GRASSLEY. Congressman Kolbe.

**STATEMENT OF HON. JIM KOLBE, A U.S. REPRESENTATIVE
FROM ARIZONA**

Representative KOLBE. Thank you very much, Senator Grassley. Thank you for the opportunity to testify here today.

I have asked for this opportunity because I think trade promotion authority is critical to the future of the United States, not incidentally to the entire free world.

I have testified before this committee in the past, and even though the jurisdiction of the Finance Committee is very broad, my testimony has always been on trade policy.

I have been a proponent of more open trade policies for years. It is important to my district, it is critical to my State. In fact, the Department of Commerce released data just this week that suggested that Arizona has been the fastest growing State in the Union for the last decade, with an annual growth rate of 7.3 percent.

Trade in general, NAFTA specifically, has been an enormous contributor to that record pace of economic growth for my State.

But I come here today for reasons far beyond the Fifth District of Arizona, and beyond the State of Arizona. I come here today in my current role as chairman of the Subcommittee on Foreign Operations of the House Appropriations Committee.

As chair of that subcommittee, I am charged with providing leadership in the conduct of U.S. foreign policy. I will do that to the best of my abilities on behalf of the entire House of Representatives, and I say the entire House. Not just the Republican side, not the Democratic side, but both sides.

Over the last decade, it has grown increasingly difficult for Congress to operate in a bipartisan mode. Indeed, on trade policy, since NAFTA, that way of legislating has been largely lost, except on a very select trade issues. Somewhere we have lost the bipartisan trade consensus.

Where did it go? How did we let it slip away? Well, somehow we did it because we allowed ourselves to be seduced, I think, by more narrow partisan economic- or issue-driven interests.

So I come before you this morning to plead that we commit ourselves to regain that bipartisan approach to trade. Trade promotion authority is not only in our national self-economic interest. Certainly, we benefit tremendously from it.

But trade promotion authority for this President, or any President—and I favored it for the previous President—is in our broad foreign policy interests to do so. We should not ignore the invisible benefits that trade promotion authority can bring us that may be harder to quantify but are equally, if not more, valuable. It will be a key tool in this country's toolbox for encouraging successful economic growth abroad.

For this reason, we so ardently pursue a strong global economy as a plank of our foreign policy. The reason we do so is because successful economic growth abroad helps us achieve our humanitarian and national security foreign policy objectives as well.

Trade promotion authority will help us shape a world where democratic states can grow stronger, a world where nations in transition can stabilize, a world where developing countries can realize their potential through a promise of meaningful participation in the global economy.

Without it, our ability to sustain a global economy and its rules-based trading system will be diminished. This will lead to greater U.S. national security risks and probably create new, unforeseen foreign policy challenges that will take us decades to overcome.

What do I mean by this? Since assuming my new position, I have learned the nexus between political, social, and economic variables

that have to combine in the right context for successful nation state development.

I am not here this morning to deliver a treatise on democracy, but I think it is of more than academic interest that a comprehensive study of nation state failure, performed by the recent State Failure Task Force led by the CIA, underscores the relationship between economic disruptions and state failure.

The task force identified 113 cases of state failure in the last 50 years, and they identified three variables that were the most significant: infant mortality, openness of the economy, and whether or not the state was a democracy.

Let me draw your attention to the second one of those, openness of the economy. It is this variable that confirms why it is so important to provide the President with trade promotion authority. It is a tool that enables the United States to encourage countries to participate in the global economy, creating linkages that reduce the chance of state failure.

Mr. Chairman, we must reach a consensus to provide the President with TPA. We must find the political resolve to support it, and be willing to make the compromises we need to get that bipartisan consensus. U.S. foreign policy objectives cannot be achieved alone through U.S. foreign aid. Trade, not foreign aid, is much more critical.

Knowing how critical trade promotion authority is to all of us and to U.S. foreign policy, it begs the question, how do we get it back? How do we move beyond the prolonged stall in trade liberalization through which we have suffered these last seven or 8 years?

If I had a simple answer, I would have opened my testimony and saved us all the trouble of continuing to meet on this subject. But instead of articulating an arcane, trite answer, let me suggest something more basic, a set of three principles to guide how we engage one another to find a solution.

Let me also, for just a moment, digress to share a story with you. Senator Mitchell came over and briefed our subcommittee on the Middle East proposals that he and Senator Rudman have been chairing. It was a very productive briefing.

But at one point Senator Mitchell shared his experiences on helping the parties in the Northern Ireland peace process. He related to us that shortly after his arrival in Belfast, he figured out a solution, in a matter of days. It was a very interesting statement.

For decades, the conflict had raged without a solution, but he figured it out in a matter of days. Of course, his admission in calculating the solution so quickly was followed by a long explanation of what was so challenging about realizing the plan for peace.

Without going into the details, the solution was a well thought out chain of events by all the parties that were involved, and each party played a part in an elaborate sequence of events and involved confidence building among parties.

All of this, I think, suggests that we face the same challenges trying to move our trade policy forward today. The bipartisan coalition that lasted 50 years has lost the capacity for trust. We lost confidence in one another's ability to manage our separate, albeit more narrow, interests in a way that does not lose sight of our National interests.

So let me just suggest three principles that I think we need to follow here in the months ahead as we consider this. First, strong communication. We need to strive to achieve that at the staff level, at the member level, between the House and the Senate, and between both ends of Pennsylvania Avenue.

Second, a commitment to operate in good faith. It sometimes is the case that incentives in the democratic process can work against a balanced national interest-based strategy.

If we are to achieve trade promotion authority, our process must resist the temptation to play this issue as a tactic in a long-term power struggle for political control. We will never achieve success unless we operate in good faith.

The last principle, is leadership anchored in U.S. national interests. As elected officials, all of us have interests, some constituent-based, some personal and philosophical, some partisan, and they pull us in different directions every day. We have to find a way to meld those together to work together.

This is not just a statement for a press release or college textbook. Those more narrow interests of our constituencies and personal agendas require that we do this if we are to achieve success on the national level. As we achieve individual success, we guarantee success for the larger interest of expanded trade opportunities.

Mr. Chairman, these are my thoughts on this issue. It is important that we move forward. As a member of the House, I hope to engage you and your colleagues during the course of the months ahead to try and achieve a compromise that will lead to a favorable outcome for trade promotion authority.

Thank you, Mr. Chairman.

[The prepared statement of Representative Kolbe appears in the appendix.]

Senator GRASSLEY. Let me thank Congressman Crane and Congressman Kolbe for coming over here to discuss with us these important issues, because obviously over your entire tenure in the U.S. House of Representatives you have both been leaders in that area, and we thank you for that leadership. That leadership is going to be very important for us to meet the goals that we have to on this bill this year.

Maybe I should give you folks, if you feel you have to go, permission to go. Otherwise, if you stay, then you will probably put yourself up to some questions.

Senator Hagel?

STATEMENT OF HON. CHARLES HAGEL, A U.S. SENATOR FROM NEBRASKA

Senator HAGEL. Thank you, Senator Grassley.

Over 50 years ago, the United States found itself as the only economic and military superpower on earth, faced with the uncertainties of a new world order much dependent on the United States for stability, peace, trade, and prosperity.

America had to readjust its thinking, recalibrate, and change policies, trade policies, refocus priorities, and lead—yes, lead—and all of that included trade.

There is one common denominator between the world that exists today and the world that confronted Harry Truman: American leadership. Trade is one of the most vital and fundamental elements that establishes America's role and dictates our future in this new globally connected world. It connects us to all peoples of the world in positive and productive ways.

U.S. businesses are getting outgunned in the international marketplace. Other nations are outmaneuvering the United States in world trade through their own bilateral trade agreements or through creative loopholes of the global trading rules that need to be addressed in the new WTO round of negotiations.

This is happening because we have not made trade a top priority and have not provided strong political leadership for this effort.

Also contributing to the erosion of America's trade position has been inconsistent, contradictory regulations, sanctions, and policies of our government that have inhibited, frustrated, limited, and worked against our National interests and competitive position in world markets.

To undo this folly, Congress and the President must lead and not continue to defer the tough decisions on trade. To lead in world trade, the United States must show its trading partners that it supports open markets and is willing to send its trade negotiators forward to engage and break down trade barriers.

In order for the President to lead, it requires his being given the authority to negotiate and finalize trade agreements on behalf of our Nation. This means Trade Promotion Authority (TPA).

TPA allows America's negotiators to negotiate the best possible agreements with our foreign partners. TPA allows the President the ability to protect and expand America's trade interests and our vital interests around the world.

This authority that every American President has had since 1974 has been the so-called Fast Track Authority. However, since 1994, the President has been without this critical authority. This has hurt America's trade interests in our competitive position around the globe.

Congress needs to grant the President TPA this year. Sure, we can start trade negotiations without TPA. But that only continues to waste precious time and resources, and perpetuates the continual loss of American market share and American standards development in potential world markets.

Is that in the best interests of American business and workers? I do not believe so. We need to stay focused on the big picture. The big picture is America's competitive position in the world.

Included in this trade debate are labor and environmental standards. It is important to encourage other countries to improve their labor and environmental standards. Yes, we agree on that. But unilateral trade sanctions or other punitive measures imposed by the United States on countries over labor and environmental standards help no one. They help no one.

Labor and environmental standards should be addressed, of course they should, but not by tying labor and environmental enforcement standards to trade agreements. That is dangerous, shortsighted, unproductive, and self-defeating.

Let us not forget our fundamental responsibilities here, to enhance America's future competitive position in the world, not erode or not diminish it. That should be our focus. That is not mutually exclusive with other responsibilities that come with trade, including labor and environmental responsibilities.

We have a significant challenge before us, but I believe that Congress is up to the challenge. I look forward to working with members of this committee to support the swift passage of a Trade Promotion Authority that supports our negotiators, our businesses, our farmers, and our workers.

I look forward to that Trade Promotion Authority passing this year, but we must be wise enough not to overburden our world trade infrastructure, regimes, where we, in fact, could see the collapse of world trade regimes if we are not careful. If we fail, we will squander future opportunities for our next generations and history will surely judge us harshly.

But this is not America's heritage, nor our destiny. We are better than that. We will do better than that.

Mr. Chairman, I appreciate very much the opportunity to share my views.

The CHAIRMAN. Thank you. Thank you very much, Senator.

[The prepared statement of Senator Hagel appears in the appendix.]

The CHAIRMAN. We are joined also by the Senator from Kansas, Senator Roberts. Why do you not proceed?

**STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM
KANSAS**

Senator ROBERTS. I want to thank you, Mr. Chairman. Thank you also, Mr. Chairman emeritus, for the opportunity to come before you.

It is a privilege to be here with my former colleagues in the House. Both Congressman Kolbe and Congressman Crane have been tireless leaders on behalf of trade and the betterment of jobs and progress, not only in this country but around the world, and I thank them for their efforts.

I associate myself with the remarks by the distinguished Senator from Nebraska, my good friend Senator Hagel.

Mr. Chairman, trade is a necessary and very vital economic component of American agriculture's well-being. I have some items I would like to list. Ninety-six percent of the world's population lives beyond our borders.

Any future recovery and potential growth for the agriculture sector—and we are pretty tough shape in farm country, and have been for the better part of three years—is going to rely, in part, on our ability to trade and access foreign markets, simply put.

World demand is growing for agricultural products, so is the competition between suppliers. Our Nation's failure to secure a part of the global economy has cost our agricultural producers dearly.

Annually, as of today, we export 52 percent of our wheat—that is over half the Kansas wheat crop, half the Montana wheat crop, if in fact you have a wheat crop, and I understand that's pretty tough out there—48 percent of cotton, 41 percent of our rice, 33

percent of our soybeans, 21 percent of our corn that is produced nationally. That is one out of five acres in Senator Grassley's home State.

In Kansas, this translates into one-fourth to one-third of farm income being generated by trade each year. I would guess that that percentage is almost the same for Florida, for North Dakota, for Louisiana. I do not know about West Virginia. Certainly in regards to Montana and Iowa. Maybe not Utah, but certainly in Texas.

My State's reliance on trade certainly extends beyond agriculture. We have aircraft, we have chemicals, we have petroleum, we have metals, and many other products. We have 20,000 people in Wichita that work for the aircraft industry, and probably more than that. I just counted the Boeing employees. So, these folks also rely on exports as an important portion of their sales.

Between agriculture and manufacturing, one in four jobs in my State of Kansas depends on trade. Last year, we generated 66,000 jobs. Now, through the last several decades American agriculture has undergone leaps and bounds in the arenas of production technology. It has been unbelievable.

The explosion of precision agriculture, and the productivity and the resulting yields, have been able to feed this country and a troubled and hungry world and has been a modern miracle, with the development of new varieties that resist disease and drought, and certainly cropping practices that benefit the environment.

It is a paradox of enormous irony that, while we have all this progress and all this innovation, the modern miracle of agriculture, during the same period our share of the world's agriculture market has slipped from 23 percent to 17 percent, and it is headed down. We are losing. We are not being competitive.

We have called the mechanism that would allow our President the ability to realistically negotiate free and fair trade agreements, a variety of names. I just had a meeting yesterday with Secretary Venaman, and we have had meetings with Secretary Zoellick.

Trade promotion authority. I do not like that much because it reflects on promotion. This is far more serious than promotion. Trade negotiating authority. Perhaps that is a little. Let me see. The acronym is TNA. I do not know what that is going to do. The DNA on TNA does not work out very well.

Trade enhancement authority. Enhancement? We need a stronger word. Fast track. I do not like fast track. That sort of indicates that we are trying to go around the Congress in some fashion.

I am going to use the title used by my predecessor in the House of Representatives, Hon. Keith Sebelius, who worked hard for farmers and ranchers for 12 years. I was his administrative assistant.

He said, "Pat, you have got to export the product. You either sell it or smell it." [Laughter.] Now, I do not know what that adds up to with an acronym, but that is about where we are.

So, whatever we call it, I prefer that we grant the President the ability to competitively negotiate the market access for the products that our hardworking farmers and ranchers certainly produce.

There are 133 trade agreements in place around the world, and only 2 involve the United States. The President said that, and probably my preceding colleagues have said that.

If we are going to compete successfully for the export opportunities of the 21st century, we need fair trade and fair access to the growing global markets.

In my statement, I go on and say, without trade promotion authority or the “sell it, don’t smell it” authority, we will continue to fall short.

Now, I read in the Sparks Commodity News—and I do not mean that to be a plug for the outfit, but it is a pretty good outfit if you want to read about agriculture—and it pretty well said this. I am just simply quoting here. I do not want to perjure anybody’s intent or the fine work that the Chairman and Chairman emeritus does, or that this committee does.

But it says it, and I think it says it very well: “Senate Democrats insist on labor and environmental protections, and the Senate’s new Finance Committee chairman, Max Baucus”—who is a dear friend and a colleague and a strong component of trade—“is cool to any legislation that does not have labor and environmental protections.” And I think that’s a pretty accurate statement in regard to some of the feelings and in regard to my colleagues across the aisle.

“Senator Chuck Grassley, ranking member, chairman emeritus on the Finance Committee, said, ‘Republican leaders would seek ways to address the environmental and labor issues so they don’t become protectionism.’” And I certainly agree with that.

“But he admitted if we went entirely the way that the labor leaders in America want to go”—where John Sweeney wanted to go yesterday when he testified before the panel, maybe Charlie Rangel, maybe Sander Levin. I haven’t read their testimony, but I certainly heard it when we went up to see the president at the White House before he went to Canada—“. . . aid that ‘For every Democrat we would pick up, we’d lose a Republican.’ However, Grassley said, ‘The labor and environment provisions will be the key to crafting a bill that can gain the majority’s support and I think it will have to be compromised.’ As usual, Chuck Grassley certainly nailed it.”

I do not know how we do this. People talk about the third way. For over 30 years I have been making speeches in farm country, and that is why I am here in the Congress, to do what I can on behalf of our farmers and ranchers. I have tried very hard to do that.

There is a line in every speech, and I have written it for my predecessors, and I will continue to give it: we need a consistent and aggressive export policy. Remember when Ed Zurinsky really would not go along with the budget situation with President Reagan and we started the Export Enhancement Program? That was a shotgun kind of a program. It sure made our competitors unhappy. We have not used that for a long time.

Burkely Buddell from Iowa, and I went down to the first meeting because it was sort of controlled by the State Department. I made the same speech then. Why are you putting the farmers and ranchers out there subject to all these other considerations in regards to market interference?

My question to everybody is, we exported about \$61 billion three or 4 years ago in farm products. We are down to about \$50 billion today. Subtract the difference, and that is the subsidy the Amer-

ican taxpayers are paying to the farmer. It is not exactly a one-to-one cause, but it certainly is reflective of the problem that we have.

We are not selling our product and we need "sell it, don't smell it" authority. Now, I do not know how long we are going to have to make those speeches. I will tell you, in farm country, the farmer and rancher is damn tired of it and they do not believe us anymore. The guild is off the lily in regards to a consistent and aggressive trade policy.

Now, the President has asked us, in a call to action just yesterday and in repeated meetings, let us get the job done. I will be happy to do it any way I possibly can in some kind of a compromise.

I apologize to the Chairman. There seems to be some kind of a compromise bill here with Mr. Murkowski and Mr. Graham, and I encourage you both to do that. My staff is working with you. But can we not get this job done, Mr. Chairman? It is long, long overdue.

The CHAIRMAN. Thank you very much, Senator. I think the answer to the question is yes, so long as all sides are willing to negotiate, compromise, and work together. Otherwise, we will not.

We can give speeches, and that was a great speech, and it is a very helpful speech, but not act, all of us—that means both Houses, it means the administration—then we are going to be just giving speeches, not acting. It takes hard work and compromise, working together to get this done, as you well know.

[The prepared statement of Senator Roberts appears in the appendix.]

Do any Senators have questions for our illustrious panel? First on my list is the Chairman emeritus.

Senator GRASSLEY. I do not have any questions of this panel. Some time, perhaps during the questioning of the next panel, I would like to give a short opening statement.

The CHAIRMAN. All right.

Senator GRAHAM. I have no questions for the panel. I would like to make an opening statement.

The CHAIRMAN. In the questions, could you make a statement? Because we do have to get to our Secretary of Commerce and the Ambassador, and I do not want to keep them waiting too long.

So, I would ask the Senators to give very, very short statements. You can get your point across in about two minutes, so we can get to the Secretary and to the Ambassador.

I know our panelists are busy, too, and they have got to go. So, let us give our opening statements, but I do ask Senators to keep them down to two minutes. I am going to enforce that, too.

Senator Graham?

OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA

Senator GRAHAM. Mr. Chairman, almost a century ago when the United States was taking an isolationist position with respect to our economic relations with Latin America, we suffered a grievous consequence with which we are still living.

The Europeans moved into our natural trading area in the western hemisphere and established, among other things, a set of tech-

nical standards that ranged from electrical equipment to the newly-emerging automotive vehicles.

The consequence of this is that, for 100 years in the past and for an unknown period in the future, the United States has been handicapped in our ability to trade as effectively as we should within our own hemisphere.

I fear that now, at the beginning of the 21st century, we are about to make the same mistake. We see Europe, again, negotiating aggressively in Latin America. They have already established standards for things like emissions, brake standards, and telecommunications which are not to the benefit of the United States' long-term ability to trade in the western hemisphere.

I make these points to indicate that time is not on our side as we delay making a decision to grant trade promotion authority, by whatever name it may be called. There is a real price to be paid.

There is nothing likely to occur in the next 12, 24, or 36 months which will make reaching a consensus on trade promotion more likely than it is today. In fact, I suggest just the opposite is true.

We all know that reaching a political consensus is a highly-charged issue and, as it relates to trade, it becomes more difficult the closer we get to an election. In this respect there is no better time than the present to move forward with trade promotion legislation.

This is an issue that is well-known to all of us. It is a mature question. We have had an opportunity to consider all of the ramifications. I would quote President Reagan when he asked the question, "If not now, when? If not us, who?"

As Senator Roberts suggested, with a group of new Democrats in the Senate and the House and with several members of the Republican party, we have developed a set of trade principles which I hope might be the basis around which we can reach consensus.

The CHAIRMAN. Thank you, Senator, very much.

Senator Gramm?

OPENING STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM TEXAS

Senator GRAMM. Mr. Chairman, let me, first, say that we reached an extraordinary consensus on trade where we gave the President the ability to negotiate trade agreements that were unamendable, and where we had limited debate because they were fairly narrow.

They were about external taxes, tariffs, and they were limited to areas where we so dominate the world, like copyright and patents, that they were pretty much like the British committing to the principle of freedom of the seas when the seas were owned by the British.

Now there is this call to expand this authority into areas like labor, and the environment, and to other areas. I understand the reason, but I would like to raise two issues that I would like to ask my colleagues, as we go through this, to really give some prayerful deliberation to.

Number one. Do we really want to give this President, or any President, the ability to negotiate in trade agreements provisions that become domestic law in labor, the environment, or other areas

where they cannot be amended, where they cannot be fully debated, and where we have no idea as to what they will be?

So, we need to look at not just our objective of getting our trading partners to try to promote our standards, we need to look at the issue of writing domestic law through these trade agreements in areas that have nothing to do with trade.

Second, we have the problem of international enforcement. Do we really want to write provisions in a trade law that are outside the narrow definition of trade that would allow an international dispute resolution or an international tribunal to find that the Congress, through its legislative and constitutional jurisdiction, in making laws in areas that are not directly related to trade, is violating trade agreements, and therefore, that the American consumer can be penalized, and the American farmer can be penalized with tariffs against our goods, or fines imposed on the American taxpayer?

I think if you can come to grips with that, then we can work out an agreement here.

The CHAIRMAN. Thank you, Senator.
Senator Conrad?

**OPENING STATEMENT OF HON. KENT CONRAD, A U.S.
SENATOR FROM NORTH DAKOTA**

Senator CONRAD. Thank you, Mr. Chairman. Thank you very much for holding this hearing, and this series of hearings, because I think they really are very important, and you are setting the stage.

First of all, I want to say I am committed to freer trade. I believe in it as a principle. But the devil is in the details, and too often we have seen the details of these agreements fly under the flag of free trade, when they did not really represent free trade.

I think there are three things that have to be dealt with. One, is true consultation. In fast track, Senators give up their constitutional role and there is an exchange. The exchange is, we are going to be consulted fully on these trade agreements. Unfortunately, in the past, very often it has not happened. So, the first thing is, consultation has got to be real.

The second, is a matter of currency. If I could just put up a quick chart that shows what happened in NAFTA, where we had negotiated a 10 percent reduction in tariffs, and then the Mexicans promptly devalued by 50 percent.

We wound up in a less favorable position than before we negotiated the agreement, and we moved from a trade surplus with Mexico to a \$25 billion trade deficit with Mexico. If that is success, I do not want much more of it.

The final point, is the question of corrections. We have got to have a means of correcting mistakes that have been made in past trade agreements. We saw that in the Canadian free trade agreement. They have gone from zero percent of our durum market to over 20 percent, not because they are more competitive, not because they are more efficient, but because of deficiencies in the agreement.

This is what happened after the Canadian free trade agreement. They went from zero percent of our market to over 20 percent of

our market because of deficiencies in the agreement. There has got to be a way correcting things that are wrong.

So the three things I would say must be dealt with in fast track are the three C's: consultation, it has got to be real; currency, we have got to look at the currency of the country with whom we are negotiating to assure ourselves they are not going to devalue, completely undermining what we have accomplished at the negotiating table; and third, a means of correcting mistakes.

The CHAIRMAN. Thank you, Senator, very much.
Senator Breaux?

**OPENING STATEMENT OF HON. JOHN BREAU, A U.S.
SENATOR FROM LOUISIANA**

Senator BREAU. Just briefly, Mr. Chairman. I congratulate you for putting together these very important hearings. I think that it is clear that the best way, I think, to improve environment and labor conditions around the world is to have contact and trade with countries around the world.

I think the administration is going to have to recognize that these issues are important to many members, and that they are going to have to be consulted with in order to get a trade agreement that expands trade.

I think both sides are going to have to realize we are not going to be able to do it my way or no way, because no way is going to end up winning. So, there are going to have to be some negotiations between the administration and members in order to get the things they want on trade.

I support the concept of free trade. I think, as I have said, that is the best way to address these issues. But if you are going to get something out of this Senate it is going to have to be also in a negotiated fashion, otherwise it will not get done, and I think we can do that.

The CHAIRMAN. Senator Rockefeller?

**OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A
U.S. SENATOR FROM WEST VIRGINIA**

Senator ROCKEFELLER. Thanks, Mr. Chairman. This committee, I guess, last granted the President fast track in 1994. Since that time, we have negotiated with our trading partners without the benefit of fast track, so the President has not had that authority. The question is, has he needed that authority to do that?

What has been the consequence of not having fast track? I am not declaring a position here, just raising questions I want to ask. Have there been adverse consequences for the United States by not having fast track?

China PNTR was tremendously controversial. I voted for that. It did not have fast track. It had the merits to pass, at least in my judgment. So I raise that question of, why is the fast track so incredibly important, particularly when you need to have people consulted in the Congress?

Then I want to know, what will the administration use fast track, if it gets it, to achieve? I, for one, am very concerned. There has been a lot of talk about steel and Section 201. There has been

a lot of talk about, well, maybe we will do this if you go along with fast track, or what is your position on fast track.

I just want to say that, if we use our unfair trade laws as bait and leverage in trade negotiations, that is a very, very big mistake. Sixty Senators signed a letter saying we do not want that. So, if that approach is taken, everybody can count on my opposition.

These are just things I want addressed during the course of the hearing.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Hatch?

**OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S.
SENATOR FROM UTAH**

Senator HATCH. Thank you, Mr. Chairman.

Let me start by commending the administration, our Trade Representative, our Secretary, for their recent decision to initiate a Section 201 action on steel. I think the President did the right thing, and I say that as a free trader.

If U.S. firms cannot compete in the global marketplace on even terms, then our government has no business to try and protect them or to protect inefficient businesses.

But, on the other hand, the United States cannot, and should not, look the other way if foreign manufacturers attempt to dump their products into our country at prices that do not fairly reflect the true cost of production.

Since 1994, the last time the President of the United States had trade promotion authority—I would like my colleagues from the administration to kind of answer some of these questions, hopefully, in their remarks today—I would like to know how many trade agreements have been signed without the participation of the United States, if you have that information. If you do not, I would like to have you provide it.

What have been the economic consequences for the United States? Have you been told directly or indirectly by trade representatives from other nations that they will not come to the table with the United States if the President lacks this trade promotion authority?

What trade agreements are currently under consideration that the United States would not participate in if the President lacks trade promotion authority?

Several of my constituents have expressed a concern that trade promotion authority removes Congress from their role in negotiating trade agreements. I would like you to respond to that concern, as well.

You have tough jobs. I would like to help you in every way we possibly can. I think it is for the betterment of our country. We do need to get back to assisting our President, both of you and others, in doing this work.

I want to thank you for this time, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Senator Nickles?

**OPENING STATEMENT OF HON. DON NICKLES, A U.S. SENATOR
FROM OKLAHOMA**

Senator NICKLES. Mr. Chairman, thank you very much.

I am delighted that we have Trade Representative Zoellick and Commerce Secretary Evans with us. I am pleased to see that they are pushing trade promotion authority.

I hope the Congress will likewise move aggressively to make this happen. I am thinking, if we do not—I am afraid if we do not—other countries around the world are moving ahead and taking our markets. I think we are missing an opportunity that we in Congress have a chance to help fill that void.

So, Mr. Chairman, I hope that we will move forward and pass a positive trade promotion authority. I would be cautious, though. I think there is some language that some people would like to have added to this that could be very detrimental.

I want to pass a positive, good trade promotion authority to really promote trade, not promote protectionism in one way or another. So, hopefully we will move forward and be able to adopt this language in a bipartisan way through both Houses of Congress this summer.

The CHAIRMAN. Thank you.
Senator Lott?

**OPENING STATEMENT OF HON. TRENT LOTT, A U.S. SENATOR
FROM MISSISSIPPI**

Senator LOTT. Mr. Chairman, I would like to hear these witnesses testify. I want to thank them for being here. I want to thank Ambassador Zoellick or the work that he has already been doing. We had this problem with the European Union on bananas, and beef, and other issues, and he moved in aggressively and they were able to get an agreement on bananas.

And when I was in Europe, the Europeans made it clear that it was the Ambassador's focus on the issue and willingness to spend time that caused it to be resolved in only about a month. So, congratulations, Mr. Secretary. We look forward to hearing from you.

Like Senator Hatch, I, too, support what the administration did on the steel matter. I know that Senator Rockefeller knows that for quite some time I thought something should be done in the steel area.

However, there is no connection between the two with me, but if people that expect us to step right out on steel wind up proposing trade promotion authority, which the President certainly should have, that would cause me a lot of concern.

So, while there is no connection, I do not believe between the two with the administration it would be a factor, in my thinking, if we cannot have fairness on both sides. So, I just drop that hint in the process here. I yield the floor.

The CHAIRMAN. I think you dropped it pretty heavily. [Laughter.] Thank you very much, Senator.

Let us have our two witnesses, Ambassador Zoellick and Secretary Evans. The committee thanks you both very much. I know busy you are. Often, I am sure you wonder why you have to go to the Hill for one more hearing, one more time.

We respect the time that you are taking. Thank you very much for taking the time. We look forward to your views, because your views are very important to the subject.

Mr. Secretary, why do you not proceed?

**STATEMENT OF HON. DONALD EVANS, SECRETARY OF
COMMERCE, WASHINGTON, DC**

Secretary EVANS. Thank you, Mr. Chairman. I am delighted to be here. I have been looking forward to this. It is not an inconvenience to me at all. There is not anything more important to this country and this world today, in my mind, than what we are here to talk about today.

So, I am thrilled to be here and look forward to this discussion this morning, and further discussions through the summer, and however long it takes to pass trade promotion authority. The administration is committed to that, committed to working with you and this committee, and committed to working with Congress to pass trade promotion authority. So, I am delighted to be here.

Chairman emeritus Grassley, nice to be with you. I like the ring of that. It actually sounds pretty good.

Senator GRASSLEY. Sounds too much like retirement, I think. [Laughter.]

Secretary EVANS. It sounds very distinguished to me, which I think is appropriate.

Mr. Chairman, Senator Grassley, and members of this committee, thank you for inviting me here today to testify on trade promotion authority and on the imperative of maintaining America's leadership in the global marketplace.

I would like to make a brief opening statement and submit my written testimony for the record.

The CHAIRMAN. It will be included in the record.

Secretary EVANS. Thank you very much.

Let me begin by emphasizing the economic case for continuing to open markets. America has always been a trading nation. In purely economic terms, it is in our Nation's best interest to pursue free and open markets. We remain the world's preeminent exporter of goods, services, and investment.

We also benefit from the stimulus of foreign competition and the investments that others make in our country. Trade liberalization has been a key factor in the longest period of sustained economic growth in the history of this great country.

It is important to recognize that U.S. exports accounted for nearly one-quarter of the economic growth we experienced during the past decade.

Despite the track record, the critics of open markets argued that further trade liberalization would destroy U.S. manufacturing, diminish the earning power of the American worker, ignite a race to the bottom that would undermine our labor and environmental standards, and yield benefits only for larger, multinational corporations.

Well, what has happened as trade increased around the world in the past 10 years? Let us look at the hard facts. Since 1995, following the implementation of NAFTA and the Uruguay Round,

total U.S. private sector productivity has increased 3 percent a year.

U.S. industrial production was 48 percent higher in 2000 than it was in 1990. More than 20 million new jobs have been created in the United States since the early 1990's. Our goods and services exports have grown even faster than the U.S. economy, increasing more than 7 percent a year since 1992.

We estimate that some 12 million U.S. jobs are now supported by exports. One in every five manufacturing jobs is supported by exports. These jobs are good jobs, paying up to 18 percent higher than the average wage in this country. Furthermore, there has been no race to the bottom. Our labor and environmental laws have been reinforced, not undercut, during this past decade.

Finally, trade has extended its benefits throughout our economy, not just the large, multinational corporations. Most American workers are employed by small- and medium-sized businesses. These businesses, which account for nearly 98 percent in the growth in export population, would be among the major beneficiaries of future negotiations that reduce foreign trade barriers.

America's farmers will also benefit greatly. One in three U.S. farm acres is planted for export, and 25 percent of gross farm income comes from exports. Trade is an engine of economic growth, job creation, national competitiveness, and innovation. This results in a higher standard of living for all.

But trade is not just about economics. As President Bush has said, it is a moral imperative. Free and open trade is a foundation for democracy, social freedom, social responsibility, and political stability. It is about human freedom and a higher quality of life for all.

One key element in making progress toward that goal is rebuilding a consensus in support of opening markets. The vehicle to do that in Congress today is to grant trade promotion authority.

Let me emphasize that, regardless of your perspective on what should go into a trade agreement, it serves no one's interests to prevent the President from taking the U.S. seat at the table and being on the sidelines.

As the President recently observed, free trade agreements are being negotiated all over the world and we are not a party to them. There are more than 130 preferential trade agreements in the world today; the United States is a party to two.

We have to get off the sidelines and back into the game. The President intends to press forward bilaterally and multilaterally to expand trade, and the accompanying economic opportunities that it creates for the American people.

It is often said that we do not need trade promotion authority until an agreement is concluded and Congress has to vote on its implementation. The reality is that negotiations in the WTO on services and agriculture began in 2000, and proposals are on the table. Trading partners now are asking when we will have trade promotion authority. Some nations will use the absence of TPA as an excuse to avoid new talks. We should not give them that excuse.

For some of our Latin American and Caribbean trading partners, TPA is viewed as a litmus test of our commitment to a Free Trade

of the Americas. They do not want to have to negotiate twice, once with the Administration and then once with Congress.

Yet, there are still those who argue that numerous agreements have been negotiated since TPA expired in 1994, so there is no need to act now. The fact is, apart from the Jordan FTA, none have involved reciprocal market opening measures whereby we give and get access to overseas markets.

This administration is well aware of the fundamental role Congress plays in setting our trade policies under the constitution. In fact, what trade promotion authority really provides is a vehicle to ensure that Congress and the President work together, cooperate, and have agreed on negotiating objectives.

Our intent is to work closely with Congress, not only for the passage of trade promotion authority, but to rebuild the political consensus necessary for our negotiators to engage with their counterparts at the bargaining table.

Congress is an indispensable partner in this enterprise, and I am here to assure you that we can work together in a partnership based on mutual trust, respect, and certainty.

Mr. Chairman, securing TPA is essential to successfully implementing the President's trade agenda, a bipartisan plan that will benefit all Americans. It includes, first, eliminating tariffs and other barriers that impede U.S. exports of goods, services, investments, and ideas.

Second, his agenda will bring a special focus to areas like agriculture that have the most profound benefit for American exporters and for global well-being.

Third, it will keep electronic commerce free from trade barriers. Fourth, his agenda will preserve our ability to combat unfair trade practices that limit economic opportunity.

Finally, let me speak to the connection between trade, labor, and the environment. The President and I believe that the most significant impact that trade can make on labor and the environment is through rising standards of living, and greater social responsibility for all citizens around the world.

This will lead to demands for improved labor and environmental standards. Clearly, free trade and the need to promote its advantage through passage of TPA are important to the American people and to all mankind.

Our ability to promote economic growth and freedom through trade will depend on how well we communicate the benefits of trade in every home, on every factory floor, on every farm, and up and down Main Street of this great Nation.

I am looking forward to working with this committee and all members of Congress, to build a type of bipartisan coalition on trade and trade promotion authority, that also brought tax relief to the American people.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

[The prepared statement of Secretary Evans appears in the appendix.]

The CHAIRMAN. The Honorable Robert Zoellick, U.S. Trade Representative.

**STATEMENT OF HON. ROBERT ZOELLICK, U.S. TRADE
REPRESENTATIVE, WASHINGTON, DC**

Ambassador ZOELLICK. Thank you, Mr. Chairman.

I appreciate your thoughtful comments, Mr. Chairman, and those of your colleagues here. I think the point that Secretary Evans and I know well, to start, is that the most important part of our job is to develop a common approach with the Congress.

So, frankly, we thank you for this opportunity to return back to this committee. I have certainly benefitted from my discussions with each of you, and appreciate the guidance and suggestions that you have offered. As it was this morning, sometimes it is just fun to watch the interchange among true professionals.

I am pleased that one of your first steps, Chairman Baucus, was to convene this hearing on U.S. trade promotion authority. It is an encouraging sign of bipartisanship, in accordance with the impressive tradition of this committee, that you are considering sharing the priority that had been assigned to trade by your predecessor, Senator Grassley.

Your interest in U.S. trade promotion authority is especially timely. The administration has been gaining momentum for expanding trade with Europe, with Latin America, East Asia, Africa, and Australia. Yet, we do need the Congress to act so we can keep moving ahead. This is a moment that we have to seize together.

As Pascal Lamy, the European Commissioner for Trade has pointed out with realism: "If trade promotion authority is denied by the Congress, it would be hard for the U.S. administration to establish itself as a credible trading partner."

The failure to seize this moment would hurt American farmers, ranchers, workers, businesses, and their families.

I just returned a few days ago from my second visit to Europe within a month. This time led by the President, our aim has been to reenergize the launch of a new global round of trade negotiations in the WTO.

Frankly, to answer some of your questions, preparations for the new global negotiations had been moving, at best, at a snail's pace. The repercussions of the failure in Seattle had left many dispirited.

Now, working closely with the European Union and others, including some key developing countries, we are now seriously discussing frameworks for negotiations. But we do not have much time left before the trade ministers meet in Doha to try to reverse the damaging economic and political legacy of 2 years ago in Seattle.

Two weeks ago I was in Shanghai at an APEC meeting of trade ministers from across the Pacific. While there, we were able to build on the work of Ambassador Barshefsky and Secretary Daley by negotiating a breakthrough on China's accession to the WTO.

After 15 years of negotiations, we are now well-positioned to work with other WTO members to bring China and Taiwan into the WTO this year. Moreover, an important development from my perspective, the Chinese joined us in sending a clear signal to the nations of the Asia-Pacific that the train for the launch of the new WTO round is moving, and that spurred interest in getting aboard.

Two months ago at the Quebec City Summit of the Americas, President Bush pressed forward with the negotiations for the Free

Trade Area for the Americas to a new and more defined stage. That train is moving, too. It was very helpful that Chairman Baucus and Senator Grassley were with the President in Canada to make a united case for the United States.

Others, including Senator Graham of Florida, have deepened our drive for trade liberalization within our own hemisphere by promoting the renewal of a more robust Andean Trade Preferences Act.

So, stepping back, one can see that we are starting to move the key pieces of the President's trade strategy into position. We are advancing trade liberalization and America's interests globally, regionally, and bilaterally. We are creating a competition in liberalization, with the United States at the center of a network of initiatives.

Yet, the executive branch cannot successfully lead alone. We need a partnership with the Congress to pioneer new markets for America's farm products, goods, and services.

We need a partnership with the Congress to break down barriers to the spread of American entrepreneurship. We need a partnership with the Congress to help us export individual freedom and the rule of law.

As number of you have mentioned, the Congress enjoys the constitutional authority to regulate commerce with foreign nations, and therefore we need a partnership with the Congress to restore America's leadership on trade.

As I have pledged to this committee previously, we will also enforce vigorously and with dispatch U.S. trade laws against unfair practices. We agree with you that this is fundamental to building public support at home for open trade.

The Bush Administration is committed to the effective and creative use of statutory safeguards consistent with WTO rules to assist American producers under extraordinary stress from imports.

Used properly, these safeguards, for example, with our Section 201 investigation on steel, could give U.S. producers a vital breathing space while they restructure and regain competitiveness.

It is a fact of life in this globalized economy that some industries and communities critically dependent on them cannot change at the pace of near-instantaneous capital and information markets.

Our response should be neither to hide these industries behind costly barriers, nor to abandon businesses, workers, and communities. Instead, we need to try to use the safeguards in cases of serious injury as part of a comprehensive commitment to try to restructure and regain competitive strength.

In sum, the elements of the President's trade strategy, global, regional, and bilateral negotiations, enforcement and dispute resolution, action against unfair trade practices, and safeguard and adjustment are mutually supportive. We are backing words with action. Now, after months of consultations with the Congress, Americans need action on the legislative front, too.

I would like to correct a point that I understand may have been made yesterday. In 1986 when the United States and other nations launched the Uruguay Round, the President did, indeed, have trade negotiating authority, the authority we are seeking, that had been granted by Congress in 1979.

Since the Congressional grant of authority to negotiate trade agreements expired in 1994, 7 years ago, America has fallen behind. Today, the European Union has 27 free trade agreements or special custom agreements around the world, 20 of which were negotiated in the 1990's when we have been caught unable to act, and it is doing 15 more right now.

We have got no one to blame but ourselves for this. Consider this forecast: if we are unable to overcome the breakdown in Seattle by launching a new round of global trade negotiations, special trade agreements will proliferate even more quickly, and most often without the United States.

The President needs to have negotiating authority to help us achieve a successful global round and to preserve our trading interests. If not, American families who are the backbone, the muscle, and genius of America are going to pay the price.

Together, the two landmark trade agreements of the 1990's, NAFTA and the Uruguay Round, have boosted the annual income and lowered the cost of purchases for an average family of four in America by between \$1,300 and \$2,000.

So, the stakes are high for the United States. In less than 20 weeks, ministers from around the globe will gather in Doha to endeavor to launch a new multilateral trade liberalization round. U.S. leadership is vital to its success and we need a united front on trade.

Now, I know from many consultations with you and other members of Congress that there is a substantial bipartisan majority that does support the trade negotiations we are advancing.

So now is the time for Congress to act. Prior Congresses granted prior Presidents, five of them, this authority to negotiate trade agreements. So I urge this committee, with its special tradition of cooperation on trade, to grant President Bush the same authority by the end of the year.

I know well that trade promotion authority must be based on a partnership between the executive branch and the Congress, founded on trust, close consultation, and mutual respect.

This partnership needs to be structured carefully so that the executive branch can negotiate effectively and productively, and Congress can establish its objectives, ensure close consultation at various stages of the negotiations, review and advise on the work in progress, and make the ultimate judgment on trade agreements.

Mr. Chairman, the eyes of the world are now on Congress and on this committee. Wherever I go, whatever I do, I am asked the same question: will the Congress join the administration in supporting trade?

So I urge this committee to give me an answer of yes by enacting trade promotion authority we can use to reassert U.S. leadership on trade.

It is within our grasp to build a post-Cold War world on the foundations of freedom, opportunity, democracy, security, free markets, and free trade. Together, we can seize this opportunity and set a course for peace, prosperity, and America's interests, not just for a year or two, but for decades.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Zoellick appears in the appendix.]

The CHAIRMAN. Thank you very much, Ambassador, Mr. Secretary. I particularly appreciate those words about cooperation and of urgency, because I think that both are accurate.

It is also important, I think, for all of us to keep in mind, and you have referred to it, that it is an extraordinary grant of power for the Congress to delegate fast track trade promotion authority to the President to negotiate an agreement that Congress cannot amend. That is an extraordinary grant of authority.

In return for that grant of authority, clearly, there has to be cooperation and understanding and delegation under terms that the Congress thinks is appropriate in this day and these times.

Because the Congress cannot be the negotiator in trade agreements, because only the President, the executive branch—you, Mr. Zoellick, you, Mr. Evans—are really doing the negotiating, we have to be careful that, when we delegate and give instructions, if you will, under the constitution to the President, it is done in a way that the people of our country want us to. After all, we are representing our constituents, the people in the country.

Now, I think it is true that the eyes of the world, and many of the eyes of this country, are looking to see what the Congress is going to do. I do not know if it is an entirely accurate statement to imply that it is only the Congress. Mr. Zoellick, you said the eyes of the world are on the Congress.

The truth of the matter is, the eyes of the world are really on both the Congress and the President. It depends on what statements the President makes in this regard. I might say, it is a bit ambiguous, it is a bit unclear, as to where the President is with respect to this issue.

I say that, because the President's statement, the Declaration of Principles, included language of open trade, "a strong commitment to protecting the environment and improving labor standards."

In the recent statements by the President that all those environmentalists are just a bunch of isolationists, I have forgotten the exact words, but just yesterday, a quote that they are protectionist and isolationist.

He was not referring to all environmentalists, he said some. But, still, he did not mention that some are not isolationist. He did not mention that some are not protectionist. Some are—in fact, most—are trying to do something that is right here. So, it is unclear.

Mr. Zoellick, you made some very good general statements, but they have been pretty general. The White House, the President, has made some statements that undermine, that seem to contradict, the general statements.

So for us to proceed, it is very important for us to hear where the President is and for us to know that the President is, in fact, in a position and wants to negotiate, wants to compromise with the Congress so that the Congress can pass this extraordinary delegation in a way that reflects the views of the American people.

One other signal we get that is a little bit unclear is the Crane bill. I do not know whether the administration supports the Crane bill or does not support the Crane bill. That would be helpful for this committee to know.

In that bill, there is not one word that refers to labor issues and environmental issues, not one word. That is a bill which failed to pass the Congress by 45 votes a few years ago.

It just seems that it is important for this committee to know where the administration is on that bill. I very much hope it does not support the Crane bill. I very much hope that it sends a signal that it wants to deal.

I would like the response of Secretary Evans on that point. Where is the President? His public words are a little bit contrary to your words, contrary to the Statement of Principles, contrary to the statements by Ambassador Zoellick.

It would be very important for this committee to know where the President is. I very much hope the President's position is that he wants to sit down at the table and work out a compromise on these issues.

Secretary EVANS. Thank you, Mr. Chairman. I made reference in my remarks to the importance of cooperation and consultation, working with the Congress on this very important issue.

I understand the process and how it works, and that bills get introduced, then they go to subcommittee for mark-up, then they go to full committee for mark-up, then they go to the full floor. I am assuming that there will be a bill introduced on the Senate side, and it will go through committee.

As I have seen through the years, all through those steps there is consultation, and there is discussion, and there are changes that are made to try and bring together a consensus that everybody is comfortable with, and will lead to ultimate passage of trade promotion authority, in this case.

The President has been very consistent in terms of his desire for trade promotion authority and free and open trade, because he understands the power of it around the world. He understands the power of what free trade can mean for a better environment for the world, for improving labor standards around the world.

So, the President has been very consistent when it comes to the goals that he has with respect to the economy, but then specifically the environment and labor.

Maybe his approach is a little different in how we get there, because he sees the power of what free and open trade can mean to economic growth around the world, which means more jobs, which means a higher standard of living, which means bringing people the social freedoms and human freedoms that will demand improved labor and environmental conditions for a long-lasting period of time as opposed to maybe dictating to people.

So I think the end goals are all the same: we all are for protecting the environment, we are all for improving labor standards around the world.

The CHAIRMAN. I appreciate that. My main point is, because it is urgent, passing TPA, we are going to pass it much more quickly the sooner the President indicates that he wants to deal on these issues and speaks well of legitimate issues, does not disparage them. If he speaks well of them, believe me, this committee is going to operate much more quickly than otherwise might.

Senator Grassley?

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.
SENATOR FROM IOWA**

Senator GRASSLEY. I am going to give my opening statement because I was voting when the time for opening statements of the Chairman and Ranking Member took place. I am glad that we are having this second day of hearings.

The very fact that we are having 2 days of hearings on trade promotion authority make a very important point. That point is that there is a bipartisan continuity of interests regarding United States trade policy. Republicans and Democrats both know that we have to work together so that America can only win when we are negotiating down barriers to trade.

I strongly believe that we can develop bipartisan legislation to renew the President's trade promotion authority, and do it this year. In fact, we must do it this year.

This legislation will be aimed at maintaining America's constructive leadership in the international trading regime. There is simply no question that America's vital leadership role in trade will be just as important in this century as it was in the last century.

If we fail this challenge, if we lose the opportunity to grant the President trade negotiating authority this year, I believe that the process of opening global markets through global negotiations, and this is a process that we have championed for over 50 years, may be set back for years.

I already believe that there is some setting back because the President previous, as well as this one, have not had this authority for, now, the last 6 years.

If this all happens, this setback, the future prosperity of millions of Americans and the future prosperity of many of this Nation's most competitive businesses, as well as farmers, will be put in doubt.

That is why 78 agricultural groups representing diverse agricultural interests, such as corn growers, wheat growers, and tens of thousands of farmers, recently sent a letter that you can see here to President Bush endorsing his effort to renew trade promotion authority.

As you can see, this is a very extensive and comprehensive list of organizations that want the President to have this authority for the demonstrated good that it has done over the last decades that the President has exercised it.

Finally, I want to say a word to both Ambassador Zoellick and to Secretary Evans. I want to publicly acknowledge President Bush's outstanding success in resolving two longstanding disputes that are critically important trade issues.

I also want to publicly commend both of you for carrying out so successfully President Bush's most significant trade initiatives to date. As you know, just a few days ago Ambassador Zoellick and his team resolved, in Shanghai, a major outstanding bilateral trade issue that was holding up China's accession to the World Trade Organization.

The satisfactory resolution of the outstanding agricultural issues relating to China's WTO accession was extremely important to America's farmers, and to me personally as Ranking Member of this committee. Ambassador Zoellick, you and President Bush real-

ly came through for America's farmers and I want them all to know that.

This success came on the heels of your successful resolution of the WTO banana dispute. We should have resolved this dispute a long, long time ago. These lingering trade disputes are bad for everyone. They undermine confidence in the World Trade Organization and complicate our efforts to pursue new, multilateral trade initiatives.

Your ingenuity, persistence, and ability to work cooperatively with Pascal Lamy, EU Trade Commissioner, has paid off. These are very important accomplishments for a new administration that has not even been in office 200 days.

They are also causes for hope. The greatest reason for hope, is that I believe we have a President who is willing to expand the political capital to get these jobs done, including trade promotion authority.

If the United States can successfully resolve complex and politically sensitive trade issues with both China and the European Union in the first half of this year, then surely Republicans and Democrats can come together for the good of our country in the second half of this year.

The first question is for Secretary Evans. Many of us in the Senate believe that the International Labor Organization is the proper forum in which to address labor issues, not the WTO. I believe the International Labor Organization is the proper forum to address these issues and strongly support the mission of the ILO.

This morning, we have heard assertions about the United States' support for the International Labor Organization. The assertion was that the United States has cut in half spending on the ILO and international labor activities.

If you could, Secretary Evans, would you state if that is the case?

Secretary EVANS. First of all, Senator, from what I do know about the ILO, I agree with you that we should be supportive of their mission and their effort. It ought to be the leader in dealing with labor issues around the world. I wish Secretary Chao was here to give me the exact numbers.

But it is my understanding that what has happened, is from the years 2000 to 2001 there was a substantial increase in dollar commitment to the International Labor Organization.

What we proposed to do was take it back down to the same level of commitment that we had in this country in the year 2000. I do not know the exact number.

Ambassador, do you know the numbers?

Ambassador ZOELLICK. As Secretary Evans said, I am very glad you raised this point because it has been used, and I think somewhat unfairly. In fiscal year 1998, the spending was \$12.1 million. In fiscal year 2000, it was \$70 million. In FY 2001, it was \$147.9 million.

Our fiscal year 2002 request is \$71.6 million, so that puts it at the fiscal year 2000 level. I will add that some of that reduction was the end of a special, 2-year effort with AID dealing with some basic education with child labor.

I will also add two other points. One, is I know some members of the business community, including the Chamber of Commerce

and the Committee on International Trade, have emphasized their willingness to work on this issue.

I will just put a little bit of this in perspective. That \$71.6 million that we are giving to the ILO is over twice my budget.

Senator GRASSLEY. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Graham?

Senator GRAHAM. Thank you, Mr. Chairman.

One of the parts of building this relationship between the Congress and the administration is acts which develop a sense of common purpose.

I was pleased, during the administration of President Clinton and now under President Bush, that the Department of Commerce has been asked to play a role in coordinating the activities of the executive branch in terms of implementing various trade agreements, specifically today, the Caribbean Basin Initiative, which was passed in 2000.

Secretary Evans, I wonder if you could review what your department is going to see that that legislation achieves its intended purposes, particularly the purpose of preparing the partnership of U.S. textile and Caribbean assembly to meet the challenge which will occur in 2005, when the multifiber agreement expires.

Secretary EVANS. Senator, I have not been briefed on that, and I apologize for that. But I will get back to you on the specifics that we are involved in to fully implement the agreement. I am sorry, I just have not done that yet.

Senator GRAHAM. Ambassador Zoellick, you talked about the relationship between the Congress and the administration. Looking at the last fast track bill which was the one that expired in 1994, what changes in that legislation would you recommend for a fast track or TPA bill of 2001 in the specific area of Congressional consultation?

Ambassador ZOELICK. Well, in general, Senator, I would be pretty pleased with that bill. I would be pretty pleased with the bill that the Senate passed in 1997. I have had some opportunity to look at the drafts that you and Senator Murkowski have been developing. They also strike me as very constructive.

Frankly, as I have tried to make the point in my written statement, I think the core here is we need the authority to go ahead and negotiate, globally, regionally, and bilaterally.

In terms of the processes, I do accord a high degree of respect, as a number of you have mentioned, about what Congress needs. I am very open to discussion about particular ways in which that can be conducted, whether the procedures, as developed in the past, needed to be executed better or whether we need additional procedures.

My only concern, Senator, is that now and then I see some ideas that are floated that look like they are giving you authority, but with one hand they are giving you authority and with the other hand they are taking it back. As we go through some of those specific points, that, I think I would have a caution on.

But as a number of your colleagues have mentioned, I start out with a fundamental respect for the constitution, and the constitutional authority belongs with the Congress.

So I do believe that, while the constitution also gives the President authority in foreign affairs, that we have to try to be responsive to your needs and interests in terms of the structure that works for you.

Senator GRAHAM. On the issue of labor and the environment, I share the opinion that has been expressed that the International Labor Organization should be the primary international entity to help develop standards for labor.

Within a trade agreement, the possibility exists of incorporating, by reference, those standards that have been established by the ILO, and also determining what are the appropriate means of enforcing those standards.

I understand that in some recent trade agreements between Canada and Chile, they are using a form of fines as a means of enforcement of labor and environmental standards.

I wonder if you could comment, Ambassador Zoellick, on the relationship of trade negotiations and international organizations such as the ILO, and the use of trade agreements as a method of achieving enforcement of those standards.

Ambassador ZOELLICK. I would be pleased to. I think this, in a way, is a follow-up to the point that I think Chairman Baucus made.

I think the starting point for us is to recognize that the best opportunity to improve environment and labor conditions around the world is by improving growth and openness. We always have to keep that in mind. If you look historically or look at countries, that is what has been the key transforming force.

Frankly, the President said during the course of the campaign he was open to other ideas on this, as long as they are not protectionist.

Chairman, I was at his remarks where he made those points. He was quite clear in the use of the word "some," and makes the point there are some out there—you know it, because you fought them—that try to use these to try to stop arrangements.

I think all of us are aware there is strong anxiety abroad on these issues. We have seen it in developing countries. The President often cites the conversation with the president of El Salvador, he has been doing some pretty impressive things, and his worry about whether this will be a new form of restraint.

So, frankly, Senator, what we have tried to urge is a broader base of discussion on approaching these issues. I think the frustrating thing is to see that, as soon as environment and labor came up they got connected with sanctions, so you automatically had disincentives.

Frankly, we are trying to widen that universe a little bit and talk about possibilities of incentives, talk about possibilities of aid. I have had a number of meetings with people from the ILO about how to try to strengthen its role. Frankly, we also try to hope we can build some credibility on results here.

People talk about concerns of the labor movement. Well, we have done some things, frankly, using the preferential trade agreements,

like GSP and others, to make sure that there are protection of core labor rights.

But in talking about American labor, there are members of this committee that were pressing for eight years to do what the President decided to do for America's steelworkers. I hope that counts somewhat in terms of not just talking about processes, but talking about doing things for laboring people in this country or abroad.

In terms of processes, we have initiated a review process for environmental reviews of all of our trade agreements. We have started them to practically draw in ideas from the environmental community about what we negotiate.

There are some win-win possibilities here, for example, on agricultural subsidies in the EU which are not good for the environment. There are some fishing subsidies around the world. So, in a number of our conversations with environmentalists, we have looked at that as a joint possibility.

So I think, Senator, there is a rich range here. The real danger would be if we just let this focus on the negative aspects or how we block trade.

You mentioned the approach of fines. In the case of the Canadian-Chilean agreement, that was a separate agreement, just as we have a side agreement with NAFTA that has fines in some aspects of sanctions.

But having dealt with international affairs for some 20 years now, I will tell you the key message I take on this. If we are really concerned about improving environment and labor standards in these countries, it cannot be seen as imposed by the wealthy countries on them because they will resist it, and you will really plant a seed that will never grow. It is better to build on the openness.

When I was in Chile, I met with labor groups and environmental groups to try to encourage them and see what their interests are. If we can open these societies, get growth, figure out ways to do projects together, that is the long-range way in which we are really going to be successful.

Frankly, that is some of our concern, Chairman, is that there are some who we know honestly have that view, and we are willing work with them. There are some that just want to stop. They have come up with various reasons. You saw them in Seattle. That is a group we have to stand firm against because they do not stand for trade, and growth, and openness.

The CHAIRMAN. Senator Breaux?

Senator BREAUX. I do not want to belabor the point, because I think you made a fairly clear statement about this environment and labor issues being associated with fast track authority.

I mean, is the position of the administration that you can address, to some degree, labor and environment in the fast track authority, or that you cannot deal with it at all?

Ambassador ZOELLICK. Well, Senator, if you go back and look at some of these bills, there were various trade and labor objectives in the 1988 and the 1997 bills. What gets into complications, are some of the points that Senator Graham was mentioning in terms of, if you bring back agreements, in what form and how is it related? When the President sent up his overall trade package on

May 10, he noted a toolbox of things that could be related to trade agreements and outside trade agreements.

So I think there is a wide range that we would be willing to work with the Congress on. But the key point, is not to do anything that actually sets us back in terms of trade and protectionism.

Senator BREAU. I am glad to hear you say that. Again, I want to get something that we can get adopted. That means that both sides are going to have to give a little, because if both sides just take the position that we have to have it this way or no way, we will end up with nothing and I do not think anybody wants to do that.

So I think the concept of the toolbox, whether it is fines, or sanctions, or what have you, somehow being a part of the things that you can utilize—do not have to, but can—would be very important to get some type of an agreement.

Let me ask a couple of parochial things. I think we have hit the big picture on trade very well. Senator Lincoln and I, I think, both raised with you the situation with South Africa, the actions that they took about 7 months ago on chicken parts which they say are being dumped over there.

It is really interesting. They say chicken parts are being sold in South Africa more cheaply than the price of the whole chicken, and therefore that is a dumping activity. That sounds almost comical, but the implications in trade are enormous around the world.

Can you comment on whether we plan to take action against that?

Ambassador ZOELLICK. Well, again, I appreciate the opportunity to have discussed this in the past. You are kind to say it is parochial. Obviously, given the effect on the chicken industry beyond South Africa, I think it is a bigger issue than that. Frankly, we share your concern.

We discussed the possibility of a WTO case with the poultry industry, also with the industry lawyers, Department of Commerce, some at the ITC as well.

This, as you suggest, relates to issues of cost methodology they used. Frankly, I am very sympathetic to the points that you have made.

Here are going to be the difficult parts that we can talk about, I think, at greater length. The ITC will have interests in these cost methodologies related to the United States as well.

In a sense, what you are now seeing here is the circle come-back. It is one of the reasons why we are going to have to be very careful on how we deal with antidumping laws, which I think we all share the importance, because now other countries are starting to use them against us, and the case that you cite is a good one.

You prompted me to just check on this. In 1995–1996, there were 383 antidumping cases around the world. Now, in 1999–2000, there were 638, nearly double. If you look at the countries that are now using these, they are a lot of the developing countries that do not have the procedures, rules, and transparency we have.

So, the fine line that we are going to have to walk here is to make sure we do not do anything that undermines our ability to use these laws, but also make sure that, as others use them, they

do not hurt our exporters. That is an issue that is related somewhat to this case at a technical level.

Senator BREAUX. Is there a time line? I think the industry, correctly, is concerned that if we continue to do nothing or to express concern in some fashion, that other countries will be following suit on this and it could have a real global implication.

Ambassador ZOELLICK. Personally, Senator, I am disposed to try to take an action. I think the thing is, we have to talk with the ITC and the Commerce lawyers about the overall context of our antidumping laws. That is something we may want to talk about a little bit more, too.

Senator BREAUX. All right. Since I have a couple of more minutes, I am going to ask another sort of parochial thing on the molasses problem which you are very familiar with, with sugar and what the Canadians are doing by importing sugar from Brazil and other countries, and putting it in a molasses form and exporting it into this country. I know Senator Conrad feels very strongly about this, and others. You are very familiar with it.

Can you tell me if the administration supports the position of the previous administration and USDA with regard to that being something that is in contravention of our existing trade laws?

Ambassador ZOELLICK. We share your view on the issue. I made the point to the Canadians, as you probably know, there was a changed Customs classification, and obviously we support that classification. That was challenged in court.

My understanding is, there is still a ruling left in the Federal Circuit about whether the changed classification that would accomplish what we want to accomplish will be upheld. It was not upheld at the lower level, my recollection was.

Senator BREAUX. Have you decided whether you all would support what we tried to do legislatively?

Ambassador ZOELLICK. On that, what we need to talk with you about, Senator, is if we go that route and the case goes against us—and that is a key point here—then we will be required to offer compensation. We would have to talk with you about making sure the legislation had that possibility.

Frankly, before I give something up, I would rather see if we could win it in court and see if we can get additional progress with the Canadians. If we cannot, we need to talk about your route, but we need to get the compensation.

Senator BREAUX. All right. I appreciate it. Thank you very much. Thank you, Mr. Secretary, too. I was hitting all my questions at him.

Secretary EVANS. Not a problem. Thank you, Senator. Appreciate it.

The CHAIRMAN. Senator Gramm, you are next. I apologize, I overlooked you last time.

Senator GRAMM. I was going to point it out if you did it again, Mr. Chairman. But I appreciate it. Thank you.

The CHAIRMAN. I knew you were vigilant.

Senator GRAMM. Mr. Chairman, first of all, let me say, with all due respect, I have got to disagree with you on two things.

First of all, if anybody in the world has ever been clear on anything, George Bush has been clear on trade, free trade, and trade promotion. I think the President's position is totally clear.

I also think, if anybody has been flexible, that the administration has been flexible, especially in terms of being willing to consider the extraordinary expansion of normal trade relations procedures to environmental and labor provisions, within limits.

Second, let me also say that your proposal in your opening statement about making so-called fast track agreements subject to normal debate requiring cloture, that is not fast track, that is derail.

Finally, I cannot imagine that this committee would ever give up its trade authority to some newly-created Congressional Trade Office. So, let me say where I think a compromise can be found.

It comes as a surprise to nobody that I do not believe that we ought to have extraneous matters in the bills related to trade. I think they ought to be very narrowly defined.

I understand the political necessity of some of our colleagues to have something related to the environment and something related to labor, even though I support trade because it promotes both of those things.

But I think where we have got to set limits, is that we cannot set up a procedure where a President, in trade negotiations, is writing domestic law. Clearly, no one ever contemplated that.

There has to be some procedure, and perhaps something that could accommodate part of what you are saying is if the trade agreement does write domestic law in non-trade areas, maybe that part of it should not be subject to fast track.

Second, if we are going to write labor and environmental provisions into trade laws, we have got to understand they apply to us as well as to our potential trading partner.

Not only is that an impediment to getting trade agreements, as everyone knows, but then are we going to empower an international dispute resolution mechanism to decide whether Congress, through its constitutional, legislative action, is not abiding by a trade agreement?

Are we going to subject American taxpayers or American consumers to penalties imposed by some international tribunal or dispute resolution mechanism based on their interpretation of what we are doing in terms of our labor, environmental, or any other legislative activity that is not narrowly defined as trade?

I would simply submit that I do not believe America is ready to turn over enforcement of domestic law in non-trade areas to international dispute resolution mechanisms or international tribunals. I do not believe that that will float. I think that that is something that we should be able to find common ground on.

Second, as much confidence as I have in this President, I would have to say, in listening to Ambassador Zoellick talk about the importation of molasses, it made me long for the Clinton Administration. At least they were willing to stand up against raw, rotten protectionism.

Having said that and feeling better about it—[Laughter.]

Senator GRAMM [continuing]. Let me say that I am not willing to give any President the ability to write domestic law in non-trade

areas in a trade agreement that is not debatable and not amendable.

So, we can deal with it in two ways. One, if we want labor and environmental standards in the bills that are domestic law, I think they ought to be treated differently. Maybe your proposal might be the way to do it.

Second, I do not think we want agreements where we are letting some world body make a decision that overrides the U.S. Congress on non-trade areas, and I think there would be a consensus on it.

So, we could either write the agreements so we preserve our sovereignty, so that enforcement is something that the Nation does, not some international dispute resolution, and where we have got some special mechanism, point of order, or like a Byrd rule on a reconciliation, where we have got something so that if domestic law is being written in a non-trade area, it has a different set of rules.

Or, finally, just write into fast track the principles that are for labor and environment that do not write domestic law and that do not have international enforcement, and I think we might agree to that. But I think, if you go much outside those areas, you are going to have a very hard time.

The CHAIRMAN. Thank you, Senator.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

I just want to go back to what I originally said in my opening statement, because I did not feel that I got an answer.

I do not want you to draw any conclusions from these questions, but I do want to get answers to them, and that is about the compelling, absolute need for fast track.

I mean, the WTO round can certainly be launched without it. Jordan is done without it, will pass without it. Chile will pass without it. Bob Graham and I are discussing an Andean thing which is more GSP than fast track, but the bill is written and it will pass without it. Singapore will pass, I think, without it.

Then you have FTAA. I think that is ready to go, and whether it passes or not, it still will not be a matter of fast track.

So, I would like to get—and you referenced it briefly, Mr. Secretary, in one sentence, which I could not quite digest properly to get an answer—the need, the compelling need for fast track when so much is being done without it. I understand the business about our standing in the world. You made reference to two of a hundred and something, et cetera.

Secretary EVANS. Right.

Senator ROCKEFELLER. But make the case again why it seems to be so important.

Secretary EVANS. Senator, I think in large part it is about jobs in America. I think it is about our economy. When I have business people from all over America come and talk to me about their future, their growth, and where their markets are, and the importance of opening up those markets, I listen and it gets my attention.

Look at the technology industry. A third of our growth in the last 5 years has come from technology. When those leaders come and talk to me and say that our future growth is outside the borders of the United States—certainly there is some here in the United

States, but they look to markets outside the United States—to continue the growth that they have experienced over the last 5 to 10 years.

What those leaders need to know, and what these financial markets need to know, and what our economy needs to know, is America is going to lead on this issue. We are going to lead when it comes to free trade.

The whole world needs to know that, and our financial markets both here in America as well as world financial markets need to know that. Markets need to have a certainty as to this imperative that we are going to open up trade around the world and America is going to lead.

The way decisions are made, is markets are forward-looking, they are forward-thinking. If we send a signal to markets that, yes, we are going to lead on opening up trade around the world, then our financial markets are going to open up and our economy will make decisions to get ready for that.

If we continue to send mixed signals, we may lead, we might not lead, we might follow, we are kind of going to be at the table but we will not have real negotiating authority, there is not a lot of certainty in that.

If there is one thing that this economy needs and industries need, it is certainty. It needs the one other thing that I talked about, leadership. I agree with Senator Graham when he said, earlier, time is not on our side.

We see what is going on in the world and markets in other countries are entering into trade agreements. If you look at the surplus we had in just our technology industry 10 years ago and look at it today, it is shrinking. One of the reasons it is shrinking is because we are allowing other countries in other parts of the world to grab our market share.

So, to me it is imperative for America to lead on this issue, and our economy needs the certainty that we are going to lead on this issue so that our industries can get prepared for that and continue to think about that. To me, what that means is more jobs for Americans, and higher-paying jobs.

So to me, at the end of the day what it gets back to is continuing economic growth in this country, continuing to increase the number of jobs in this country, increasing our standard of living in this country, and increasing the quality of life for everybody.

But I do not think I can put enough emphasis on the fact that our markets and our businesses are really watching. Are we going to lead on this issue? To me, the only way we can really show we are going to lead on it is giving the President the authority that he needs to negotiate trade agreements.

Senator ROCKEFELLER. A quick, one-line response, if you would like.

Secretary EVANS. Sure.

Senator ROCKEFELLER. What have we lost over the past 7 years by not having it?

Secretary EVANS. I am going to defer to Ambassador Zoellick, but let me say that in the last number of years there are 130 other preferential trade agreements in the world that we are not a party to.

I will give you one example: selling a tractor to Chile. If we manufacture that tractor here in America, the tariff is \$25,000. If we manufacture the tractor in Brazil with one of our American plants, the tariff is \$15,000.

If Canada manufactures the tractor, the tariff is zero. The reason it is zero, is because Canada has entered into a trade agreement with Chile. So would it have moved quicker? I do not know. That is one example.

I am sure Ambassador Zoellick would like to respond.

Ambassador ZOELLICK. If I could just ask the Chair's indulgence, as a negotiator, to give you a sense of this. First, Senator, I think it is important to distinguish different things the Congress has done in the trade area.

So, for example, the preference agreements, like the Andean trade preference, the GSP, the Caribbean, the African, all very useful, are one way. We grant preferences, we are not negotiating. It is because they are developing countries.

So the Congress, by statute, has said, you can do this if countries meet various standards, but it is not a two-way negotiation.

The China NTR was, again, China agreeing to a whole set of steps to open up, and in return, the action of the United States was to agree that they could come into the WTO and take action on the annual NTR review. So, we did not change our markets in anything.

That is the key part here. Once we start to get into two-way agreements where we give and they give, then you get into the problems you would run into in negotiation if you do not have a united front.

You mentioned Jordan. Jordan is a foreign policy and national security agreement, and we all know it. The amount of trade we have with Jordan is minuscule. There are some good things there in terms of setting patterns for others in the region, but it is not going to fundamentally affect economic interests in this country.

The CHAIRMAN. Then why do we not just pass it?

Ambassador ZOELLICK. I support it, and so does the President.

The CHAIRMAN. The administration supports it as is? Just so I know.

Ambassador ZOELLICK. We have supported the overall agreement. If I could answer this question, then I will come to yours, Chairman. I would be pleased to. But I think this is an important one.

When it comes back time to negotiating leverage, once we strike a deal, it is absolutely critical, if you are sitting across from someone at the table, that they know it will be taken as a deal. That does not mean that the U.S. Congress will necessarily accept it; you have the up or down vote.

But you could understand as a negotiator, if they are sitting on the other side and they are being asked to deal with something that is very politically sensitive, something very difficult on their side, we are trying to get to that real core bottom line and they think the whole process is open to amendment and unraveling here, we are not going to get to that core bottom line.

You asked what effect it had. I do believe this also affected Seattle. Seattle, in my view, is a debacle. If we do not reverse it, this

country and the international trading system is going to be in serious trouble.

You asked whether we need it for Doha. I do not know for sure, but a lot of countries that I am going to be pressing to say we have to go forward are going to ask me, do you have your country behind you in going forward?

FTAA was launched by President Clinton in 1994. It really was not going much of anywhere until we pushed it back again. Frankly, on all these issues the reason why I emphasized that the time is now, is if we cannot work this out together and get a sense of the Congress and the executive branch working together, we are going to lose this momentum that we have started to generate.

I will give you one last example from a sector you know well, union negotiations. When union contracts are made, it comes back to the membership for an up or down vote. They do not allow an amendment on this pension plan, or on this aspect of wages, or these hours. It is seen as a unified package.

The key part on that is, when we are dealing with big agreements, it is a question of the national interest. We all know that there are various points of view that have to be represented. At the end of the day, the package has to represent the national interest.

So, I know this topic comes up and I am really pleased that you asked the question. As a negotiator on the front line, these are the questions that I get and I do worry if we do not have this authority. Thank you.

Senator ROCKEFELLER. Thank you, gentlemen.

The CHAIRMAN. Senator Snowe?

Senator SNOWE. Thank you, Mr. Chairman. I want to welcome both of our witnesses here today. Obviously this is a complex and multi-faceted issue.

Obviously, we have to reconcile some of the differences as well as, I think, acknowledging some of the realities that now exist with respect to our trade agreements, and even some of the barriers that continue to persist with other countries, countries that have refused to open up their markets.

I know my State of Maine has been the victim of a significant loss of manufacturing industries and jobs as imports displace them and because other countries refuse to open up their markets. But we are where we are today.

The question is, what kind of consensus can evolve so that we can perhaps proceed to grant the President the authority that he needs to negotiate agreements?

Obviously, there is a strong feeling in this country about the standards of labor and environment. What can we do to bring about that cooperation with other countries?

Now, I know the President has made in his announcement a series, a toolbox, of actions. I would be interested in hearing from both of you this morning as to how you think that could help, in combination with trade negotiations, that would encourage change in the countries with whom we will try to seek trade agreements. Many of these actions, as I understand, are based on elements of current U.S. trade laws, such as the generalized system of preferences.

Now, they lack enforcement mechanisms, obviously. So how do you think the President's suggested actions, within this toolbox, will be helpful?

Ambassador ZOELLICK. Well, Senator, I think you hit the nail right on the head. What we are trying to do with the toolbox is to take this controversial and sensitive topic of environment and labor and say, let us look at an agenda of things that can be used.

Some of them are in law now, some of them we are suggesting there could be adaptations. For example, last year the Congress added to these preferential trade agreements some child labor standards, which obviously are important, we support.

In fact, I have already used these in a GSP review with countries to try to improve their use of the core labor standards. So part of it is implementation, part of it is how those laws are used more generally.

There has been discussion of how we could strengthen the ILO. The ILO, at present, has a certain role in terms of developing these core labor standards, trying to get other countries to put them in their domestic legislation, as many members here have mentioned. In many cases they have done so, and now it is a question of enforcement.

So to give you an example, in the case of Cambodia, and also in Guatemala, we worked to have the ILO send a team to actually help them in terms of the implementation. This goes to the point that I was trying to make before about, let us try to get some results on the ground in these areas.

The environmental one is an interesting one because it actually cuts across some of the lines you heard here about sovereignty. As Senator Gramm would point out, one of his strong concerns, and our strong concerns, is protecting America's sovereignty in terms of its laws in environment and labor areas.

But, interestingly enough, a number of environmental groups are also sensitive to the fact that they do not want the WTO interfering with their international environmental agreements.

We were just very pleased to win a case that dealt with this with domestic law dealing with sea turtles and the effect on shrimp, and there is another one dealing with tuna and dolphin. So, there is a range of things that can include incentives.

Our aid programs can support this. I talked to Jim Wolfenson of the World Bank of ways in which they can include some of their financial support in these efforts for both core labor standards and the environment.

If we went through that whole list, our point was, these are examples of ideas that may or may not be formally with trade agreements. They may be associated with them at a similar time to try to deal with real problems.

We mentioned in there debt-for-nature swaps. Back in the 1980's, Secretary Baker and I were able to put forward this innovation to be able to not only reduce debt in other countries, but get the money devoted to the environment. That is not part of anybody's trade agreement. But when I was down in Chile, I was struck with the progress that it had made.

So, we are partly trying to say, let us broaden the discussion here. Congress can best decide how it wants to relate that to any

grant of authority that it is fit to give. But let us not rush to just the negative, and how do we stop trade, because I think all of us in our heart realize that, if you stop trade, it is not going to help the environment or labor.

Senator SNOWE. I think what we need to know, is where we have been effective in the past when we have granted fast track authority to a President on some of these issues. I think the feeling is that progress has not been made, or at least in a substantial way.

I agree that we cannot dictate to other countries and you have to work with them, but on the other hand, at what point do you make a decision that clearly the status quo has not been working and has not been effective?

I mean, could there be the use of fines, for example, other ways in which to bring about some of the changes so that it levels the playing field for our companies and for our workers here in America vis-a-vis other countries that obviously do not adopt the same high standards?

Ambassador ZOELLICK. Just further on that point, we do have some examples in our own experience with the NAFTA side agreements that did have fines. As others mentioned here, there is the Chilean-Canadian agreement with fines.

But I would just hesitate to mention this. People easily say, well, other things have not worked. Actually, if you look at what has happened in terms of environment and labor conditions around the world over the past 10 or 20 years with the opening up, there is significant improvement in countries.

Now, it is not up to our level yet, but I really think we should not lose sight that the combination of openness and growth in some of these tools has made a difference.

That is not saying that it necessarily is enough, but we also should not ignore that some of these things, I think, have worked and we need to just keep using them as countries grow.

Senator SNOWE. I think it would be helpful to have that documentation, frankly, of some good examples of where it has worked.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

I would echo the words of Senator Snowe, that it would be helpful to have documentation of those productive areas where we could reflect on them.

Thank you, Secretary Evans and Ambassador Zoellick, for sharing your wisdom and experience with us here today. You have both made the point that the time to act is now, lest we fall behind and lose our leadership role. I wholeheartedly agree.

I have had the pleasure and good fortune to be working with my colleague Senator Graham from Florida, and some other new Democratic colleagues, to outline a plan that I think encompasses the essential ingredients of a realistic and pragmatic approach.

We appreciate, Ambassador Zoellick, your involvement and wisdom and coaching on some of that, in many ways. We appreciate, at least, your input.

But this is an approach that I think can garner bipartisan support and an approach by which we can give to you and the administration the trade promotion authority that you need.

I have supported this plan and continued to work with my colleagues on it in the extension of TPA because it is the right thing to do, not only for the farmers, for the industries, as well as the workers in my State, and I think across our Nation.

But for freer trade to serve the lofty goals that we have envisioned in these principles and that we have talked about in this hearing, it must also be fair trade. That is simple to say, oftentimes difficult to implement, and I think it important for us to set the guidelines for ourselves.

Just two quick, specific questions, if I may. One, is a problem that, Ambassador Zoellick, I know you are aware of—we have talked about it many times—from the standpoint of my catfish farmers in Arkansas, what they are dealing with.

It is the import of the mislabeled fish from Vietnam. You have been gracious in listening to my questions and comments. You have replied in many ways. These fish are imported with misleading labels and in packaging that is designed to look like catfish, farm-raised and grown in the United States. This is a problem that we really need to resolve.

I understand, to the extent that the Vietnam agreement has already gone to, but would really like to hear from you what you will do to help our catfish growers deal with this problem with Vietnam, and what you will do to ensure that we do not encounter these similar types of problems in the future, not only to the effect of what we have done in the past, but what we really intend to do in the future, with trading partners in Latin America, perhaps.

The second question, Senator Breaux touched on. I did not want to waste your time trying to call you about it. I knew you were going to be here today, so I would certainly bring up my concern that our farmers are facing with all kinds of trade barriers, but particularly our chicken exporters that are fighting an anti-dumping action in South Africa.

I am so sorry that I was excused for a moment when Senator Breaux asked that question, and I would just certainly like to have you response.

The South African government, in our opinion, is abusing WTO Article 6 to assess the unfair duties and we are just anxious to hear your perspective on whether or not we will see the U.S. institute a challenge before the WTO on behalf of our chicken industries and exporters.

Ambassador ZOELLICK. Well, thank you, Senator, both for your words of support, which I appreciate, and your efforts. I am always delighted to work with you on issues big and small.

On the catfish, let me mention, again, I want to compliment your leading role on this. You are not the only person, obviously, but you have been, I think, the strongest in terms of bring it to my attention.

I have done a couple of things. One, is I raised this with Minister Luqua when I met him at the APEC meeting and said that this was a problem, it was a problem with a number of people in the Congress, and I urged him to work with us to try to see how we

could best resolve it. I also asked our embassy to see what they could track.

As you may know, we have also worked with the FDA as they have issued an alert on the labeling issue. As you have properly pointed out, some of the fish that is coming in is not catfish and, therefore, the FDA has taken this step to make sure that there is proper labeling, and we can work with them to make sure that is implemented and enforced.

I know we have also talked with the industry a little bit about safety standards, and the industry has done some of their own testing on that. We would be pleased to work with them on that element.

Beyond that, we have talked with the industry about other alternatives, depending on the progress. I have learned that this is an industry that has had some substantial growth, about 15 percent a year, and it came down a little bit last year.

So, obviously, it is a growing market. I think the Vietnamese share is now about 2 percent, but there is some sense it might have affected price. So, my suggestion is that we hone in, particularly on the implementation on this labeling issue, so it is not affecting the U.S. catfish, if it is a different product.

Then I am pleased to work with you and your colleagues as we go through this process. As I mentioned, I did alert my Vietnamese counterpart about it.

On the issue of South African poultry, frankly, I share your concern. I talked about it in the context of how I know the poultry industry is actually trying to desegregate the product, sells the white meat or the breasts here, then it sells the other products out. This goes to a question of the cost calculations done within the anti-dumping suit in South Africa.

I am sympathetic to your judgment that this was not a proper ruling. In terms of taking it to the WTO, what I mentioned to Senator Breaux is that we have to work closely with the people at Commerce and the ITC because some of these cost calculation methods are used more broadly, and there are defensive issues here with the United States on other matters.

So, what I would be pleased to talk with you about after working out with the various lawyers here, is that, frankly, I have a lean towards going forward on this, but I think we all need to know how we go forward has effects on other things.

Senator LINCOLN. Absolutely. I appreciate very much your willingness to work with us on both of these issues. I would just say to the last issue, one of our other big concerns in regard to that is the precedent that it sets with other nations.

Those other nations have indicated that if we do not take action, or if we do not at least stand up in some regard to what is happening in South Africa, that they intend to take the same action. We would certainly hate for it to get blown out of proportion, I think, with other nations in an industry that is very important to us.

To the aquaculture industry, and agriculture, it is an unbelievable opportunity for this Nation in terms of job creation and in exports. So, I appreciate your recognition of that. Thank you very much for your hard work.

Thanks, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Senator Murkowski?

Senator MURKOWSKI. I want to compliment both of you on your presence here. I think you have identified pretty much for the panel and many Americans who are watching the necessity of having trade promotion authority at this time. There are a lot of folks that have said there is no urgency; some of that has been expressed here today. Some say the trading system is working pretty well right now.

I think your explanation, Mr. Secretary, on the tractors, speaks for itself. There are numerous duplications of that and, unless we address this matter with trade legislation, that is going to continue. It is not in the best interests of the United States or United States jobs.

I think you heard from Phil Gramm pretty much an expression, and I would join with him, that Congress should retain control over America's participation in the global trading system, certainly. Your comments relative to Seattle, I think, deserve some examination.

Some suggest that the debate out there on trade has changed, the mentality, and we perhaps need to respond to that. On the other hand, if you look at what happened out there, it was hardly a debate. You do not debate with gas masks or molotov cocktails. That was almost a riot.

I think we would all agree, the reality is that the global trading system probably cannot handle another Seattle, and we have to make sure that we have a definitive policy. I think you gentlemen represent that, and the administration obviously is directed in that vein.

But we do have an assault on the global trading system, no question about that. The surest way to ensure that it fails, is for the United States to simply stay on the sidelines or have less than a leadership role. I think what we have here is a willingness and a commitment to exert that leadership.

You cannot do it, as evidenced by your testimony, without trade promotion authority because you simply cannot take the leadership without it. So, I think that is basically the justification for the Finance Committee to resolve this, and other legitimate issues that we could debate, and I hope which would clarify some of the concern over the issues that divide us on trade promotion authority.

I think we can all agree that trade promotes economic growth, promotes jobs. But I would like to suggest that we can also agree on means to address the unintended consequences of that growth.

As you have indicated, Ambassador Zoellick, Senator Graham and I, have been working with a number of colleagues on both sides to reach a bipartisan TPA bill. I want to commend Senator Graham for his contribution in that regard, and our professional staffs that have worked together on this.

We believe that this approach will promote meaningful new trade agreements that are workable for you gentlemen, but will not allow trade to be used as an excuse to downgrade social standards in other countries. Certainly, trade is not a partisan issue. Trade is

an issue reflecting American leadership, opportunities, and American values.

But to give you just an example of the other side of the coin relative to some of the problems we could get into, as part chairman of the Energy and Natural Resources Committee we have oversight on the trust territories.

The Virgin Islands fall into that category. We had a situation in April, where I met with Charles Turnbull, Governor of the U.S. Virgin Islands. He was very concerned about an action taken by the previous administration where, by executive order, there were about 12,700 acres set aside from the Virgin Islands National Park, for the creation of a national monument, and expanded the area of Buck Island National Monument by about 18,000 acres. There was no consultation with the Governor of the Virgin Islands or the delegate, Donna Christensen. It was just an executive action.

In the process of creating and expanding this monument, the consequence was the elimination of the commercial fishing industry for the territory of the Virgin Islands. The impact of that, the one that the Governor was faced with, was here we have a situation where American citizens, really, do not have a voice.

In light of this, it is difficult for me to understand what other nations must be thinking about when they hear the United States would unilaterally insist upon placing labor or environmental policies and standards on a negotiating table in order to reach a trade agreement.

I do not know if either of you have any comments, but that is a factual reality. Here is the Governor of a small territory, faced with a dilemma that happened overnight without his participation or accord. That is the kind of exposure that we potentially could see if, indeed, we mandated environmental mandates in trade agreements, as an example.

Any comments?

Ambassador ZOELLICK. I think you are exactly right, Senator. From talking with people around the world, the real anxiety out there is that a lot of countries are finally moving to market systems, they are moving to democracies, they are fragile, they need growth.

They want to have access to the international system. We are finally getting them off aid, we are getting them into trade. Then they look at us and we say, well, now if we trade you have to have this, that, or the other thing that goes beyond.

The truth is, these countries want to have better environmental and labor conditions. They want to make life better for their own people. I sincerely worry that, if we approach this in an adversarial context, we are trying to force this down their throat, it will backfire.

That goes back to my point to Senator Snowe. There are a whole set of opportunities which you and others are exploring here in terms of ways we can promote standards, living conditions, environmental conditions in a more cooperative fashion. I just think that is going to be much more successful.

But I will tell you, with a lot of countries, particularly if we get to any bigger agreement, they will just say no and they will go ahead with others that do not require this.

Senator MURKOWSKI. In conclusion, let me remind you, relative to catfish, we have an awful lot of salmon in Alaska. Our salmon are all wild. There is an awful lot of farmed salmon taking place all over the world. We think there is a distinction between wild and farm-raised salmon, and we think it should be marketed as such.

But we are having great difficulty because those countries that foster farm salmon do not want us to try and distinguish between our wild salmon, which of course is fresh, and only seasonal. I just wanted to make sure you recognized that in your negotiations. Farm salmon is not nearly as good as the wild salmon.

Ambassador ZOELLICK. Sometime if I have a chance to go out and look at the wild salmon closely, I might have a better sense of the nature of it. [Laughter.]

Senator MURKOWSKI. When would you like to go? [Laughter.]

Ambassador ZOELLICK. I am already committed to Iowa in August with Senator Grassley.

Senator MURKOWSKI. All right. Well, I do not know what Iowa is going to do for salmon. [Laughter.] They are pretty heavy on ethanol right now.

The CHAIRMAN. Thank you. Thank you very much, Senator.

Senator Torricelli?

Senator TORRICELLI. Thank you, Mr. Chairman.

After we have discussed catfish and salmon, there is only one logical subject to follow, and that is jet engines in New Jersey.

Senator MURKOWSKI. There you go.

Senator TORRICELLI. I have generally been supportive of international trade accords. I certainly have an open mind now on giving this authority.

But you can imagine, if you represent a State with a major company that goes abroad and seeks fairness in a merger or an acquisition, to have the trade laws of a foreign entity used for obvious political or competitive purposes, it does not give one confidence to continue with this regime. I am speaking, of course, of Honeywell and General Electric.

The opposition of the European Commission is irrational, it has no basis in fact or law, and it is going to have repercussions.

The three principal customers that would be affected by a Honeywell and General Electric combination are Boeing, Airbus, and probably the U.S. Government.

Boeing and Airbus have already made clear they have no opposition to this combination. President Bush made it very clear, not only does he not have opposition, he is supportive of it for the U.S. Government.

This is a combination that makes sense. It saves money, it adds efficiency, it helps the research base. I have not seen any basis in law to resist this combination.

Now, if, indeed, there are some ancillary matters where a combination of the company causes some divestiture, that is understandable. Indeed, the Canadian government and the U.S. Government, having looked at this, there are some recommendations. I would understand if the Europeans had some recommendations.

But their position goes far beyond asking for some ancillary change of the relationship to enhance competition. They, indeed, would force Honeywell to divest itself, and General Electric, of

major competitive components of the company and abandon major industries. It is not fair and it is not right.

I was heartened by President Bush raising this issue when he was in Europe. But now the question is, where do we go from here, particularly with the Europeans, who are important trading partners? In the laws of the United States one does not mention retribution easily or lightly. That is not a path any of us wants to travel.

But if, indeed, these laws are going to be misused and the bar is going to be raised so high, then I will tell you, clearly, if this is to happen to a company based in New Jersey, as Honeywell is with many of its operations, and General Electric in our neighbor of Connecticut, I will tell you, we are lying in wait. There will be a moment when European companies are going to arrive on this shore and ask for the same consideration.

I believe in these fair trade laws. I believe in this expansion. But none of us can be idle if major American industries are going to be abused in this fashion. This should take place.

Now, the question is, how do you come to the Senate and ask us to give authority for further trade liberalization if the interests of our companies cannot be defended under the current regime? That is the general question. Here is the specific question. Now that President Bush has spoken, there is no apparent change in the Europeans. What are we going to do next?

Secretary EVANS. Senator, let me start with GE and Honeywell. Let me start from the position of that merger, and the possibility of that merger, and the impact it would have on trade around the world, and the importance of a transaction like that going forward.

I believe, as we continue to open up this world to trade, bringing efficiencies to corporations is very, very important in a global market. Certainly that combination of GE and Honeywell would provide some greater efficiencies, which would deliver lower-cost goods and services to people all over the world.

I also spoke in support of the merger when I was in Europe last week. I think it is the right thing. I think it would be important for it to go forward.

But in the overall context of trade, and you think about the impact that it is having on the world in terms of spreading democracy and continuing to improve economic growth and quality of life all around the world, I think we have to be careful not to overreact. I think it sends a disturbing signal. It is something that, if it does not go forward, we are going to have to step back and understand why it did not go forward, why the big disparity.

We looked at it and said, divest yourself of \$200 million worth of assets. They looked at it and said, \$5 billion worth of assets. I have to agree with you, I do not see the relationship there at all.

So, it is very troubling that we would look at it, and, quite frankly, other countries in the world would look at it, including Canada, and be comfortable with the U.S. position. The European Commission figure was 25 times what we said should be divested. So, that is very, very troubling, and something that I think we need to step back and take a look at.

But as I look at the total picture of trade that goes on around the world and look at these disputes relative to the total trade that

we see in the world, I say we do not want to overreact to this and say, because this agreement was not made, that means we do not want to lead the world in trade, we do not want to push ahead with trade promotion authority.

As I see it, the benefits that we will enjoy in this world from continuing to expand trade and liberalizing trade far outweigh what I think is a very disturbing situation here that needs to be addressed, and we need to look at it, and we need to sit down and talk.

Why are we so far apart? Why would the EC say, Honeywell, you need to divest yourself of \$5 billion worth of assets and we in America say \$200 million? So is it disturbing? Yes, it is. Do I think it should go forward? Absolutely, I do. But do I think it rises to the level of saying that we should not move forward with trade liberalization around the world? No, I do not.

Senator TORRICELLI. Mr. Chairman, if I could just follow up.

I have not reached that conclusion, either. I am only telling you that it would be natural to look with suspicion upon further liberalization if we feel that our companies and our people are not treated fairly. I have that suspicion, not a conclusion, not an opposition. Justice has created doubt.

This is not an ancillary American industry. Its aerospace and power generation systems are central to our industrial economy. This combination would add efficiencies of \$3 billion to an important competitive American export industry. This is not a matter that can simply be forgotten, then we move on to the next issue. I am simply requesting the administration insist on its position and maintain the President's, and your own, current views.

Ambassador ZOELLICK. Senator, can I just add a thought on this? Since this is an ongoing deal, I am going to approach this with a little sensitivity. As you well know, there are different degrees of interest in the deal at this point. But I think one distinction I would wish to draw, is that these deal with the competition laws as opposed to the trade laws.

As you know, our predecessors in the Clinton Administration actually were able to work out some pretty good arrangements with the EU on a lot of these competition laws.

Now, this is one where, frankly, as you pointed out, our antitrust authority is coming to a very different conclusion. My own sense, is that the European theologians on this are relying on some old concepts that most of the people in our economics profession have given up a long time ago, and it goes to this core issue of the competition versus the customers, and how do you try to create an overall improvement in the marketplace.

I think the bottom-line answer for us at this point, is how can we be most effective on this topic? It pushes me in the direction, frankly, of saying we are going to need more contact with their competition authorities, whether it be related to the trade system or others, to point out the risks and dangers of this, and also the effects. We have pointed out to the Europeans the exact point that you made in terms of, whatever category it is in, it has that harmful effect.

But the last point, I would just say, is I think if you talk to the companies involved and you ask them the question about the over-

all trade promotion authority, I think they would still very much back us.

The CHAIRMAN. I might add, though, this is, I fear, going to be a growing problem. I think it is important for the administration to begin to think about how to address it. Maybe that is on down the road a little bit, but it is still extremely important. The U.S. competition policy, as you say, is based on what is best for consumers, essentially, whereas, in the EU, it is more what is best for the companies or the arrangement over there. It is a whole different attitude, different approach. Decision makers over there are less representative in the sense that they are less elected than over here. It is a big problem and it does affect trade, even though we are talking about a competition policy.

So, I urge the administration to start thinking, all together, jointly. Maybe it moves towards more harmonization, competition policy, which is a big bunch to bite off, but I think it is coming and I would think earlier, rather than later.

Senator GRASSLEY. Mr. Chairman, could I have 30 seconds?

The CHAIRMAN. Sure, Senator.

Senator GRASSLEY. I would like to suggest an additional answer, Ambassador Zoellick, to the answer that you gave to Senator Snowe's last question. It seems to me that it is so obvious what trade has done over the 50 years of the regime that we are using now, GATT, and now WTO. If you would remember the ministerial statement launching the Kennedy Round, Japan was listed as a developing nation.

So, take Japan, South Korea, other places that were basket cases at the end of World War II, and see how they are so prosperous, with a middle class, now. It is obvious what trade does.

Then, in addition, this is what we want for the remaining developing nations. They can have what Japan, Taiwan, South Korea, Thailand, and a lot of other countries have now that they did not have 50 years ago.

The CHAIRMAN. All right. This has been a good start. Again, I just urge the administration to specifically come forth with some compromise ideas so we can address the sense of urgency.

Second, I might ask where the administration is on the Jordan FTA. Can you tell me, Ambassador Zoellick?

Ambassador ZOELLICK. Yes. As I mentioned, we, like you, are very interested in trying to get this done rapidly. As I have told you and I have told your colleagues, we support the agreement as it is. As you know, there is a lot of sensitivity about some of the terms in that agreement.

We have also, as I have discussed with you, suggested that we are willing to try to work with people on other things that we can do, separate from changing the agreement, to be able to try to address those concerns.

This goes fundamentally to the question of, at the end of the day when the agreement talks about commensurate and appropriate action if there is some disagreement on trade or labor and environment topics, how you deal with that.

It is my view that this is never going to end up in sanctions because of the nature of the pattern in trade. You have had an agreement with Israel since 1985, and I think you have had one case go

to dispute resolution, and it did not even go all the way through. But I think we share a common interest in terms of getting Jordan done.

The CHAIRMAN. Good. I will have questions, and other Senators will, too. But thank you, both, very much for taking the time.

The committee will now stand in recess.

[Whereupon, at 12:11 p.m., the hearing was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MAX BAUCUS

Secretary Evans and Ambassador Zoellick, let me start by thanking both of you for joining us today on this important topic.

Yesterday I spoke about the changing range of issues for trade negotiations. As the range of issues evolves to cover increasingly complex and sensitive issues intellectual property, labor rights, and health and safety standards—the political consensus on trade becomes increasingly difficult to hold together. Establishing a consensus on cutting tariffs or eliminating quotas was relatively easy. Internationally, there is at least a grudging consensus that these steps are desirable. At home, Presidents and Congress have generally seen eye-to-eye on these issues.

But it is substantially harder to define and enforce standards for protection of drug patents or computer software. Internationally, these intellectual property standards have been enormously controversial. Even domestically, as we have seen in the recent debate over availability of AIDS drugs and importation of pharmaceuticals from Canada, there are still points of substantial controversy.

Yet, we managed to establish a consensus and forge trade agreements on this difficult topic. On labor and environment issues, consensus is also hard to achieve. But just because a problem is hard does not mean it can be ignored. Just because we will likely struggle for some time with the appropriate role for labor rights and environmental issues does not mean they can be left off the trade agenda. I suspect we all know that Congress simply will not approve fast track until labor rights and environment standards are meaningfully addressed. In that spirit, I plan today to put forward some specific ideas for addressing those problems.

On environmental issues, several approaches are promising. In new agreements following on the model of the United States-Jordan agreement and NAFTA, we must discourage countries from lowering environmental standards to distort trade or investment.

In the WTO, we must ensure that the world trading system does not become a barrier to enforcing vital Multilateral Environmental Agreements. We must also strive to construct a dispute settlement system in current and future agreements that does not inhibit legitimate environmental measures, while allowing action against true protectionism.

On the labor front, the five core principles of the ILO are already generally accepted around the world. These principles along with assurance that labor standards will not be weakened to distort trade can guide us in future trade negotiations.

In its tool box, the Administration suggested a number of steps that can be taken outside of trade agreements on these issues. That's a fine start but labor and environment must also be at the core of trade negotiations if we are truly going to level the playing field.

Many have questioned the Administration's credibility here a true commitment to improve international labor standards cannot begin with a decision to cut in half U.S. spending on the ILO and international labor activities. In order to establish credibility needed to pass fast track, I urge the President to immediately restore this funding and begin taking substantive steps to address labor and environmental issues in other forums.

Indeed, the simple reality is that international trade negotiations are only possible if there is political support. Opinion polls indicate that the public harbors deep reservations about trade. In addition to indicating broad support for addressing labor and environmental issues, those polls underline that the public will only support free trade if they also perceive it as fair trade.

Thus, U.S. trade remedy laws are critical to retaining public support for trade. Recent international agreements have already unduly restricted these laws; any further restrictions threaten to compromise the very core of these statutes.

There are also strong public policy reasons for these laws. But let me make this point absolutely clear: **There is no political support for weakening U.S. trade laws.** Any agreement that compromises these laws will not pass Congress. This is a point that our trading partners and trade negotiators would do well to bear in mind.

In addition to the substance of negotiating authority, we must take a hard look at the process itself. As my good friend, former Senator John Danforth noted many times, the Constitution assigns Congress—not the President—primary authority over international trade matters. Through fast track and other devices, the Congress has ceded a breathtaking amount of its authority to the President. It is time to seek to re-balance this relationship.

First, in the Senate, I believe fast-tracked agreements should be subject to normal debate time limits. On highly controversial agreements, this would require cloture to be invoked to pass the agreement. This would give Congress more control over the direction of negotiations without unduly raising the bar. I note that all recent agreements have passed the Senate with more than 60 votes.

Second, the President should not be able to decide unilaterally if an agreement meets negotiating objectives—and is thus qualified for fast track consideration. Perhaps a specially constituted joint Committee of Congress should be required to concur with this judgment for a proposed agreement to earn fast track consideration.

Finally, I am working with Senator Byrd on a proposal for a Congressional Trade Office, which was also endorsed by the Trade Deficit Review Commission. I believe this is necessary to give the Congress the information it needs to function as a true partner in trade agreement negotiations.

Let me conclude with a challenge. I know this Administration wants to move quickly on fast track. But moving quickly means finding consensus. Refusing to address key issues sets the stage for deadlock.

I will continue to do my part. I hope to move swiftly to pass the Vietnam and Jordan agreements. Both agreements were on the Administration's trade agenda. In the spirit of moving forward in a bipartisan fashion, I want to call upon Secretary Evans and Ambassador Zoellick today to endorse the swift passage of these agreements without amendments.

I also urge the Administration to come forward with ideas. It is not enough to just sit back and hope that Congress works this out. I offered a number of constructive proposals that I believe will help us meet in the middle. Today, I challenge the Administration to do the same.

Thank you.

PREPARED STATEMENT OF HON. JEFF BINGAMAN

Thank you Mr. Chairman, and let me welcome Secretary Evans and Ambassador Zoellick. I look forward to your testimony today on what is a very timely and important issue.

Let me make some quick comments to frame the issue as I see it. First, it is clear to me that the context within which we are making this decision has changed remarkably in the last decade. Globalization is now a reality that has tangible implications—both positive and negative—for the United States and all the countries of the world. I am convinced that globalization does offer real advantages to Americans and is ultimately in our national interest. Our task is to pursue policies that make it work for both Americans and the rest of the world. As a group, those of us in this room must think hard about how to create innovative institutional mechanisms that temper market outcomes in socially acceptable ways. We must find a way to maintain the dynamism and fluidity of the market economy, but simultaneously ease the fluctuations and failures that cause social, political, and economic distress. I agree with those that say trade should not be considered an end unto itself, but rather a means to an end of political stability, economic development, and social equality.

There is much at stake at this time in the international economic system. There are disturbing inequities that must be addressed. The danger of a world divided into rich and poor is real. A new WTO round could and should address the concerns of both the developed and developing countries, and do so in a way that is advantageous to both. I think that as our discussion on various trade issues continue this session, we must be very cognizant of what the alternative is to inaction. Like it

or not, what we do and say in the United States sends a signal to the rest of the world about our collective future.

Let me make a second point. It is clear to me that there is some disagreement among my colleagues on how we should address the key issues related to trade promotion authority legislation, be they concerns about national sovereignty, trade remedy and enforcement mechanisms, or labor and the environment.

I am of the view that it is important that the Administration have trade promotion authority as they move forward in trade negotiations with other countries, especially in the multilateral context. I am not sure it is essential, because I am not entirely convinced that trade agreements cannot be reached without it. I would argue that the Administration has to make a better case of what life would be like without trade promotion authority, and what trade promotion authority would be used to actually achieve. I would like some concrete ideas about where the Administration intends to go as it negotiates in a bilateral, regional, and multilateral context. I am afraid there are some mixed messages about trade priorities coming from the Administration these days, and it would be helpful to see everyone on the same page in terms of what is and is not important.

Make no mistake about it, the provision of trade promotion authority is a special and unique action taken by Congress. We need to be very careful of the terms under which this action will be taken. I am not saying explicit language has to be included in legislation, but I want the Administration to give some assurances that our concerns will be addressed. I want to make sure that intensive consultation mechanisms are in place as trade negotiations are conducted so we ensure that Congress has input into the process. I want to see the issues that I have mentioned previously—national sovereignty, trade remedy and enforcement mechanisms, or labor and the environment, among others—are handled in a way satisfies our national interest. But that said, I also want to make sure that we do not impose conditions on developing countries that constrain their potential growth. I am open to creative suggestions on how this might occur, and I have to say I am intrigued by some of the ideas on the table now about economic incentives that would complement and enhance our traditional trade policy tools.

I want to end there, but let me say in conclusion that if trade promotion authority legislation is passed, it will, no doubt, require a considerable amount of effort from all those involved to find innovative compromise language. I would like to commend my colleagues on the Finance Committee—Senators Graham and Murkowski—in that they have made a very serious attempt to cross the divisions that exist between those who want very different provisions in legislation. From my perspective, what is needed now is a very tangible and substantial commitment on the part of the Administration that indicates that trade promotion authority will be used in a manner compatible with Congressional concerns. I look forward to hearing your thoughts on this matter today.

PREPARED STATEMENT OF HON. PHILIP CRANE

Good Morning, it is a pleasure to be here to discuss what I believe is urgent legislation to empower the President with authority to negotiate trade agreements in the economic and national security interest of the American people. My message is one that most of us in this room should appreciate. The United States is losing out. As each month passes, our economic potential is compromised further. After decades where Americans set the pace, other countries are writing the new rules for international trade, as our President stands by, essentially crippled in his ability to participate.

The sheer number of free trade agreements in force around the world—134—is as startling as it is disturbing. The United States is party to just two FTAs, covering about 11 percent of world trade. Europe, for its part, participates in FTAs with 27 countries and is now moving into our hemisphere, most recently concluding an agreement with Mexico and seeking expanded trade ties with MERCOSUR nations right in our backyard!

The activity of our two closest trading partners, Canada and Mexico, is instructive. Since implementation of the historic NAFTA agreement in 1994, Canada has gone on to negotiate FTAs with Chile and Costa Rica. Currently, Canada is conducting talks with Japan, Singapore, and the four countries in Central America. Likewise, Mexico has concluded trade agreements with 31 countries and is now in talks with Japan, Korea, and others.

It is obvious to anyone paying attention that our exporters are being squeezed by their international competitors. Our competitors are enjoying the benefits of their government's aggressive pursuit of FTAs. As trade barriers continue to fall for our

competitors, America's exporters and workers face higher tariff differentials, and more and more discriminatory rules, unfamiliar product standards, and unnecessary threats to their investments.

I hope that your series of hearings spells clearly the direct connection that exists between increasing international trade and creating jobs and economic activity at home. Fully one-third of the economic growth that has occurred in the United States since 1994 is directly attributable to expanding imports and exports. It's essential that this key engine of economic growth keep on running.

Because future trade agreements will offer vital opportunities to expand and ensure the success of U.S. businesses and workers in the marketplace of the twenty-first century, we must do all we can to remedy the current situation and reach prompt agreement on the specifics of trade promotion authority (TPA) legislation.

Last week, the House Republican Leadership and 57 cosponsors joined me in introducing H.R. 2149, The Trade Promotion Authority Act of 2001, which is attracting 5 or 6 more cosponsors daily, and we are now up to 80. Our effort is broadly supported among House Republicans who are largely united in their view that TPA is an exception to normal legislative procedures that must be well-defined and not open-ended in what the President is permitted to negotiate. Only those matters that are directly related to trade should be included in an implementing bill qualifying for TPA procedures. My legislation gives the Administration the authority and flexibility to negotiate and bring back to Congress the best deal possible, addressing goods, services, agriculture, intellectual property, investment, and e-commerce. It allows use of TPA for issues not included in the negotiating objectives of the bill as long as the negotiating priority: (1) is directly related to trade; (2) is consistent with U.S. sovereignty; (3) is trade expanding and not protectionist; and (4) does not affect a country's ability to make changes to its laws that are consistent with sound macroeconomic development.

This legislation leaves the President free to use his executive authorities to negotiate issues that don't meet these tests. However, the President should use his regular legislative procedures to implement any needed changes in U.S. labor and environmental laws.

Much of the trade debate is focused on whether trade agreements should be used to force countries to change social policies. While improving standards on environment and labor is a high priority, I believe using trade as the hammer to force these changes is counterproductive because it injects so much uncertainty into the trade and investment climate. Instead, we should focus on the fact that *trade itself* improves labor and environmental conditions.

As a country's standard of living improves, the income level of the workers within those countries increases, giving people the resources to care for the environment and the ability to improve their working conditions. Increasing trade with the rest of the world and countries like ours is the best way for a country to improve its standard of living.

Finally, my bill would ensure that the TPA procedures provide extensive opportunities for meaningful consultations with Congress before, during, and after the negotiations. Indeed, I want to remind colleagues that a vote for trade promotion authority is a vote on the procedural rules for considering implementing agreements. A Member is still free to vote against an agreement in the future if he or she does not support the agreement.

Because expanding exports is key to creating new, high-paying jobs, our future will not be secure if the President does not have the tools he needs to open foreign markets, and to shape trade agreements in our favor. Put simply, H.R. 2149 is about strengthening our position in the world. Success must not be measured in partisan terms. I stand ready to discuss with any of you any specific suggestions you have on my bill. We now have legislation language before us, so we should make this discussion quite focused. I look forward to working with you.

PREPARED STATEMENT OF HON. DONALD L. EVANS

Thank you, Mr. Chairman, and Members of the Committee, for inviting me to testify before the Senate Finance Committee on the important topic of trade promotion authority (TPA) and the significance of international trade for America and the world in general. President Bush's trade agenda will open markets overseas, promote growth at home, help sustain high paying jobs and benefit all Americans—trade is good for everybody. I will explain why I believe this is true and why trade promotion authority is a vital component in our ability to continue to exercise U.S. leadership. We have ideas regarding important objectives to achieve through trade

negotiations, and for these we need TPA. I look forward to also learning of the Committee's objectives for the international trade agenda.

I. IMPORTANCE OF TRADE AND INVESTMENT TO AMERICA

President Bush and I agree that trade means considerably more than just economic growth, more higher-paying jobs, and a rising standard of living in America. Trade is ultimately about freedom. It is the freedom for America's farmers, entrepreneurs, and workers to pursue their own economic destiny free from government interference. The case for free trade remains as robust today as when Adam Smith and David Ricardo first set it out over 200 years ago. If anything, the case is stronger because changes in technology and transportation have dramatically lowered the transactional costs of trading internationally.

Smith and Ricardo pointed out how we benefit from specialization and trade. Open markets drive us toward our comparative advantage. In other words, free trade lets us focus on what we do best.

Let me begin by focusing on the importance of open markets to the United States. In purely economic terms, it is in our own best interest to pursue open markets. As we begin the 21st century, the U.S. economy is fundamentally sound, and integrated into the world economy as never before. Trade liberalization over the past 40 years has been a key factor leading to our longest post-war period of economic growth. Since 1995, total U.S. private sector productivity has increased three percent a year. U.S. industrial production was 48 percent higher in 2000 than in 1990, and more than 20 million new jobs have been created in the United States since the early 1990s.

The fact is that the United States is a trading nation. It is the world's largest exporter, representing 12.7 percent of global goods exports. In the year 2000, exports of goods and services were equivalent to 11 percent of the gross domestic product (GDP), while imports were nearly 15 percent. Both ratios have increased from about four percent of GDP 40 years ago. In durable goods manufacturing, the presence of international trade is even more pronounced: durable goods exports accounted for about 31 percent of the sector's GDP and imports 45 percent.

U.S. export trade has expanded even faster than the overall U.S. economy. The data documenting trade growth over the last three decades are remarkable, as U.S. trade with the rest of the world has soared. U.S. exports increased from \$57 billion in 1970 to \$1,069 billion in 2000, an increase of over 10 percent per year. U.S. imports rose from \$54 billion to \$1,438 billion, a rise of 11.5 percent annually. Export growth accounted for 21 percent of U.S. economic growth in the last decade and now total trade is about one-fourth as large as our GDP. Moreover, this phenomenon is not unique to the United States—world trade growth has increased much more rapidly than world GDP growth.

In fact, we estimate that some 12 million U.S. jobs were supported by exports in 2000. One in every five manufacturing jobs is supported by exports, and one in three acres planted in the United States grows crops destined for export. Jobs supported by U.S. goods exports—directly and indirectly—pay wages that are 13–18 percent higher than the national average and high-tech industry jobs supported by exports have average hourly earnings 34 percent higher than the national average. Thus additional exports generated by market-opening initiatives have historically had a significant impact on employment levels and incomes, both at the personal level and for the Nation as a whole.

Most American workers are employed by small and medium-sized enterprises (companies with fewer than 500 workers) (SMEs). It is clear that SMEs would be among the major beneficiaries of negotiations that reduce foreign barriers to U.S. exports. The Commerce Department's Exporter Data Base reveals that, in 1998, the number of U.S. firms exporting goods stood at 205,188—up 82 percent from 112,854 firms in 1992, thanks mostly to SMEs which accounted for nearly 98 percent of the 1992–98 growth in the exporter population. The number of SMEs that export merchandise soared from 108,026 in 1992 to 198,101 in 1998. Keep in mind that these figures count only firms that export goods directly, and do not include suppliers whose inputs are exported in final products or services exporters. While we do not have an exact count of such "indirect exporters," companies like CaseNewHolland, Inc., and Boeing have reported that their suppliers number in the hundreds. For example, one Case IH MX Magnum tractor has nearly 200 companies in 27 states, representing about 75,000 other jobs, all providing parts for a tractor that is exported from the CaseNewHolland plant in Racine, Wisconsin.

Emerging markets—which often have high trade barriers—are among the fastest-growing markets for SMEs. From 1992 to 1998, SME exports to Brazil surged by 262 percent, while exports to Malaysia increased 136 percent and sales to China

rose 84 percent. Many SMEs could sharply boost exports by entering new markets that passage of TPA could help facilitate. In 1998, 63 percent of all SME exporters nearly two-thirds posted sales to only one foreign market.

Trade also enhances our competitiveness. U.S. producers have been provided with a wider choice of suppliers. Productivity, investment, and economic growth have been stimulated through greater competition and exposure to new ideas. It is important to recognize that imports have beneficial effects on the economy, as well. Imports allow business to purchase the best available inputs, enabling production to meet market demands. Also, many of our exports go abroad for further processing/assembly and come back as finished products for consumer spending or investment. Imports also stimulate domestic competition, innovation, quality enhancement and specialization so that resources are used most efficiently. Thanks to imports, the variety of goods and services available to consumers is increased. All of these factors enhance long-term economic growth and standards of living.

U.S. consumers have had more choices at lower prices in their purchasing decisions. Trade liberalization through the Uruguay Round and the North American Free Trade Agreement (NAFTA) has resulted in higher incomes and lower prices—benefits amounting to \$1200 to \$2000 for the average American family of four. It follows that development strategies in underdeveloped countries work better when their economies are more open.

It is worth noting an Organization for Economic Cooperation and Development (OECD) finding that over the last decade countries that have been more open to trade and investment have achieved double the annual average growth rates of others. A growing economy provides the resources for environmental protection, higher living standards, and the means to alleviate poverty at home and overseas.

These benefits are not unrelated to keeping one's market open to investment. The OECD also has found that countries with open trade and investment policies attract more foreign direct investment (FDI). Foreign direct investment contributes to innovation, research and development activity, skills enhancement, and higher productivity and wages, and also spurs competition. The OECD also reports that each dollar of outward FDI was associated with \$2 of additional exports. Other studies report that productivity in large U.S. plants belonging to multinational enterprises (MNE) is 11 percent higher than similar non-MNE plants and use considerably more advanced manufacturing technologies. Workers in firms with direct investments from abroad were paid more too.

U.S. investment abroad helps stimulate U.S. exports and jobs in the export sector. In fact, 55% of world merchandise exports stems from foreign direct investment. U.S. multinational enterprises account for 64% of U.S. exports and 39% of U.S. imports. U.S. affiliates of foreign multinationals account for 20% of U.S. exports and 30% of U.S. imports. It is a myth that U.S. investment is directed at low wage countries or pollution havens. Some 85% of global investment outflows originate in, and 65% of inflows are directed at, other high-wage OECD countries.

President Bush calls free trade a moral imperative. As we trade with others around the world, our partners get a taste of the freedom we enjoy here.

NAFTA provides the strongest example of the sort of change that open markets encourage. NAFTA has clearly transformed our relationship with Mexico. Mexico is now our second largest trading partner—second only to Canada, our other NAFTA partner. The expansion of trade with Mexico brought jobs and prosperity to both our nations. It created a new relationship with our southern neighbor—one of partnership based on mutual respect. It created hope of a brighter economic future and trust in the relationship between human freedom and economic progress. At the recent Quebec Summit, President Fox of Mexico underscored that point himself. He said, "I am convinced that the democratic exercise of power, together with the democratization of the economy and the strengthening of our rule of law, will bring us more competitive, more progressive, more just, and more humane economies."

I would argue that freedom is our most important export. The single best route to encourage the export of those habits of liberty that give men and women around the world a stake in defining their own future is the removal of government-made barriers to trade and investment. When we trade, when we press for free and open markets, when we call for a level-playing field, it is ultimately in the interest of all Americans and of our friends abroad. That is because the political freedom we cherish is also the key to our economic future and to building a better quality of life at home and abroad in the 21st Century. That means political stability, social freedoms, and economic security in a community of peace.

II. WHY TPA MATTERS

To put it bluntly, we have, in the last six years, abdicated American leadership on trade. President Bush recently observed that, "Free trade agreements are being negotiated all over the world, and we're not party to them." There are over 130 preferential trade agreements in the world today. The United States belongs to only two.

The European Union (EU) has preferential trade or special customs agreements with 27 countries, 20 of which it completed in the last 10 years. Last year, the EU and Mexico the second-largest market for American exports entered into a free trade agreement. The EU is negotiating another 15 accords right now. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with Mexico, Korea, and Chile. Even within our own hemisphere, Canadian goods enter Chile with a lower tariff than do American goods because we have not finished negotiations on a free trade agreement with Chile.

Believe me, free trade agreements do matter. Let me give you an example of how NAFTA has benefitted one small exporter, while agreements we are not party to have adversely affected its sales. Penda Corporation, of Portage, Wisconsin, is a manufacturer and worldwide exporter of pick-up truck bedliners. Penda has been able to increase its exports to Mexico due to the easing of local content laws in Mexico under NAFTA. Penda increased its sales to Chrysler Mexico and Nissan Mexico for original equipment bedliners, and has also increased its sales in Mexico's aftermarket. Canadian aftermarket sales and original equipment sales to GM Canada and Toyota Canada have also increased since NAFTA. However, 40% import duties on its products have prevented Penda from being able to compete in Brazil. A Brazilian bedliner manufacturer currently has a major advantage over Penda in most of South America, due to the Mercosur Agreement. Thailand also assesses 40% import duties to Penda's products, and Penda anticipates a similar problem of competing in the Association of Southeast Asian Nations (ASEAN) region if the ASEAN countries are successful in fully implementing a free trade agreement.

We need to get off the sidelines and back into the game. The President intends to press forward bilaterally, regionally, and multilaterally, to expand our trade and the economic opportunities it creates for all Americans. It is what my friend, Ambassador Zoellick, calls "competitive liberalization." We want to create a "virtuous" circle of trade liberalization by being prepared to take action where the opportunities arise with those countries that share our goal of liberalizing markets.

One key element of that strategy is the renewal of the President's trade promotion authority. It is often said that we do not need trade promotion authority until an agreement is concluded and Congress must vote on its implementation. Many people cite the fact that we began the Uruguay Round in 1986 without TPA, and Congress only provided it in 1988, as a reason to delay action now. While that is true, a large part of those two years was spent preparing for the negotiations. Today's reality is that negotiations in the World Trade Organization (WTO) on services and agriculture began in 2000 and have reached the point of proposals being on the table. We need TPA to help ensure that these negotiations continue to move along swiftly.

The agreement on WTO accession reached with China by Ambassador Zoellick in Shanghai recently has helped provide new impetus to international efforts to launch a new round of WTO negotiations in Doha, Qatar, in November. China itself has endorsed the launch. Some countries have few excuses left not to launch a round other than the absence of trade promotion authority in the United States, which some claim is a symbol of our lack of commitment. We should not give that excuse validity.

For the Free Trade Area of the Americas, countries in this hemisphere committed to certain negotiating benchmarks by next spring. Securing these negotiating benchmarks was a very significant accomplishment that was predicated in part on the expectation that this Administration would be able to obtain TPA in a timely manner. Some of our negotiating partners have stated publicly that future progress on this timetable depends on the President getting TPA. And without a doubt we will need it when we launch sector- and product-specific market access negotiations early next year.

Some also argue that numerous agreements have been negotiated since TPA expired in 1994, so there is no need to act now. The fact is that most of those agreements involved restraints on the textiles trade. Apart from the Jordan free trade agreement, or the U.S.-Vietnam commercial agreement that will be considered by Congress under different legislative procedures, none have involved reciprocal market opening measures whereby we give access domestically and get access overseas.

These arguments also ignore the fundamental role that Congress was intended to play in setting our trade policies under the Constitution. In fact, what trade pro-

motion authority really provides is a vehicle to ensure that the Congress and the President have agreed on our goals (our negotiating objectives) and how they will work together to achieve them. This open process, in which public comment is invited, allows problems to be identified and resolved during negotiations. It is that simple—the United States needs a game plan, and TPA provides it.

Our intent is to work closely with Congress, not only for the passage of trade promotion authority, but to rebuild the political consensus necessary for our negotiators to engage with their counterparts at the negotiating table. In the President's view, Congress is an indispensable partner in this enterprise.

III. NEGOTIATION OBJECTIVES

That explains the “what” of trade promotion authority, but it does not explain the “why.” The “why” is that our inaction hurts American businesses, workers, and farmers, as they find themselves shut out of the many preferential trade and investment agreements negotiated by our trading partners. When the President laid out his international trade legislative agenda on May 11, he identified the specific trade negotiating objectives he intends to pursue in order to advance America's interests. I would summarize those objectives as follows.

First, the President intends to eliminate tariffs and other barriers that impede U.S. exports of goods, services, investment and ideas. We seek to ensure, through bilateral, regional, and multilateral negotiations, that other countries' markets are as free and open as our own. In fact, we need to continue work to re-establish the situation that prevailed in world trade at the end of World War I, when 3 out of every 4 dollars of goods entering the United States arrived duty free. In the trade-restrictive decades thereafter, free trade declined to the point that, by the early 1970s, only about 1 out of every 3 dollars of U.S. imports arrived duty free.

Fortunately for U.S. consumers, 66% of our merchandise imports from the world last year paid no duty at all, and the average import duty paid on all imports into the United States last year was 1.6 percent. Yet, our exporters face many barriers overseas. Duties in South American markets average 14 percent or more, with tariffs on some U.S. manufactured goods of 20–30 percent or higher.

Yes, tariffs do matter. Bound duty rates on industrial goods in major Latin American markets average 35 percent. In Asia, bound tariffs range from a low of 4.6% in Singapore to a high of 59 percent in India. While many countries may not actually apply these rates to imports, they are entitled to raise rates to these levels and will argue that these are the basis for WTO negotiations. This means that the tariff rates our exporters face can suddenly jump but still be considered legal under WTO rules and that nations may claim to cut tariffs in negotiations without reducing the rates they actually apply.

The United States led the way in the Uruguay Round by proposing creative market opening initiatives to eliminate duties or harmonize tariffs in a number of sectors of major export interest to the United States. These initiatives succeeded because we did them in close consultation with the Congress and the private sector. We followed through this initiative with more market opening for the high tech sector by eliminating duties in information technology products under the Information Technology Agreement (ITA), which was a landmark agreement in a sector vital to the growth of the global economy. Further market access negotiations are essential and the President will need to draw on all the many creative ideas for trade liberalization that in order to ensure we remain competitive in markets around the globe.

Second, the President intends to bring a special focus to areas like agriculture that would have the most profound benefits for American exporters and for global well-being. What that means in practical terms is eliminating the market-distorting practices that have limited opportunities for American farmers, encouraged inefficient production around the world, and lowered world prices for efficient producers. Developing countries have been especially disadvantaged by excessive protectionism.

A few simple averages demonstrate why trade liberalization is so important for U.S. farmers, who are the world's most efficient producers of food. In the United States, the average agricultural tariff is 12 percent, whereas the average agricultural tariff for the European Union is just over 30 percent, and the average bound tariff for WTO members is 60 percent. Imagine what our farmers could do without those constraints.

Equally important, agricultural exports have a significant spill-over effect for other parts of our economy. Agribusiness extends well beyond commodities. Almost half of the world's top 50 food processing firms are headquartered in the United States. U.S. exports from our food manufacturing companies, which include meat and poultry firms, account for one-half of our agricultural exports. Approximately

half of the 3.3 million Americans who work in agribusiness are employed in the processed food and beverage industries.

Third, the President intends to focus on dismantling barriers to exports of U.S. services, which make up the largest sector of the U.S. economy. Global services trade is valued at \$1.4 trillion annually and accounts for 22 percent of world trade. We estimate that some \$296 billion in total U.S. services exports supported 4.2 million jobs in 2000, up significantly from 1994 when \$185.4 billion in services exports supported an estimated 3.4 million jobs. U.S. exports of commercial services (excluding military and government services) totaled a record \$281 billion in 2000. U.S. services exports nearly doubled over the past decade. Major markets for U.S. services exports include the European Union (\$93 billion), Japan (\$34 billion), and Canada (\$22 billion). While Mexico is currently the largest of the emerging markets for U.S. services exports (\$13 billion in 1999), sixteen other emerging markets around the world each import over \$1 billion in U.S. services each year.

We want to build on this success and are working with other WTO members to improve their existing services commitments and to eventually open all services sectors to competition. We are working to improve definitions of services in the negotiations, particularly for services such as energy and express delivery services that are not adequately covered. We want to ensure national treatment between domestic and foreign service suppliers, promote regulatory reform, and improve transparency to ensure fair and open regulation of service industries. We are also stressing the need to avoid restricting the development of new technologies for use in delivering services, including the Internet and electronic commerce. Work on services is already underway in Geneva, and we are hopeful that WTO members will quickly agree to a marked increase in services liberalization.

Fourth, the President is committed to keeping electronic commerce free from trade barriers. Information technology and the Internet are expanding trade in unprecedented ways. E-commerce creates enormous potential for growth and improvements in U.S. productivity. E-commerce is one of the technological changes that has reduced the transactional costs of international trade. But e-commerce will only achieve its potential if we prevent the creation of roadblocks to progress on the global information highway.

To this end, we seek WTO member acceptance of the following principles: (1) WTO rules and principles apply to e-commerce; (2) WTO members should avoid unnecessary or burdensome regulations; and (3) the existing moratorium on customs duties applied to electronic commerce should be made permanent and binding. Additionally, we believe the WTO should continue to examine certain legal aspects of e-commerce and trade. Finally, U.S. negotiators will work to rebuff developing country efforts to cast this as a "north-south" issue, since developing countries can benefit significantly from electronic commerce.

Fifth, the President intends to preserve our ability to combat unfair trade practices. That means vigorously enforcing our trade laws, not as an end in itself, but as a means of pursuing the elimination of the unfair trade practices that limit economic opportunity. It also means ensuring that U.S. rights under trade agreements are secure so that our farmers, workers, businesses and consumers get the benefit of the bargain that our negotiators reach at the table.

In discussing a potential new round with our trading partners, we have made abundantly clear that we oppose any weakening of WTO trade remedy rules. The Administration has been unwavering in its position that trade remedies are a critical and integral part of the multilateral trading system—part of the balance of rights and obligations necessary to maintain that system. The United States has the most open and transparent system in the world, and we believe it is critical that our trading partners' trade remedy laws also operate fairly.

Strong and effective enforcement of U.S. unfair trade laws, as well as section 201 safeguard measures, are essential to ensure that the benefits of further trade and investment liberalization do not come at the expense of our country's core manufacturing and industrial base. To countries who see an "antidumping problem" that must be addressed, we respond that what really must be fixed are the subsidies and other market-distorting practices that lead to unfair trade in the first place. Foreign government intervention in the marketplace has long plagued vital U.S. industries, including the steel industry.

Because of these problematic practices, the President recently announced a new steel initiative to seek greater discipline on subsidies and to reduce excess global capacity. The President is also requesting a Section 201 investigation by the International Trade Commission to address current import problems facing the steel industry.

As long as governments continue to intervene in the marketplace and distort trade, it is critical that we maintain strong and effective laws to address the resulting unfair trade practices that injure our industries and workers.

At the same time, the United States has a significant interest in ensuring that our trading partners abide by WTO rules when bringing trade remedy actions against our exporters. These types of actions have increased against U.S. exporters over the last few years. For this reason, we have engaged our trading partners in discussions on implementation of the existing WTO Antidumping and Subsidies Agreements, particularly those provisions concerning transparency, due process, and independent judicial review.

I think we also need to work to reduce or eliminate barriers in overseas markets to U.S. foreign investment. Foreign direct investment has a positive impact in promoting U.S. exports, and our investment regime is already among the most open in the world. The benefits of an open investment regime are truly win-win.

Similarly, we should be looking for ways to help our firms overseas by negotiating rules or provisions that combat the pernicious impact of corruption in international trade, and provide for procedural due process. We have made great strides in helping our firms compete on a level playing field through the implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and in establishing fair and transparent procedures in various agreements governing government procurement. We need to look to extend these accomplishments.

And, finally, let me say a word about the connection between trade, labor, and the environment. I happen to be one who believes that the most significant impact that trade can have on labor and the environment is through raising standards of living and promoting greater freedom, which lead to demands for higher labor and environmental standards.

Last month, I attended the OECD Ministerial, where the OECD embraced economic growth as crucial for sustainable development. The OECD has emphasized that the best way to achieve sustainable development is to put the efficiencies of the marketplace to the service of higher environmental quality. All of this simply underscored what recent studies have shown there is a positive link between rising per capita income (to which trade contributes) and improved environmental performance.

For example, we believe that market access negotiations afford us the opportunity to open markets for competitive U.S. environmental goods and services, and we are also interested in pursuing the reduction and elimination of environmentally damaging and economically distorting fisheries subsidies. These too are win-win proposals. We also see the benefit of conducting environmental reviews of trade agreements and are encouraging other countries to do the same.

Furthermore, the President has outlined a series of actions that the United States could take in combination with trade negotiations to move governments around the world toward increased respect for workers' rights and for the environment in connection with international trade. At the most fundamental level, the President wants to ensure that whatever steps we take with respect to trade and labor complement and not undercut the most important driving force behind improving both labor and environmental standards: market forces—which are the source of the benefits arising from free trade.

IV. OUTREACH AND INFORMATION ARE KEY TO SUCCESS

Our ability to take advantage of the opportunities I have described—global economic growth, alleviation of poverty in the less developed economies, higher American productivity, greater potential for our small businesses, and yes, a better life for the average American—all depend on how well we communicate the importance of what we are trying to accomplish together with trade promotion authority. Quite frankly, I think we have done a poor job so far in making that case. Even more important than getting the votes we need for passage of the legislation is developing a genuine consensus throughout the country for America to lead in shaping the world economy.

We must do a better job of explaining the tremendous benefits we enjoy in this country thanks to our presence in the world marketplace. We have decades of results confirming the universal rewards of expanding trade and commerce, yet it is still not clear to many Americans that increasing trade opportunities is in their best interests. We have to explain that future generations will enjoy a better life economically, politically, and in every other way by expanding our presence in the global marketplace.

At Commerce we are developing “export fact sheets” for each of the 50 U.S. states. Each state fact sheet outlines how the state benefits from exports such as by illustrating the role that small- and medium-sized companies play in international trade, showing how leading industries in each state benefit from exports, and highlighting local success stories. These should be ready in July. (For some reason, my staff prepared Texas as their first example!) I hope you will find these useful.

I am dedicated to doing all I can over the coming months to achieving consensus on the benefits of trade. I am encouraged by our recent meeting with leaders in the business community, who promised to commit their time and resources to educating America on the benefits of global engagement. With Congress, I am confident we will be able to build the same coalition that brought tax relief to the American people. Chairman Baucus and Senator Grassley were instrumental in that effort. Now it is time for all of us to turn this same kind of bipartisan spirit into another tax cut for America—one that will help raise all boats and give every American the opportunity to win. But the only way we can do this is to work together. I am here to tell you that the Administration understands that nobody wins unless we all win, and we are here as partners in this effort.

The President has put forward his trade agenda to get the ball rolling. He intends to work closely with Congress to get America off the sidelines and back into the game. If we want both to expand the economic opportunities for our children, their children and all to come, and if we want to ensure that our values continue to take root abroad, we must press ahead.

This concludes my statement. I will be happy to answer any questions you may have.

RESPONSE TO A QUESTION FROM SENATOR NICKLES

Question: Global trade is critical for economic growth and prosperity for American families and businesses. Trade promotion authority is critical to expanded free and fair trade.

But we cannot discuss global trade without raising concerns about the European Commission’s actions to block the merger of two prominent U.S. companies—General Electric and Honeywell. The U.S. Justice Department has cleared this merger after vigorously reviewing the potential impact of the merger on competitors, customers, suppliers, and the marketplace as a whole. And the merger has been cleared by several other foreign jurisdictions, including the Canadian government.

Despite the U.S. clearance the European Commission has not approved the merger. This could be the first time that the EC has blocked the merger of two U.S. companies after the companies received clearance in the U.S. I question the EU stance and fear the negative impacts that their decision could have on global trade and U.S.-European relations.

Would you comment on U.S. Government concerns raised by the EC stance on the GE/Honeywell merger?

Answer: The Administration is obviously concerned that the European Commission disapproved the proposed merger between General Electric and Honeywell. We firmly believe that the merger would have provided significant benefits to consumers in both the United States and the European Union, and that the conclusions reached by U.S. and Canadian antitrust authorities were correct. However, it is important to bear in mind that while the United States and the European Union apply somewhat different approaches to merger review, in the vast majority of cases we come out at basically the same place. In recent years, the United States and the European Commission have had a good record in cooperating on merger reviews, although there are at times major differences, as was the case in the GE-Honeywell merger. The Administration believes that continued consultation between the United States and the European Union and that cooperation in the Global Competition Initiative can help smooth out these occasional differences.

PREPARED STATEMENT OF HON. CHARLES HAGEL

Over 50 years ago, the United States found itself as the only economic and military superpower on earth—faced with the uncertainties of a new world order much depended on the U.S. for stability, peace and prosperity. We had to readjust our thinking, re-calibrate and change policies, refocus priorities, and lead. Yes, lead.

There is one common denominator between the world that exists today and the world that confronted Harry Truman—American leadership. Just as Harry Truman helped prepare America for a new world 50 years ago, so must we help prepare

America today for a new world in a new century with new challenges and new responses to those challenges.

Trade is one of America's most vital and fundamental elements that establishes our role and dictates our future in this new globally connected world. It connects us to all peoples of the world in positive and productive ways.

Trade is more than just commerce. It helps influence a nation's behavior. Our business and farm communities see this first hand. Trade and increased investment creates jobs, helps open closed societies, improves standards of living and provides increased hope and opportunities in all nations. When we lose trade opportunities, we also lose the ability to help encourage responsible conduct, promote freedom and democracy and develop market economies.

It makes no sense from a human rights, national security, economic, or geo-political perspective for the United States not to provide strong, aggressive leadership in helping break down trade barriers around the world.

U.S. businesses are getting out gunned in the international marketplace. Other nations are outmaneuvering the United States in world trade through their own bilateral trade agreements or through creative loopholes of the global trading rules that need to be addressed in a new WTO Round of negotiations.

This is happening because we have not made trade a top priority and not provided strong political leadership for this effort. Also contributing to the erosion of America's trade position has been inconsistent, contradictory regulations, sanctions and policies of our government that have inhibited, frustrated, limited and worked against our national interests and competitive position in world markets.

To undo this folly, Congress and the President must lead and not continue to defer the tough decisions on trade.

To lead in world trade, the U.S. must show its trade partners that it supports open markets and is willing to send its trade negotiators forward to engage and break down trade barriers. In order for the President to lead, it requires his being given the authority to negotiate and finalize trade agreements on behalf of our country. This means Trade Promotion Authority (TPA). TPA allows America's negotiators to negotiate the best possible agreements with our foreign partners.

TPA allows the President the ability to protect and expand America's trade interests around the world. This authority, that every American President has had since 1974, has been the so-called Fast Track Authority. However, since 1994, the President has been without this critical authority. This has hurt America's trade interests and our competitive position around the globe.

Congress needs to grant the President TPA this year. Sure we can start trade negotiations without TPA, but that only continues to waste precious time and resources and perpetuates the continual loss of American market share and American standards development in potential world markets. Is that in the vest interests of American businesses and workers? Look at the Uruguay Round. Although it began in 1986, the serious negotiations did not take place until 1988 when Fast Track was passed. There was extensive deadlock before that time. Look at the Kennedy Round of GATT negotiations that ended in 1967. There was no broad Fast Track that covered more than tariffs. When our negotiators addressed dumping problems in the agreement, Congress refused to implement that portion of the agreement. The Europeans vowed never to seriously negotiate with us again until they knew our negotiators had authority from Congress to keep their word. Look at the Smoot-Hawley Act. That was a simple trade bill that spiraled out of control on the floor of the House as amendment after amendment was added to address special interests. Well, the special interests were addressed, but the nation's economy suffered and the world went to war. We need to stay focused on the big picture: America's competitive position in the world.

Included in this trade debate are labor and environmental standards. It is important to encourage other countries to improve their labor and environmental standards. But, unilateral trade sanctions or other punitive measures imposed by the United States on countries over labor and environmental standards help no one: no one! Labor and environmental standards should be addressed, but tying labor and environmental enforcement standards to trade agreements is dangerous, short-sighted, unproductive, and self-defeating. Let us not forget our fundamental responsibilities—to enhance America's future competitive position in the world. . . .not erode or diminish it. That should be our focus. That is not mutually exclusive with other responsibilities that come with trade.

We have a significant challenge before us. But, I believe Congress is up to the challenge. I look forward to working with members of this committee to support the swift package passage of a Trade Promotion Authority that supports our negotiators, our businesses, our farmers, and our workers. But, we must be wise enough not to overburden our world trade structure where we in fact could see the collapse

of world trade regimes if we are not careful. If we fail, we will squander future opportunities for our next generations, and history will surely judge us harshly. But, this is not America's heritage or destiny. We're better than that.

Thank you for this opportunity to share my views.

PREPARED STATEMENT OF ROBERT D. HORMATS

Mr. Chairman and other members of the Finance Committee,

I appreciate the opportunity to appear before you once again to discuss US trade policy.

Considerable progress was made on trade in the last decade: NAFTA in 1993, the Uruguay Round in 1994 and China PNTR in 2000; agreements on telecommunications and financial services; numerous enforcement agreements; plus two recent bilateral agreements with Jordan and Vietnam.

But for the last few years the US has been severely handicapped in its ability to conduct major negotiations. And it remains so today—even as our closest trading partners, in this hemisphere and around the world, conclude preferential trade agreements to which the US is not a party. Many of these agreements will damage America's trade interests.

The most urgent next step in American trade policy is to develop the critical mass of domestic support necessary for the US to advance its international economic interests in this decade. This will require strong leadership by the president. The history of American trade policy demonstrates that very little happens without strong and persistent White House leadership—with the president himself leading the campaign. It also requires strong efforts by the Congress—which constitutionally and politically is a central player in all aspects of trade policy.

The critical ingredient required now to reestablish the US global leadership and credibility in trade—and to advance this country's economic interests in this hemisphere and globally—is prompt passage of Trade Promotion Authority. In many ways a vote on TPA—coming at a time when concerns have arisen abroad about the direction of American foreign policy and the appearance that the US is pulling back from involvement with the rest of the world—will be seen as a referendum on whether this country will sustain its leadership role on global economic issues or will let it lapse. In the latter case the void might be filled by others whose interests are not the same as ours—or the global trading system could fragment and become vulnerable to increasing economic nationalism.

BACKGROUND

Expanding global trade and investment over the last 50 years have provided enormous benefits for American workers, farmers, consumers and, businesses. We tend to take it for granted today, but this experience is in sharp contrast to the horrible economic mess the US and world got themselves into after World War I—when American leadership faltered. Protectionist measures and international financial instability were among the major factors that led to the Depression.

We should not forget the lessons of this period—nor let our leadership of the global economy be derailed by internal divisions or by complacency that the world economy will work just fine whether the US is an effective leader or not! Nor should we let the current weakness in the US economy and the world economy block progress. Trade liberalization can provide a boost to growth. Reduction in many kinds of trade barriers is equivalent to a stimulative tax cut.

Access to growing foreign markets has been a vital factor in America's economic growth for several decades, especially for our most productive sectors, such as high technology, agriculture, high value added manufactured goods, entertainment and financial services. And competitive imports have reinforced the dynamism of our economy, while broadening consumer choice, and holding down the prices of many products, to the benefit of millions of households. Chairman Greenspan made this point eloquently in testimony before this committee earlier this year.

US leadership in promoting trade liberalization has been essential to secure these benefits for the American people. It also has been vital to this country's ability to remain a strong and effective leader on global political and security matters for the last 50 plus years. If we now turn our back on global trade leadership we will weaken our global political leadership as well.

In recent years advocates of open, rules-based, transparent and non-discriminatory trade—and supporters of American leadership in the world economy—have been on the defensive. The benefits of expanding trade and investment are too often neglected, while vocal criticism of US trade policy, the WTO and globalization tend

to get more visibility and public attention. The role of a strong global economy in maintaining a strong American economy is too often ignored.

It is now a matter of great urgency for President Bush, members of the Congress and leaders of the business community and other interested groups in our country to present more forcefully, and to a broader range of our citizens, the very compelling case that exists for sustaining freer trade and investment and for the extension of market-oriented rules to a broader range of countries and sectors.

By sitting on the sidelines while other countries negotiate their own preferential bilateral and regional trade agreements, the US is suffering considerable damage to its economic interests and to its position as global leader.

In making the case for expanding trade and for improving the rules of the trading system, it is important to address concerns that have been raised in recent years about the impact of globalization on jobs in our country, on the environment and on economic development in the poorer nations of the world. It is also important to refute the charge that the WTO and global trade agreements are simply designed to benefit big corporations at the expense of larger groups of citizens, and therefore are inherently undemocratic. Unless these concerns can be successfully addressed, distrust of trade institutions and resistance to further global trade liberalization is likely to grow.

The US needs a coherent and compelling trade strategy that Americans perceive as serving this country's interests.

Passage of Trade Promotion Authority must be the cornerstone of that strategy. Such authority is critical to this country's ability to execute an effective trade policy—not simply because it is legislatively important. It is important also because it *provides political support for US trade policy and for America's negotiators, strengthening their credibility in international negotiations.* The absence of such authority puts our negotiators at a significant disadvantage. It also gives other countries *an excuse not to negotiate on issues important to the US* in a new FTAA negotiation or in the new global trade round to which President Bush and European Union leaders committed themselves to last week at Gothenburg.

Regarding the contentious issue of how to handle labor and environmental standards, I find it difficult to see a way of getting TPA without some wording which sets improvements in these areas as a US objective. Negotiators should, however, be given the flexibility to find areas where progress can be made without any specific outcome being mandated or any specific test for success being imposed. Congress will in any case have the last word on whatever is negotiated—and will be consulted throughout the negotiating process.

Let me now address these subjects in greater detail.

REINVOGORATING AMERICAN LEADERSHIP OF THE TRADING SYSTEM

Notwithstanding considerable progress in many areas in the 1990s, and despite the best efforts of many political leaders and officials in both parties, *the US currently is at a disadvantage when it comes to major global trade negotiations and significant regional trade expansion activities.* We are at a disadvantage because of divisions at home over our trade objectives and lack of TPA legislation that would make us a more credible negotiator and leader—as in the past—of trade liberalization in this hemisphere and worldwide.

During the last decade, according to a report recently released by the Business Roundtable, other nations concluded roughly 130 preferential trade agreements. The US concluded only three—although one, of course, was the highly significant NAFTA, whose trade benefits were far greater than any of the others by a considerable margin.

Nonetheless, the proliferation of preferential agreements among other nations—including major US trading partners such as Mexico, Canada and the EU—is harmful to US trade interests. These agreements provide their members with preferential access to one another's markets—while disadvantaging American agricultural products, manufactured goods and many services. Some American companies can overcome such barriers by producing abroad. But many (particularly small and medium-sized companies) cannot.

American workers and farmers are at a particular disadvantage. They cannot easily relocate across borders. Moreover, those concerned with the rights of workers and the environment abroad surely cannot take pleasure in knowing that negotiations are taking place among other nations in which *American influence* on these subjects—however inadequate they may deem such influence to be—is *non-existent, because the US is not even at the table.*

There are currently more than 20 sub-regional and bilateral trade pacts in Latin America and the Caribbean alone. Many more are being planned. Since 1997, when

the Clinton administration failed to obtain “fast track authority,” Chile has negotiated preferential deals with Mercosur, Canada and Peru. The EU has recently signed a free trade agreement with Mexico; it is now in talks with Mercosur, Caribbean nations and Chile.

To cite the consequences of but one of these agreements—in the Canada-Chile FTA Chile has eliminated its across the board 11 percent tariff for Canadian goods while US exporters continue to pay that duty. Extrapolate from this example the many other agreements of a similar nature around the world and you see the complexity, and kind, of new impediments American exporters face. I might add that over twenty new agreements of a similar nature have been proposed for preferential trade among Asian nations.

The Business Roundtable Report correctly warns that FTAs in which the US is not a member are harmful to American interests not only because of higher tariffs but also because they “provide fertile ground for preferences” in such areas as telecommunications and financial services. And they permit other nations to “embed their national or regional design and engineering technologies in the standards and regulations adapted by other countries” as well as set harmful precedents by, for instance, adapting agreed rules on e-commerce that are inconsistent with US interests.

Were this process to continue and broaden, American, exporters and workers would suffer more discrimination with respect to tariffs, non-tariff barriers, and services—and be vulnerable to more discriminatory product standards, regulations, investment requirements, etc.

Moreover, if the US does not enjoy the benefits of special trade access, its products and services are more vulnerable to the imposition of new barriers abroad. Under NAFTA, Mexico kept its markets open to US goods following the peso crisis earlier in this decade, in contrast to its imposition of restrictions against US exports during the peso crises of earlier decades. In contrast, during the financial instability in the late 1990s, new barriers were imposed on imports from the US by other countries in this hemisphere, with which the US had no bilateral trade agreements.

A RECORD OF SUCCESS ON TRADE

The broader point, however, is that in addition to the need to take the initiative on trade liberalization in order to avoid growing discrimination against American products, there are a broader set of benefits from trade expansion to be realized. Many of these tend to be overshadowed or drowned out by critics of US trade policy and globalization.

Great progress was made on trade in the last half century to the benefit of large numbers of Americans and citizens of many other nations as well. Since 1992 alone, world tariffs have been cut by one third, industrial goods quotas have been eliminated and there have been tighter rules imposed on subsidies. American exports have risen by 75 percent during this period. Trade rules have been broadened to reduce distortions on a wide range of agricultural goods, services and intellectual property. A growing number of developing nations, and those in transition from socialism to the market, now see participation in the global trading system as enhancing their domestic reforms. The recent success of Ambassador Zoellick in Shanghai underscores that China’s leaders fully understand that by participating in the market-oriented rules of the world trading system they give renewed impetus to their own domestic efforts to restructure their state enterprises and agriculture.

There has been a tendency on the part of some detractors to blame global competition and technological change for disrupting economies and costing jobs—for harming the environment and undermining workplace standards. The facts however tell a different story. Foreign trade and investment are playing an instrumental role in helping large numbers of people in this country and others to enjoy higher standards of living and providing consumers with a wide range of competitive products from which to choose. From our farms to our factories, from our insurance companies to our software producers, exports have been vital to the growth in high-value-added jobs, increasing corporate profits and creating incentives to invest in new technologies and to adopt competitive new business models.

A few facts are in order here. In contrast to arguments that freer trade is harmful to American domestic interests, the following points prove otherwise. In the last decade, as the US was implementing both the Uruguay Round and NAFTA, unemployment fell below 4 percent, US growth and investment set a record for their duration, and inflation plummeted. US industrial production grew by nearly 50 percent. There was no compromise of environmental standards. And small- and medium-sized businesses benefited greatly—accounting for over 90 percent of this country’s exports.

For the one-half of American households who own stock, exports have been an important source of strength for companies in which they have invested. For those who are concerned by the recent drop in the stock market, imagine how much worse it would be if this country were to accept the notion that trade expansion and open markets were harmful to our interests and were to retreat from our global role as leader in negotiating trade expansion. We know from the experience after World War I how dangerous to stockholders and to the entire economy—most especially American workers—such a strategy is.

Those who argue that trade and investment have hindered development in the world's poorer nations ignore the fact that large Asian countries such as China and South Korea, poorer African nations such as South Africa and Mauritius, and modernizing Latin American nations such as Chile and Mexico have harnessed the benefits of trade and investment to lift large numbers of their citizens out of poverty.

Former Mexican President Zedillo and his successor President Fox are both strong advocates of harnessing the competitive forces of international trade to their country's advantage. As President Zedillo put it, "In every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets and opening itself to the influx of foreign goods, investment and technology—that is by participating in globalization. Truly progressive minds sincerely committed to the advancement of poor people in developing countries should be converted into firm allies, not enemies, of globalization."

In most cases foreign factories have raised workplace and environmental standards in developing nations—and those countries that have experienced rapid growth due to trade have more resources to devote to social and environmental problems. It is the most closed economies—those behind the old Iron Curtain, for instance—that have demonstrated the lowest regard for workers' rights, the environment and other social considerations. *The more closed the economy the greater the likelihood that very large numbers of its citizens suffer from poverty and poor environmental practices—and are deprived of access to the flow of communications, commerce, visitors and ideas that enhance human liberty and creativity.*

The vast majority of environmental problems, child labor abuses and poor workplace standards would exist even if there were no foreign trade or investment, because they reflect the stage of development of the country in question or the type of domestic policy it pursues. More, not less, trade and investment have proved to be the best way to improve workplace and environmental standards and reduce poverty.

Those of us who have seen and experienced the benefits of expanding trade and investment opportunities have not made a strong enough case to a broad enough group of citizens for trade liberalization, harmonious regulatory practices and the need for effective multilateral rules for the global trading system. Whatever its imperfections, a rules-based, market-oriented system is far better than one based on arbitrary decisions of governments—or a system that fails to promote open, non-discriminatory commerce. If the current system breaks down into discriminatory regionalism or aggressive beggar-thy-neighbor policies, prosperity and political cooperation around the world will suffer.

THE RESISTANCE

Some fear that globalization—and the WTO—will lead to a new race to the bottom in so far as labor rights and environmental standards are concerned. One common argument is that the WTO, and the trading system in general, should be harnessed to press nations to improve labor and environmental policies—with penalties if they do not. But it also is argued by some that the WTO is too powerful and can impose its will on the US to compromise domestic environmental policies and goals.

The WTO cannot be a source of leverage in behalf of every good cause or desired improvement—however meritorious—in areas outside of trade policy. So, for the most part, other means of achieving such goals will have to be employed.

In this regard increasing the role and authority of the International Labor Organization (ILO) should be a high priority. It should be done in parallel with efforts to increase trade liberalization.

Where domestic measures in areas other than trade do have an effect on trade flows—for instance environmental or health standards that discriminate against imports, or subsidies that both distort trade and lead to wasteful use of natural resources—WTO rules can play an effective role.

Government officials would clear up a lot of misimpressions by better explaining the limits of the WTO's influence in pressing governments to take actions that are not linked closely to trade as well as the areas of domestic policy in which it has a legitimate role because they are linked closely to trade.

How such issues are dealt with in coming years will play a critical role in determining how effective US trade policy will be. Some in this country are concerned that tying market access to the achievement of improved environmental standards or workers rights—with trade penalties imposed for violations—will lead to a spate of new import restrictions. And many developing country leaders see them as a subterfuge to justify the imposition of new barriers against their goods.

At home labor unions are concerned about competing imports and investment moving abroad to take advantage of countries with low labor and environmental standards. And environmentalists fear that some countries will lower standards to maintain competitiveness or attract investment—or that some kinds of production and exports degrade the environment. In some cases there is a feeling that the system serves corporate interests at the expense of others.

This longstanding set of issues and tensions is not likely to be resolved soon. But it is not in the interest of this country, or those favoring improved environmental or labor standards, to hold up progress in resolving a wider range of trade and investment matters because of an impasse on these controversial issues. Even the most ardent advocates of improvements in labor and environmental standards should recognize that as other nations reach agreement on Free Trade Areas among themselves, and develop strategic trade alliances that do not include the US, American influence in the trading system will diminish. So the US will have less and less ability to achieve even modest progress in these areas. Specifically, the more trade agreements reached among economies that resist many of the things unions and environmentalists want, the weaker the US influence on such issues ultimately will be.

NEXT STEPS

The key point now, it seems to me, is for Congress to pass TPA as soon as possible. If language on labor and environmental standards is to be included in this legislation, as those close to the Congress tell me it must in order for TPA to pass, it should (as suggested in earlier in this testimony) designate progress in such areas as an objective—without tying our negotiators down to specific outcomes (which we would not do on other items either). And TPA legislation should avoid a “*cookie cutter approach*”—*which calls for one formula on these issues, or one set of criteria for judging progress, to be used in every trade negotiation and with every country.*

Labor and environmental issues were covered differently in NAFTA and in the US-Jordan Free Trade Agreement. Other constructive proposals have included eliminating environmentally damaging subsidies in areas such as agriculture and removing barriers to trade in environmental goods and services. Some of these formulas, or others, might be tried in the FTAA, for instance.

In the case of Canada, for example, a country in which public opinion is strongly in favor of environmental and labor rights, an accommodation was reached with Chile, which addressed these issues without turning the subject into a lever for protectionism.

Congress should give US negotiators the flexibility to come up with arrangements to address these issues without *ex ante* tying them to any particular formula. An ongoing consultative process between Congress and US negotiators is preferable to putting negotiators in a legislative straitjacket.

It might be possible in some cases to negotiate a few additional bilateral trade agreements without TPA. But this is far from certain. Even Chile has said it would take the precaution of not submitting legislation to its congress until the final deal was first passed by the US Congress. But there is an enormous difference between relatively narrow bilateral agreements and a broader FTAA or a new WTO round. Absence of TPA would deprive US negotiators of needed credibility and be seized on as an excuse by other countries to hold back in the negotiations or to avoid addressing the tough issues on which the US wants to make progress.

Efforts to develop a consensus to pass TPA should be undertaken urgently with the White House and in the Congress. The White House and Congress should also recognize—as I know many in this Committee do—that in a substantial number of cases countries with which the US is negotiating will refuse to include toughly worded, or in many cases any, provisions that relate their performance on such issues to market access in the US, or any other nation, if such provisions make them vulnerable to trade restrictions. In such cases other means will be needed to advance labor and environmental goals.

The US should be prepared to use its market and its influence to try to achieve improvements. Giving consumers more information about environmental and labor practices—utilizing private sector monitoring groups or voluntary standards—could harness the force of the market to improve conditions. Consumers could incorporate

their view of a country's or company's labor, human rights or environmental practices in their purchasing decisions. The transparency provided by the Internet is increasingly being utilized to convey information on such practices.

The challenge is to address legitimate labor and environmental issues without imposing new barriers on international trade and investment, the growth of which will reduce poverty and improve living standards in developing nations. Trade agreements could in some circumstance promote US objectives in these areas. Other institutions like the ILO and the multilateral/regional development banks also can be very useful in improving both labor and environmental standards.

CONCLUSION

The US needs to get off the sidelines and back into its accustomed role of leader of the global economy—again spearheading the process of trade liberalization and championing improvement of institutions of the global economy. The longer we wait the more harm will be done to our economic and political interests. The more effective our leadership, the greater the potential benefits to millions of American workers, farmers, consumers and businesses. New Trade Promotion Authority is needed. So is broader public support and understanding of this country's central objectives in the global economy.

PREPARED STATEMENT OF HON. JIM KOLBE

Mr. Chairman:

Thank you for the opportunity to testify.

I requested time today because trade promotion authority is critical to the future of the United States, and not co-incidentally, much of the free world.

I have testified before this committee in the past. And even though your jurisdiction is very broad, it has always been trade policy that brought me to this committee.

I have been a proponent of more open trade policies for years. It is important to my district. It is critical to my state. The Department of Commerce recently released data revealing that Arizona was the fastest growing state in the union from 1992 to 1999 with an annual growth rate of 7.3%.

Trade in general, and NAFTA specifically, have been enormous contributors to that record pace of economic growth for my state and a similar economic boom for my district.

However, I come here today for reasons that go far beyond the 5th district of Arizona and beyond my state. I come here today in my current role as Chairman of the Subcommittee on Foreign Operations of the House Appropriations Committee.

I do not expect any of you to know that I have now assumed that responsibility. With regards to your roles in the Senate, I probably could not identify the subcommittees on which you serve.

As chair of the foreign operations subcommittee, I am charged with providing Congressional leadership in the conduct of US foreign policy. I plan to fulfill that role to the best of my abilities on behalf of the entire House of Representatives. Yes. The entire House of Representatives. Not the Republican side. Not the Democratic side. But both sides.

Over the last decade, it has grown increasingly difficult for Congress to operate in a "bipartisan mode". Indeed, on trade policy since NAFTA, that way of legislating has been largely lost except on a select few trade issues. Somewhere along the way after NAFTA, we lost the bipartisan trade consensus we possessed for nearly a half-century.

Where did it go? Well, we let it slip away. We allowed ourselves to be seduced by narrower partisan, economic, or issue driven interests.

Well, I come before you this morning to plead that we commit ourselves regaining bi-partisanship on trade. TPA is not solely in our national, self-economic interest. Certainly, our country reaps enormous economic benefits through market opening trade agreements.

Providing TPA to this President is in our broad foreign policy interest. We should not ignore the "invisible" benefits that TPA can bring us that may be harder to quantify but are equally, if not more, valuable.

If Congress provides this President with TPA, it will be a key tool in this country's toolbox for encouraging successful economic growth abroad. And the reason we so ardently pursue a strong global economy as a plank of our foreign policy is because successful economic growth abroad helps us achieve our humanitarian and national security foreign policy objectives as well.

TPA will help us shape a world where democratic states can grow stronger, a world where nations in transition can stabilize, a world where developing countries can realize their potential through the promise of meaningful participation in the global economy.

Without TPA, our ability to sustain a global economy and its rules based trading system will be diminished.

This will lead to greater US national security risks and probably create new unforeseen foreign policy challenges that will take us decades to overcome.

What do I mean by this? Shortly after assuming my new position, I have found new appreciation for that nexus of political, social, and economic variables that must combine in the right context for successful nation state development.

I am not here this morning to deliver a treatise on democracy. However, it is for more than academic interest that we should understand the linkages between economic growth abroad and successful nation state and democratic development.

A comprehensive study of nation state failure, performed by the recent State Failure Task Force and led by the CIA, underscores the relationship between economic disruptions and state failure. The task force identified 113 cases of state failure in the last 50 years.

Of the numerous explanatory variables that might be in play in these countries where a collapse of institutions resulted, 3 were most significant: infant mortality, openness of the economy, and whether or not the state was a democracy.

I would draw your attention to the second one: openness of the economy. This variable confirms why it is so important to provide this President with TPA. It is that tool that enables the US to encourage countries to participate in the global economy creating linkages that reduce the chance of state failure.

Mr. Chairman, we must reach a consensus to provide this President with TPA. We must find the political resolve to support it and be willing to make the compromises to re-obtain that bipartisan consensus.

US foreign policy objectives cannot be achieved alone through US foreign aid. Trade, not foreign aid, is the most critical. Knowing how critical TPA is to all of US foreign policy, it begs the question: how do we get it back?

How do we move beyond the “prolonged stall” in trade liberalization through which we have suffered these seven or eight years? If I had the simple answer, I would have opened my testimony and saved us all the trouble of continuing to meet on this subject.

Instead of articulating some arcane trade answer, allow me to advise something far more basic: a set of basic principles to guide how we engage one another to find a solution.

But before I do so, please allow me to share a story. Senator Mitchell, as well as Senator Rudman, recently provided their perspective on the crisis in the Middle East at a closed-door briefing to members of my subcommittee.

It was a good, productive briefing. At one point, Senator Mitchell shared his experiences on helping parties in the Northern Ireland peace process. He related to us that shortly after his arrival on the scene, he figured out a solution after a matter of days.

It was an incredible statement. For decades the conflict raged in N. Ireland without a solution. Yet he had figured it out in days.

Of course, his admission of calculating a solution so quickly was followed by a long explanation of what was so challenging about actually realizing his plan for peace.

Without going into the details, his solution was a well thought out chain of events by all parties involved. Each party played a part in an elaborate sequence of events.

The events were orchestrated into a delicate fabric of confidence building measures among parties. That series of confidence building measures were the precursors to an agreement for peace. In that part of the world—as is so often the case in other parts as well, trust, confidence, and the ability to deal with each other with real, managed expectations had been lost.

I think we face the same challenges trying to move our trade policy forward today. The bipartisan coalition that lasted 50 years has lost the capacity for trust. We lost confidence in one another’s ability to help manage our separate, albeit more narrow interests in such a way that does not lose sight of our national interest.

And finally, Mr. Chairman, we—meaning both political parties—lost our ability to manage our policy expectations when changes in power occurred on either end of Pennsylvania Avenue.

Consequently, as we try to move forward, let me suggest three principles that should guide our actions.

Strong Communication.

We should strive to achieve that at the staff level, at the member level, between houses, and between both ends of Pennsylvania Avenue.

Commitment To Operate In Good Faith.

It is sometimes the case that incentives in the democratic process can work against a balanced national interest based strategy. IF we are to achieve TPA, our process must resist the temptation to play this issue as a tactic in a long-term power struggle for political control. We will never achieve success unless we operate in good faith.

Leadership Anchored In US National Interest.

As elected officials, all of us have interests—some constituent based, some personal and philosophical, some partisan—that pull us in all different directions every day. We must find a way to work together.

This is not just a statement for a press release or a college textbook. Those more narrow interests of our own constituencies and personal agendas require that we do this if any of us are to achieve success. As we individually achieve success, we guarantee success for the larger interest of expanded trade opportunities.

Mr. Chairman, those are my thoughts on this issue. It is urgent that we move forward. As a member of the House I hope to engage you and your colleagues at some point on trying to achieve a compromise leading to a favorable outcome.

 PREPARED STATEMENT OF HON. SANDER LEVIN

MOVING FORWARD

Mr. Chairman, Senator Grassley, other Members of the Committee, your hearings come at an important moment.

We are facing the danger of a dead-end on trade legislation. Those of us who want expanded trade need to take notice.

The fast track/trade promotion authority bill introduced by House leadership represents both a denial of the changing nature of trade and of the need for bi-partisanship. It would also diminish, rather than enhance, the role of Congress during the negotiating phase, compared with the last fast track bill approved in 1988. It moves us backward, not forward.

Contrary to what one of my House Republican colleagues said on the introduction of the Crane bill, this is a “thinking thing.” The issues are complex. International trade has gone global, increasingly including evolving economies, often with far-from-free markets and weak rule of law. The rules of engagement now require that international trade address new issues. Any proposal that excludes these issues like the Crane bill—or other proposals that marginalize them—will not move us ahead.

There is a way forward and it’s on the path we started down last year, with the Africa-CBI legislation, the China-PNTR bill, and the Jordan FTA, and the Cambodia textiles and apparel agreement. In each of these initiatives, we went beyond simply trying to expand trade—we expanded it and started trying to shape it. We looked upon trade as a tool, not an end in and of itself.

- In the CBI legislation, we included elevated labor standards as a condition for receipt of enhanced trade benefits.
- In the case of Jordan, the Clinton Administration, after consultation with Congress, included labor and environmental provisions committing each country to uphold its own laws, and made those commitments enforceable in the same manner as other provisions.
- In the case of Cambodia, an increase in textile and apparel quota was held out as a positive incentive for that country to strengthen labor standards.
- Finally, in China-PNTR, we took account of the huge size of that country, its different economic structures, and its lack of rule of law, and decided that mechanisms needed to be created for overseeing China’s further integration into the global economy. The result was the establishment of the Congressional- Executive Commission, the codification of the toughest import safeguard mechanism on the books, and additional measures to move China toward a society based on the rule of law.

What do each of these have in common? We tackled the tough issues, rather than trying to finesse them. We came up with innovative policies, rather than clever strategies. And we did each by working together, across the aisle, and across the Capitol.

THE ADMINISTRATION AND HOUSE LEADERSHIP ARE ON THE WRONG PATH

Unfortunately, so far, that is not the approach being taken this year. We are not getting the policy right, and, not coincidentally, we are not moving forward.

The President's statement on Monday to a group of agricultural leaders illustrates the problem. In a speech on the importance of TPA, the President made several assertions that reinforced the misconceptions on which the Crane bill is based.

1. The President stated that he wanted "a trade promotion authority bill . . . that's not laden down with all kinds of excuses not to trade."

Dealing effectively with the role of labor and environmental standards in trade is neither "an excuse not to trade" nor a new form of protectionism. We have to incorporate these issues because of their very relevance to international economic competition. Developing countries themselves recognize the connections, and see the need to address them. In a recent New York Times article, for example, the President of El Salvador states, "[t]he difficulty in this region is that there is labor that is more competitively priced than El Salvador" in explaining the difficulties El Salvador has in raising its labor standards.

2. President Bush goes on to state that "if you're a poor nation, it's going to be hard to treat your people well."

When poor nations abide by core labor standards (to which most have agreed in the International Labor Organization), their people are helped, not hurt. And it means something to the workers in industrialized countries with whom they may be competing. It is mutually beneficial. It is misguided to argue that poor nations can't afford to allow their workers the right to associate and bargain.

3. As to environmental standards, the President stated that "if you're a poor nation, it's going to be hard to have good environmental policy."

Among other things, this does not square with his rationale for withdrawing U.S. support for the Kyoto Treaty on Global Warming. In announcing the withdrawal, President Bush offered this explanation: "It exempts the developing nations around the world and is not in the United States' economic best interest."

4. The President concludes that "trade is the best way to eliminate poverty, therefore our trade agreements ought to be free from codicils which prevent us from freely trading."

This statement of the President, I hope, can stimulate a forthright and respectful debate about whether in addition to more trade we need to shape its terms, in order to preserve our own economic interests and assist the elimination of poverty and the spread of democratic values. Globalization is here to stay. The question is whether we should blindly embrace it or seek to shape it to the benefit of U.S. workers, farmers and businesses.

GETTING BACK ON THE RIGHT TRACK

There is a way back from the brink. A first step toward doing that would be to act immediately on two outstanding trade issues passage of implementing legislation for the U.S.-Jordan Free Trade Agreement, and approval of the U.S.-Vietnam Bilateral Trade Agreement with an indication to address labor issues in any subsequent textile-apparel agreement. This might regain momentum of action on both expanding and shaping trade, and building confidence to help move on to the issues involved in crafting and approving fast track legislation.

The second step is that fast track/TPA needs to take full account of the changed realities in each aspect of fast track: the negotiating objectives, the congressional-executive consultation and collaboration process, and the approval process. In short, we need a state-of-the-art framework for congressional-executive collaboration to expand and shape international trade and commerce.

In my judgment, in the year 2001, trade legislation with all of the issues now embedded in it cannot be railroaded through the U.S. Congress; if it were to happen on basically a partisan basis, it would be winning a battle, but losing a war. The answer is a genuine effort to place new trade policy on the right track.

PREPARED STATEMENT OF CHUCK MERJA

Mr. Chairman, my name is Chuck Merja. I am a wheat farmer from Montana, and it is indeed a great honor to be asked to the first hearing of your chairmanship of the Senate Finance Committee. As a Montanan, I am very proud to have you as our senior senator and now as chairman of this important committee.

Thank you for inviting me to testify before you regarding Trade Promotion Authority (TPA); there is not a more important topic for agriculture in today's world. I was president of both the Montana Grain Growers Association in the early 90s

and also the National Association of Wheat Growers in 1996, however, I am here today to articulate my views, which are not necessarily the official position of any organization.

As much as I'd like to share my ideas about world agricultural trade with you, I must admit we are still living in an Olive tree world, with the exception that today even we Montana farmers can learn pretty easily how we are being out maneuvered in world markets.

Mr. Chairman and members of the committee, fair trade is a very important issue to virtually all of US agriculture. We need to act quickly to reinstate Trade Promotion Authority (TPA). The US needs to be actively engaged in regional and world trade negotiations, however, our past methodology is not good enough today. Instead of giving carte blanche negotiating authority to the Administration, I would strongly recommend a bipartisan agreement between Congress and the Administration which gives the Administration negotiating authority, and which also lays out negotiating objectives, along with a process whereby we can evaluate whether or not those objectives are being met. We will be challenged to reach agreement about goals and a process of evaluation this year, but we must. To delay approval of TPA beyond this year puts us in danger of having the process unduly influenced by the politics of an election year.

We must limit the scope of the TPA to trade issues, but please recognize that for agriculture, competitiveness issues are trade issues. If our producers don't have a way to differentiate our products grown under more stringent environmental regulations, or don't have access to production methods that our competitors can use, it is arrogant and inaccurate to think that US producers will hold any competitive advantage in the world markets, including our own.

Mr. Chairman, I remember a group of us sat down with you at the Great Falls airport about 16 years ago, and discussed US wheat farmer competitiveness and free trade. The context for this discussion was the question of entering trade negotiations, and including agriculture in those negotiations for the first time. I remember you asked us if we thought we were competitive with the rest of the world with respect to wheat production. And I remember we said, yes.

Since that time of naivete, I've learned quite a bit and appear before you today as one who would characterize himself as an immersed pragmatist. I'm immersed, because for us Montanans to eat our wheat crop, in state, each of us would have to eat a hundred thousand bagels a day, every day of the year. And while I try to do my part, as a state, we just aren't up to the task, so we need to look for markets outside the state and country. And in fact, 80% of Montana wheat and about half of the entire US wheat crop are exported every year, so we are very dependent upon an open and fair trading system in the world.

I'm a pragmatist, because after all the rhetoric and hoopla about free trade, a level playing field, knock down trade barriers, no agreement is better than a bad agreement, etc., the simple fact of the matter is that US wheat producers hold a smaller share of the world wheat market today than they did when we put CUSTA, NAFTA or WTO into place roughly ten years ago. And the EU, which by all measures has the highest cost of production of the 5 major wheat exporters in the world, has gone from being a wheat importer roughly a quarter century ago, to the position of now holding the largest market share of world wheat trade. They did so, not through being the most competitive, as one would expect in a system of fair trade, but through shrewd negotiation and intractable focus on gaining market share. And we let them! In fact, recently, we caught the EU using export restitutions on their wheat, which that day made their wheat the cheapest in the market place, and priced just under our transparently priced soft red wheat, and we refused to use our WTO negotiated-for export subsidies to regain the competitive advantage that our producers should naturally enjoy in the world market.

In the above mentioned trade agreements, we institutionalized some things that the professionals and academicians now call "trade irritants," but I call a significant impact on my livelihood, and I believe those trade irritants will be very hard to change. But it is exactly those items which need to be on our list of objectives. If we can negotiate a more level playing field, I believe that US agriculture can compete favorably for world markets. But that system must be substantially better than it is now, or we will see a smaller agriculture sector here, which has ramifications on balance of trade, GDP, jobs etc. And that impact can be huge in states like ours, Mr. Chairman, because we are so dependent upon agriculture.

Some of the more absurd situations that have occurred since we negotiated the first steps toward discipline in agriculture are:

- At the time of record high US producer owned inventories of wheat, Canada still pushes the equivalent of 100% of the US durum carryout and 1/6th of the US spring wheat production into the US, right into or through our primary pro-

duction areas for those crops. Furthermore, those crops have crop protection products used to produce them that are identical or analogs to products used here, but are not registered for use here. Many of these products are priced at 40% to 60 % of the products found here, giving foreign producers just a few miles away from our producers a significant competitive advantage. Even though we agreed to harmonize these products a dozen years ago, we haven't, and in fact, EPA enforces chemical companies' marketing plans by putting US producers who try to use these products in jail.

- We allow Canada to call their initial price to producers the "acquisition price," thus making it difficult for us to make the case that the Canadian Wheat Board sells below cost, even though the initial price is only a fraction of what the CWB pays Canadian growers for the wheat they deliver.
- We allow livestock raised in Canada, but shipped and slaughtered here to get a USDA stamp, and be void of any country of origin labeling, so consumers can make an informed choice.
- As mentioned above, we allow the EU to use export restitutions, and don't use our own GATT-legal subsidies to help counteract their effects. Only when EU subsidized barley actually made it to the shores of California a couple years ago, did we have even a measured response. Other than this barley example, I believe that July 1995 was the last time we used our Export Enhancement Program to counteract other export subsidies in the market place. Several of our economists have claimed that there was little additional to be gained from the use of EEP, but they missed the whole point of EEP being a political tool as well as what it was originally designed for, namely export enhancement. Maybe we need a little different incentive plan for those economists; one where their fortunes rise and fall with the agriculture sector they analyze. This might help them understand the political component of our export tools.
- We don't pay much attention to the fact that Argentine soybean farmers, whose currency is at about par with the US dollar, have access to seed at \$8 per bag and herbicides at \$8/gal, while US producers pay \$40 per bag for the same seed technology and \$35 per gallon for the same herbicide active ingredient. Not only will this have a major impact on soybean producers here, but wheat is a rotation crop for those Argentine soybean producers, and this will put US wheat producers at a competitive disadvantage too. Several ag writers have recently commented that \$6 soybeans are a relic of the past because of this competition—\$4 wheat might be too.
- Canada controls over half of the world spring wheat and nearly 80% of the world durum trade, so they can have a real market dominance. But the CWB has standing offers in many wheat markets at \$5–7 per ton below the best price obtainable from the US. This discounting strategy from such a huge player accelerates the race to the bottom in world wheat prices and negates years of work to differentiate wheat quality by many wheat producers from around the world.

The U.S. wheat industry has a long list of issues that need to be addressed in a comprehensive round of the World Trade Organization, some of which were pointed out by the above examples. Here is a partial list of issues the wheat industry needs addressed to be competitive in the future:

- Maintaining our trade law framework, which will allow us to react more quickly to trade distorting issues, and/or a thorough revamping of WTO procedures to allow fast, objective problem resolution;
- Resolving cross border price differentials for production inputs such as pesticides;
- Ending the anti-competitive practices of export state trading enterprises;
- Elimination of export subsidies;
- Elimination of trade distorting domestic supports;
- Increasing market access through the elimination or equalization of tariffs, disciplines on the administration of tariff rate quotas and eliminating price band systems;
- China's import/export control entity;
- Export credit and food aid programs must not be treated as trade distorting export subsidies.

The current agriculture negotiations in the WTO and negotiations for a Free Trade Area of the Americas underscore the importance of trade agreements to ensure that Americans have the same access as our competitors to the 96% of the world's consumers who live beyond U.S. borders. The ability of our negotiators to achieve market access and competitive competition agreements in turn hinges on the will of Congress to renew TPA.

While we are on the sidelines, our competitors continue to gain the upper hand in international markets. For example:

- The European Union has achieved an interim trade agreement with Mexico and moved toward formal negotiations for free trade agreements with Chile, Argentina, Brazil, Paraguay and Uruguay.
- FTAA negotiations have begun, but other countries in the hemisphere continue to insist that without TPA they will be hard pressed to make politically difficult decisions to open their markets. There is no reason to think that our trading partners to the South will not move forward to create more trade deals that exclude the United States.
- Canada is capitalizing on the competitive advantage provided by their free trade agreement with Chile. Canada is accelerating efforts to negotiate preferential access to markets in Northern Europe and throughout South America. Canada continues to hold its agriculture sector outside the terms of these agreements to maintain its protectionist supply managed practices.
- Mexico is expanding its free trade arrangement with Chile and continuing to negotiate trade agreements with countries in Central and South America, Japan and the European Union.
- Argentina as a member of the South American trading block MERCOSUR, receives preferential treatment in exporting wheat to Brazil, one of the largest wheat importers in the world.

So as you can see by these examples, we definitely have items to correct from the last round, we have issues to deal with prospectively, and we are being left out of current bilateral and multilateral negotiations. Therefore, I urge you to work with agricultural organizations in resolving the many challenges facing U.S. producers by approving a workable TPA. This action will direct the Administration to meet these challenges head on, and show the world a united front from the United States, thus giving the Administration significant negotiating clout.

Trade Promotion Authority is critical to the U.S. role as a credible leader in advancing trade liberalization and opening markets for all sectors. This authority must be based on sound principles that protect current markets and lead to greater market access and competitiveness for American agriculture.

PREPARED STATEMENT OF HAROLD MCGRAW III

Mr. Chairman, Members of the Committee: Thank you for the opportunity to be here today.

I am Terry McGraw, Chairman and Chief Executive Officer of The McGraw-Hill Companies.

I am here today as Chairman of the Emergency Committee for American Trade—ECAT—an association of the chief executives of major American companies with global operations who represent all principal sectors of the U.S. economy. ECAT was founded more than three decades ago to promote economic growth through expansionary trade and investment policies. Today, the annual sales of ECAT companies total more than \$1.5 trillion, and the companies employ approximately 4.5 million people.

The McGraw-Hill Companies is a global content provider headquartered in New York. We employ 17,000 people in more than 300 offices in 32 countries worldwide. You know us best through the McGraw-Hill imprint in education, Standard and Poor's, and Business Week.

TRADE PRODUCES ENORMOUS BENEFITS FOR THE U.S. ECONOMY, U.S. COMPANIES,
THEIR WORKERS AND THEIR FAMILIES

The United States faces crucial choices in 2001 on whether our trade and investment policies will continue to support our economic growth and improve our already high standard of living. Over the last century, the United States, now the world's largest trading nation, has enjoyed enormous prosperity in large part because of the open trade policies it adopted following the Great Depression, starting with the Reciprocal Trade Agreements Act in 1934. Over the last decade alone, trade has accounted for approximately one-quarter of U.S. economic growth and has contributed significantly to the high standard of living enjoyed by American workers and their families. Imports have improved the variety, quality and availability of products throughout the United States, have increased the competitiveness of U.S. companies, and have been a significant factor in dampening inflationary pressures.

Jobs directly supported by exports reached 12.1 million in 2000, 2.9 million more than in 1990. These jobs pay between 13 percent and 18 percent more on average than other jobs. Imports help support another 10 million domestic jobs.

Nor have increasing trade deficits cost U.S. jobs. U.S. unemployment has fallen steadily from 7.5 percent in 1992 to about 4 percent today, while trade deficits over the same period grew by nearly 300 percent. As the United States undertook significant trade liberalization through the NAFTA and the Uruguay Round, total U.S. employment grew by 22 million jobs between 1990 and 2000, and U.S. average per capita real income rose by 26 percent over the same period.

According to economic analyses by the Office of the United States Trade Representative, NAFTA and the WTO combined have increased U.S. national income by \$40 billion to \$60 billion a year. Combined with the lower prices that the reduction in import barriers provides, the income gain for American families equals \$1,000 to \$1,300 a year from these two agreements.

Also consider that:

- One in three acres is planted for export.
- Almost one in every six manufactured products is exported abroad.
- In The McGraw-Hill Companies' own domain—services, the United States is the leading provider. In the year 2000, U.S. services exports grew \$23 billion to a total of \$295 billion. Currently, 18 percent of our revenues come from foreign sources; our goal is to double that number in the next five years.

In this time of economic slowdown and uncertainty, the impulse to close our markets can gain strength. Yet surely, the United States, which has a competitive advantage in so many products and services, ought to be hopeful rather than fearful about the effects of more open trade.

We live and compete in a global economy. And most importantly, the key trends driving the global economy are those that American public and private sector leaders have been championing for decades:

- Freedom
- Competition
- Growth

The United States has an economic, political and moral obligation to keep moving forward to liberalize trade. It can play a leadership role in shaping and propelling negotiations globally, in the Western Hemisphere, in the Asia-Pacific and bilaterally throughout the world. And that means building a consensus behind expanded trade as a vehicle for prosperity here and for greater economic growth and freedom around the world.

CRITICAL CHOICES

Yet, U.S. trade policy is at a crossroads. The post-World War II consensus on the value of liberalizing trade and investment policies has been shaken in recent years as is most evident from Congress' failure to renew Trade Promotion Authority (TPA), so-called trade-negotiating authority legislation or fast track, since its expiration in 1994. The failure to renew trade-negotiating authority is particularly striking. As you all know well, this legislation was authored by your predecessors on this Committee, led by then-Chairman Russell Long, in the early 1970's following the failure of the U.S. Congress to implement in legislation the GATT Kennedy Round Agreements. It is a process that allows the Executive and Congress to work together to bring down foreign barriers to trade and investment and to open opportunities for U.S. companies, their workers and their families.

Enacted as part of the Trade Act of 1974, trade-negotiating authority was renewed by Congress on a bipartisan basis for almost 20 years, with both Republican and Democratic Presidents. The forerunner to the modern fast-track procedures contained in the Trade Act of 1974 was tariff proclamation authority which had been granted to all presidents by Democratic and Republican Congresses, almost continuously since the Reciprocal Trade Agreements Act of 1934. Even that is no longer provided to the President except for some limited leftover authority contained in the Uruguay Round Agreements Act.

Last year, Mr. Chairman, you, Senator Grassley and others in the House and the Senate working on a bipartisan basis were able to achieve some crucial victories on trade:

- Congress overwhelmingly supported Permanent Normal Trade Relations with China.
- It also reached a broad consensus on unilateral preferences for Africa and the Caribbean Basin.

We at ECAT very much appreciate all of your work on those and other matters. Indeed, the 106th Congress passed more trade legislation than any other Congress in the last decade; but it did not pass, nor did it even consider, TPA legislation.

Clearly much more remains to be done.

TPA IS A KEY TOOL TO ADVANCE U.S. TRADE

Mr. Chairman, Members of the Committee, we at ECAT believe that it is critical for the United States to rebuild the national and bipartisan consensus on the value of trade and investment liberalization. It is the only way that the United States can move forward and promote trade policies that continue to support economic growth and a high standard of living.

One key component of that consensus should be the bipartisan renewal of TPA legislation in 2001. There are three primary reasons that I want to work with the Administration and all Members of Congress on the bipartisan renewal of trade promotion authority this year: (1) to restore U.S. leadership on trade internationally; (2) to help promote economic growth and create concrete opportunities for American companies, their workers and their families; and (3) to ensure effective collaboration between the President and Congress in the formulation of trade policy here at home.

Restoring U.S. Leadership

Following their experience in the Kennedy Round GATT negotiations and the adoption of the trade-negotiating authority procedures in 1975, U.S. trading partners have generally supported, indeed sought, assurances that such authority would be available to implement future trade agreements. Although only technically necessary to facilitate implementation of a final agreement by Congress, these procedures have taken on a much greater role in the eyes of U.S. trading partners, many of which have refused to take U.S. negotiators seriously (particularly in the context of multilateral negotiations) since this authority expired. Consider the case of Chile, which for years refused even to negotiate with the United States without TPA. I am pleased that negotiations have actually been restarted and hope that a final agreement can be implemented under Congressionally-approved TPA.

Other countries have used the expiration of this legislation as an excuse to stall negotiations and not make important concessions. Other Latin American countries, particularly Brazil, have other priorities, and appear only too willing to let negotiations for a Free Trade Area of the Americas move slowly while they consolidate their own preferential trade arrangements.

Timely renewal of such authority is so important, therefore, to give U.S. negotiators the clout necessary to extract meaningful concessions and successfully conclude negotiations.

Promoting Economic Growth and Opportunities

U.S. leadership on trade is not, of course, an end in itself. U.S. leadership is essential to ensure that trade and investment liberalization supports U.S. economic growth and concrete opportunities for U.S. companies, their workers and their families.

If the United States does not play a leadership role in new negotiations, then much of the impetus for negotiations in the Western Hemisphere and in the WTO will be gone. Without those negotiations, we will find it more difficult to open new markets, to reduce barriers, and to support the economic growth and standard of living that we have enjoyed in this country.

In the Western Hemisphere alone, the loss of these opportunities is enormous: The FTAA could join a population of 800 million, with a combined GDP of approximately \$11 trillion. Yet, many of these countries maintain some of the highest tariff and non-tariff barriers in the world today. The United States' lack of trade promotion authority is one of the major reasons that Brazil has cited for its reluctance to enter into serious FTAA negotiations, which would reduce and eliminate tariff and non-tariff barriers.

In the high tech sector, for example, only three countries in Latin America (Panama, Costa Rica and El Salvador) have signed onto the WTO Information Technology Agreement, which is likely to be included in the FTAA negotiations. For example, Brazil, with the eighth largest economy in the world, maintains tariffs of nearly 35 percent on Information Technology products. Even Mexico imposes 20 percent external tariffs on imports from non-NAFTA countries.

The United States has also effectively sat on the fence since 1993 when it comes to new trade-liberalizing free trade agreements. There are now 134 free trade agreements in force around the world. The United States is a party to only two. While over 300 "trade agreements" were negotiated between the expiration of trade-negotiating authority in 1994 and today, they are not the type of broad free trade agreements that achieve the most significant liberalization. This is not to understate the importance of several of these agreements, such as the U.S.-China Bilateral Agreement on Market Access (1999) (which required separate legislation to implement) or the Information Technology Agreement (which was negotiated pursuant to residual tariff proclamation authority) or the WTO Financial Services Agreement and the

WTO Agreement on Global Telecommunications (which required no changes to U.S. law).

At the same time, free trade agreements with preferential rules that exclude the United States have sprung up throughout Latin America and in Europe and elsewhere. U.S. exporters are severely disadvantaged because their products are now subject to higher relative tariffs and other barriers, which their competitors' governments have been able to negotiate away.

Consider the case of Chile, which is an associate member of MERCOSUR and has free trade agreements with Canada, Mexico, Venezuela, and Colombia. It has begun trade agreement talks with the EU and South Korea and is exploring the possibility of negotiations with New Zealand, Singapore and Japan. Since the United States and Chile have failed to negotiate a free trade agreement, Chile maintains a 9 percent tariff on virtually everything we ship. That means U.S. exporters suffer a 9 percent price disadvantage compared to our competitors from Canada, Mexico and Chile's other free trade partners. This affects every exporter to Chile and reduces American companies' ability to do business.

This price disadvantage has severely affected U.S. agricultural exporters who have had deficits with Chile over the past several years. Notably, in 1996, the United States exported \$4.132 billion of goods to Chile. By the end of 2000, U.S. exports had dropped to \$3.455 billion. While other economic factors have affected U.S. exports, the tariff disadvantage we face in the Chilean market severely disadvantages our exporters, their workers and their families.

We very pleased that the Administration has resumed bilateral negotiations for a free trade agreement with Chile. Until that agreement is finalized and implemented, however, U.S. exporters must either try to compete from a severe price disadvantage or, for those companies with operations in other countries, ship products from Canada and Mexico or Chile's other free trade agreement partners, rather than the United States.

The failure to complete and implement these negotiations—not renewal of TPA itself—results in the loss of opportunities not only for U.S. companies, but also their U.S. workers and their families.

An issue of great concern to content providers such as The McGraw-Hill Companies is piracy of our intellectual property. Piracy of intellectual property—including motion pictures, music recordings, software and books—totaled over \$8.7 billion in 1999. Sticking with Brazil, a country that has been placed on the U.S. Trade Representative's Priority Watch List, piracy of intellectual property totaled almost \$920 million in 1999. Piracy of books in Brazil alone cost our industry almost \$20 million that year.

In March, law enforcement officials in Korea announced the discovery of some 600,000 counterfeit English-language books with an estimated value in excess of \$14 million. The counterfeit books comprising some 2,000 separate titles run the gamut from popular best-selling fiction, to college textbooks, to reference and professional works. These books were in a warehouse belonging to Han Shin, one of the oldest book distributors in Korea. The raid on Han Shin underscores the fact that pirates are no longer fly-by-night operators requiring only a storefront and a photocopying machine, but have evolved into sophisticated high-tech enterprises that pose an even greater threat to legitimate publishers.

In education, the leaders of emerging economies recognize that knowledge is power, and are stepping up their efforts to create an educated workforce that can effectively compete in the world economy. For McGraw-Hill Education to succeed, we must have worldwide protection for the intellectual property we create—whether in electronic or print format—and we must have equal, non-discriminatory access to new markets.

Business Week is the fastest-growing English-language publication outside the U.S. But for *Business Week* and our other business information products to continue to grow overseas, tariff and non-tariff barriers must fall.

To serve these new markets, we must be able to compete with our foreign rivals on the same terms in their home markets. In the world of electronic commerce, for us, that means the United States having a seat at the table, negotiating bilateral and multilateral agreements that assure strong protection for intellectual property and barrier-free e-commerce.

In addition, the globalization of the capital markets—both debt and equity—demands greater transparency and openness among countries and companies. I am proud of the critical role Standard & Poor's plays in facilitating access to capital through its ratings of public and private sector entities. Importantly, trade liberalization supports the drive to create more open, fair financial systems, which provides important opportunities for U.S. firms that have the knowledge, tools and accept to capital required by many developing countries.

Restoring the Executive-Congressional Partnership on Trade

The third reason we are strongly supporting renewal of TPA this year is the vital role that TPA plays in advancing Executive-Congressional collaboration on trade policy. Prior trade-negotiating authority procedures laid out specific negotiating objectives developed by Congress and required the Administration to consult extensively with Congress and seek Congressional input on the conduct of trade negotiations. It has served as an extremely important mechanism for the Executive and Legislative branches to come together to reach agreement on U.S. trade policy objectives and trade pacts over the last two decades.

Trade promotion authority is not, as some would characterize it, a “grant” of negotiating authority to the President. The President already has the Constitutional authority to negotiate with foreign nations, while the Constitution has granted Congress the authority to “regulate Commerce with foreign nations.” TPA actually facilitates both the Administration’s and Congress’ ability to fulfill their constitutional roles. There may certainly be ways to improve this collaboration, but the basic model is sound.

PRINCIPLES TO RETAIN

We at ECAT are committed to working with the Administration and all Members of Congress in both Houses to support efforts for the passage of TPA. We recognize, however, that as an Executive-Congressional process, trade promotion authority is largely a negotiation between the Administration and Congress. As your negotiations continue on the contours of this authority, there are, however, two substantive principles that we at ECAT believe must be retained from previous legislation in order for this year’s efforts to be successful: (1) negotiating flexibility without mandated outcomes from the negotiations themselves; and (2) the three procedural guarantees that have governed trade-negotiating authority since its inception.

No Mandatory Outcomes

Since its original enactment as part of the Trade Act of 1974 until its expiration in April 1994, trade negotiating authority has laid out general and specific negotiating objectives for multilateral and bilateral negotiations and included numerous procedures to promote consultations and collaboration between the Executive and Legislative branches. During its almost 20-year history, however, such authority has never once mandated any particular outcome from the negotiations. That is, the application of TPA has never been made contingent on either the inclusion or the exclusion of any particular provisions in a final trade agreement. Rather, TPA has consistently provided U.S. negotiators with the flexibility to negotiate the best agreements possible in consultation with Congress.

To change course and mandate or proscribe any particular outcome would tie the hands of U.S. negotiators and would undermine our ability to even launch negotiations as other governments may well adopt a similar approach, trying to rule out or rule in certain issues before the negotiations even begin. It would, I believe, be an even greater barrier to forward momentum on trade liberalization than no trade promotion authority at all since some countries would likely flatly refuse to even negotiate with the United States depending upon what was mandated.

We should not, for example, use trade promotion authority to *mandate the inclusion or exclusion* of labor and environment issues in all trade agreements. There remains much disagreement in the developing world, not to mention in the United States, over how to address these issues. Mandating the inclusion of labor, environmental, or other particular issues as a condition for the application of TPA will impede, rather than promote, the very trade liberalization and economic growth that support the adoption of higher standards throughout the world. The same can be said about mandating or proscribing the inclusion of any particular provision.

Starting down this road would also greatly complicate Congress’ consideration of TPA. Like the Smoot-Hawley Tariff Act of 1930, there would be pressure from a myriad of different interests would likely seek to mandate the inclusion or exclusion of particular provisions.

It is vital, therefore, that the final TPA legislation maintain the traditional negotiating flexibility contained in all prior approvals of this authority, without mandating or proscribing particular outcomes.

Procedural Guarantees

Trade promotion authority from its inception has been defined as providing three key procedural guarantees for Congressional consideration of bills implementing trade agreements: (1) an up-or-down vote within a time certain; (2) limited debate; and (3) no amendments to the implementing legislation.

We in the business community recognize the importance of Executive-Congressional negotiations on the contours of this legislation. I would, however, offer one brief comment on the importance of maintaining these guarantees. The essence of these procedural guarantees is that Congress agrees to vote on the implementing legislation on a date certain without amendment. It is that principle for which our trading partners seek assurances. Without maintaining that principle, there is no guarantee that Congress will consider the legislation or that Congress will vote in the end on legislation to implement the agreement actually negotiated. This is the essence of TPA that we believe should be retained. Whether an agreement is in our national interest needs to be addressed by looking at the whole package.

That being said, we at ECAT recognize that there may be other changes that can improve the operation of these procedures, such as to promote greater Executive-Congressional collaboration or the ability of all Members of Congress to voice their opinion about the legislation by extending for instance the actual length of time for debate. We look forward to learning of your proposals.

ADDRESSING CONCERNS ABOUT TRADE LIBERALIZATION

We in the business community also recognize that there are issues beyond trade that are of concern to U.S. workers and their families that have become involved in this debate. From ECAT's perspective, we agree that there are serious labor, environmental, and other issues that need to be addressed in the international context. Before rushing to adopt solutions that may not be effective, however, it is critical that policymakers first work to define the United States' objectives in these areas and then determine how they can best be achieved.

As the World Bank and others have documented, it is precisely through increased trade and economic growth that developing countries are better able and increasingly motivated by a growing middle class to improve labor and environmental standards. Since World War II, the liberalization of trade has produced a six-fold growth in the world economy and a tripling of per capita income and enabled hundreds of millions of families to escape from poverty and enjoy higher living standards. A recent World Bank study shows that developing countries that participate actively in trade grow faster and reduce poverty faster than countries that isolate themselves. In the 1990s, per capita incomes grew 5.1 percent in developing countries with high trade and investment flows, while more isolated countries saw incomes decline by 1.1 percent.

If we care about improving standards and the environment in these countries, impeding trade liberalization is not the answer.

Mr. Chairman, Members of the Committee. Most business leaders are practical people who generally approach issues without pre-existing ideologies. From my perspective, the way forward on these issues is to first reach consensus on what our objectives are in the international labor and international environment arenas—just as ECAT supports doing with respect to our trade and investment objectives.

After identifying and prioritizing our labor and environmental objectives, we need to identify the right solutions for each. My initial view is that—for the most part—these issues are best addressed through their own agendas in organizations with the appropriate technical expertise and *not* as add-ons to the trade agenda. Much, for instance, is already being done at the International Labor Organization, the NAFTA Commission for Environmental Cooperation and elsewhere. Those efforts can be intensified. For example, if our priority is to ensure clean water and sewage treatment along the Southwest border, would not increased funding of the North American Development Bank and similar activities be more fruitful than imposing sanctions on Mexico?

These issues are complex and some solutions that have been offered in the trade arena are counterproductive. Particularly compelling is the case of exploitative child labor. The International Labor Organization's International Program for the Elimination of Child Labor (IPEC), with significant financial support from the United States, is engaged in serious work to address child labor problems in several key countries—countries like India and Pakistan that will not come to the table in a trade negotiation to talk about labor issues.

The ILO's approach is based on almost a century of experience and recognizes not only the problem, but also its causes. IPEC has provided substantial support to many children and their families in a positive manner and does not, as some suggested solutions in this area have, result in moving children from one form of employment to another even less desirable sector. The 1999 Convention on the Worst Forms of Child Labor is already the fastest-ratified in ILO history; it has been ratified by 78 countries, including the United States. We are, therefore, very supportive of the Administration's interest in strengthening the ILO. We also strongly support

Congressional efforts to restore full funding or even increase funding to the ILO this year.

Now, there will undoubtedly be cases, where our labor and/or environment and our trade goals complement one another. In such cases of complementarity, we should support both sets of goals in a cooperative and trade-liberalizing way. Consider the issue of agricultural subsidies in China, which have a devastating impact on water and land resources in that country. It is important for both trade and environmental reasons to help China end the use of such subsidies and to open its market to agricultural imports. This is an area of complementarity. Another obvious area is the issue of tariffs on environmentally-clean technologies. Reducing tariffs and promoting trade in these items will have a positive environmental impact throughout the world.

There is also careless rhetoric about the impact of American business expanding into certain markets. I have traveled extensively to developing markets. These countries and their citizens overwhelmingly want U.S. businesses to locate there. They provide better jobs, better working conditions and higher wages than their neighbors working for home-based companies.

We should also not underestimate the role and the effectiveness of the NGOs in monitoring and affecting bad working conditions and environmental concerns.

Linkages Must Be Positive; Sanctions Are Counterproductive

Two final points on these linkages. First, I and my fellow CEOs feel very strongly that any linkages with labor and/or the environment should, for the most part, be positive and non-punitive. Sanctions are too often ineffective and counterproductive. Let me offer a few reasons:

- The practical—most countries that have labor and environmental problems that we want to address will simply not accept trade sanctions as part of a trade agreement. For many of these countries, which are also reluctant to open their economies, it is viewed as another reason to avoid new negotiations.
- The impact—trade sanctions target export industries, which oftentimes have the highest labor and environmental standards as a result of the involvement of U.S. companies. Trade sanctions would undermine precisely those industries and the examples they set.
- The result—such sanctions are largely counterproductive. By impeding economic growth and trade liberalization, sanctions limit the ability and motivation of countries to increase such standards.

As I discussed earlier, we at ECAT believe there are many positive ways to address international labor and environmental issues. We are very interested, for example, in seeing many of the parallel policies on labor and environment highlighted by the Administration and the New Democrats in their TPA proposals implemented. It is frankly through those positive policies, such as technical assistance and incentives, that much of the best work can be done.

Review and Transformation of the Trade Adjustment Assistance Programs

Second, we should address U.S. workers' anxieties about trade directly—through the reauthorization and transformation of the Trade Adjustment Assistance (TAA) programs to address more fully the needs of today's workers. Despite the importance of trade and investment liberalization in supporting economic growth and a high standard of living in the United States, there remains much skepticism on whether the United States should continue to pursue liberalized trade and investment. In a recently published book, *Globalization and the Perceptions of American Workers*, Drs. Kenneth Scheve and Matthew Slaughter review public opinion surveys dating back to the 1930s documenting this uncertainty. Their review indicates that while a large majority of Americans acknowledge the gains from globalization, a plurality to a majority are worried about the impact of trade and globalization on labor issues, particularly lower wages and the loss of jobs in this country.

The original TAA programs for workers and for firms were enacted as part of the Trade Expansion of 1962. These programs were premised on the recognition that while trade liberalization supports economic growth and prosperity for the United States as a whole, certain workers and companies may be adversely affected by the adjustment to trade liberalization. The TAA for Workers and the TAA for Firms programs enacted in 1962 were last modified in any significant manner as part of the Trade Act of 1974.

The third TAA program, NAFTA-TAA for Workers, was enacted as part of the NAFTA Implementation Act in 1993 and is focused on workers adversely impacted by trade with Canada and/or Mexico. The NAFTA Implementation Act also established a fourth program, the Community Adjustment and Investment Program (CAIP), to provide funds for community adjustment and investment.

As the U.S. economy has changed considerably since the enactment of the original TAA programs, so have the needs of the U.S. workforce, particularly as technological development accounts for a substantial proportion of the dislocations experienced in the U.S. workforce. It is imperative that expanded efforts be undertaken to educate and empower the U.S. workforce by providing the necessary tools, opportunities, and assistance to facilitate the transition and ensure the health and success of the U.S. economy. ECAT supports, therefore, an extensive review and transformation of these programs.

While there is no lack of support for the objective of these programs, support for the extension of the TAA programs has declined in recent years as complaints have grown over the effectiveness and proper role of these programs. Last year, this Committee requested the General Accounting Office (GAO) to perform a comprehensive review of the three primary TAA programs and the CAIP in 2000.

The GAO's initial reports confirm some of the concerns over the TAA programs that have been raised in recent years. In its October 2000 report, *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*, the GAO found that 75 percent of TAA beneficiaries in FY 1999 were able to find follow-up employment, but only 56 percent of those workers earned 80 percent or more of their prior wage. While training improved wage and employment outcomes for workers, training rates have declined substantially in the 1990s (from 31 percent of eligible workers in FY 1995 to 18 percent in FY 1999). Some states have suspended training and established waiting lists because of Labor Department funding delays. Differing eligibility rules between the general TAA for Workers and the NAFTA-TAA programs also impede the provision of assistance, as do time limits on training.

GAO's review of the TAA for Firms program and the CAIP illustrated even greater concerns. In its December 2000 report, *Trade Adjustment Assistance: Impact of Federal Assistance to Firms is Unclear*, the GAO was unable to determine the impact of these programs since there is no formal monitoring and tracking of program results, as well as limited funding. In its September 2000 report on the CAIP, *Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program*, the GAO found significant managerial deficiencies and inefficiencies that delayed implementation of the program for more than three years and continue to delay approval of loans and grants. Eligibility procedures are complex and appear to undercount dislocated workers. Furthermore, notification and outreach to communities designated as eligible are very limited, further undermining the ability of this program to address the adjustment needs of communities and workers. Since 1997, the CAIP provided \$257 million in loan guarantees, loans and grants to 83 of the 228 eligible communities. Like the TAA for Firms program, GAO found that the CAIP lacks any monitoring system and, therefore, was unable to determine whether distributed grants and loans have been effective.

This year provides an important opportunity for engaging in an extensive review and transformation of the TAA programs to address more fully the needs of today's workers. I understand that there continues to be much work by this Committee on trying to move forward on these issues. Many scholars and others are also working on ways that this can be done, with various proposals on expanding TAA to address technology-based dislocations, wage insurance, and/or health care portability.

Nor is this solely the role of the Federal Government. The McGraw-Hill Companies and other ECAT member companies are actively involved and commit significant resources to our own education and retraining efforts to address the needs of today's workforce. We have focused on continued education and intensive retraining through the use of community colleges, the Internet, our own McGraw-Hill Lifetime Learning training modules and other education resources. These programs, in conjunction with government efforts, represent an important facet of worker readjustment efforts.

CONCLUSION

Mr. Chairman, Members of the Committee. Trade and investment expansion are critical to the prosperity of the United States and trade promotion authority is an important tool to continue that expansion in the interest of all Americans.

One last point. After an incredible period of sustained economic growth, business is facing economic pressure not felt in some time. Consequently, it is more important and timely than ever that we rededicate ourselves to expansionary trade practices and open markets so that the promise of the global economy can be made fully available to U.S. business and workers as well as our counterparts elsewhere.

My fellow ECAT CEOs and I are committed to ensuring that the United States regains its leadership role on trade and pursues aggressively trade-liberalizing op-

portunities throughout the world. President Clinton should have had Trade Promotion Authority, President Bush needs it and future presidents deserve it. I hope we can establish bipartisan consensus and provide our President and Congress with the power to expand opportunities for American business, workers and their families. I look forward to working with each of you and the Administration in your efforts to enact TPA this year. Differences don't have to mean deadlock.

I appreciate the opportunity to appear before you today on behalf of ECAT.

PREPARED STATEMENT OF HON. CHARLES B. RANGEL

Thank you Chairman Baucus and my dear friend Senator Grassley. I am pleased to be here with my brother and Ranking Member on the Ways and Means Trade Subcommittee, Congressman Levin. When you talked about what is the good news, you are the good news as Chairman. This is not because you are a Democrat or because my friend Mr. Grassley is a Republican. But because of the tone you set that when you're dealing by foreign policy and trade policy.

I think we all enjoy a sense of pride in that policy being bipartisan. And I think by having the Senate in Democratic control that some of us feel that, even if you're losing on these issues, that we have a chance to have it debated. And that's what this Congress should be all about. Not just winning but being able to go back home and talk to your constituents and say through you their concerns have been heard. And certainly you two have demonstrated most recently on the tax bill a bipartisanship that may be a little too much for me to consume. Nevertheless I am confident whether we're talking about "Trade Promotion Authority" or "Fast Track" that everyone will have an opportunity to try to develop a bipartisanship approach to very important subject matter.

Because, as you said Mr. Chairman, there is no one that is more concerned about maintaining our competitive edge, expanding economic growth, and that realizing that in order to do this we have to find new markets, we have to break down the barriers to trade. And some of us believe that we can do these things and protect certain values that are not just American values which we're so proud of, but international humane values. And if we can do this, as we protect investors and intellectual property rights as we should, then we should also have on our agenda to make certain that our trading partners maintain core standards in protecting labor and protecting the environment which we inherited and which we would like to leave in better shape than we've had.

So it's not that we would want to dictate and to superimpose our standard on other countries. As a matter of fact, the government of Jordan was the one that was setting the standards and we were agreeing with them. Countries have the same sense about their people as we do about ours. The same goes for the environment. They now find, instead of the House responding to an agreement that passed last year and was negotiated last year, that we're asking them to disable their agreement, in order to reach our lack of standards.

We are here to say, "help us to try to create the atmosphere for us to get together to see what we can do." And don't put up barriers between us based on party labels.

Yesterday, in the Congress Daily AM the leading story was "GOP House Leaders Seek Trade Vote Before August Recess": "The House Republican Leadership has decided to try to put presidential trade negotiating authority to a vote during July, bringing the simmering war over the measure to sizzle far sooner than many had expected. According to congressional and K street sources, last week's introduction of a measure by Ways and Means Trade Subcommittee Chairman Phillip Crane, R-Ill., was part of an effort to jump-start consideration of the bill and secure a vote before the August recess." The hurtful thing about this is not that Chairman Phil Crane is not my friend he is but that he has never discussed this subject matter with me since we've been in the Congress. This is the same Subcommittee Chairman and the same committee that effectively negotiated the African Growth and Opportunity Act, that worked on the Caribbean Basin Initiative, and that we worked with to normalize trade with China. And yet this subject matter has not been discussed with any Democrats: not the Ranking Member of the Trade Subcommittee, not the Chairman of Finance, not with anyone. And unilaterally we find out about this in Congress Daily. What a way to start on bipartisanship?

And the President said Monday in a speech that he gave: "And I mean a trade promotion authority bill, too, that's not laden down with all kinds of excuses not to trade." Did we act like we were looking for excuses not to trade when we worked with Republicans in the House and the Senate in order to get these trade agreements through last year? "I want a bill that doesn't have these codicils on it, that frighten people from trading with us." What have we said as Democrats or Members

of the Congress that would frighten our trading partners? “I like to remind people that if you’re a poor nation, it’s going to be hard to treat your people well, and if you’re a poor nation, it’s going to be hard to have good environmental policy, and trade is the best way to eliminate poverty, therefore, our trade agreements ought to be free from codicils which prevent us from freely trading.” That’s the President. So you see what we’re up against on the House side.

We want to join with you in saying that we don’t believe that there are any obstacles that by sitting down together that we can’t overcome because we have a same common goal. And that is to continue to improve the quality of life of United States citizens, to encourage and support economic growth, and to have a free trade policy that protects us here and at the same time allows us the benefits of trade. So we welcome the atmosphere that you’ve set Mr. Chairman and I have the deepest respect for Mr. Grassley because he has already indicated his willingness to work with us on this subject. Whatever influence you have on the House, suggest to them that we and others who happen to not be Republicans are anxious to sit down and to work with them.

Thank you so much.

PREPARED STATEMENT OF HON. JOHN D. ROCKEFELLER IV

Let me start by commending the Administration for its recent decision to initiate a section 201 action on steel. I think the President did the right thing—and I say this as someone who holds a general philosophy of free trade.

If U.S. firms can not compete on even terms in the global marketplace our government has no business in trying to protect inefficient businesses. But, on the other hand, the United States can not and should not look the other way if foreign manufacturers attempt to dump their products into our country at prices that do not fairly reflect the true costs of production.

In this regard, I just want to say that while I am not against talking about and, if necessary, refining the U.S. laws on unfair trade practices, I am against changes whose net effect would be to weaken these laws.

I have great faith that Secretary Evans and Ambassador Zoellick would not lead us down the wrong road in this area and I do not want to hamstring them by urging the absolutist position that the United States will not even talk about these issues with our trading partners. Neither the Administration nor Congress will give away the store with respect to unfair trade practices. But we also do not want to get caught in a position of inviting our trading partners to tell us they won’t discuss some issue important to the United States based on an absolute insistence by us of not even talking about the U.S. trade protection laws.

Let me just say again that I must commend Secretary Evans and Ambassador Zoellick for the Administration’s decision on steel. And as important as this action is to the steelworkers and steelmakers in Utah and in other states, I continue to support the Administration in its efforts to address the root cause of the crisis in domestic steel industry which is global overcapacity.

I am also please to support some key nominees that the Committee will vote out today.

As do Chairman Baucus and Ranking Member Grassley, I recognize the importance of the role of the chief agricultural trade negotiator. I know Alan Johnson will do an excellent job in that critical post.

And while I am talking about nominees, let me just say that it my hope that the Committee will soon take up the nomination of Jon Huntsman, Jr. to be Deputy United States Trade Representative. Jon is from Utah. I know him well. I can tell all my colleagues that he will be of great assistance in the U.S. trade efforts in the Far East. He even is conversant in Mandarin.

Finally, with respect to nominees I also want to say I am pleased that Wade Horn has been nominated to the position of Assistant Secretary for Family Support at HHS. Dr. Horn has a long history of advocacy on behalf of children and families with a special emphasis on the vital role of a strong, loving father in the life of a child. During the 107th Congress, we must reauthorize the Temporary Assistance for Needy Families (TANF). Dr. Horn brings compassion and expertise to the debate over the important issues associated with this reauthorization. Wade will be a key player in the critical area of supporting families and children.

Now, back to the matter at hand—trade promotion authority. First I want to commend Senator Baucus for holding this hearings today and yesterday.

Trade promotion authority will benefit for the workers and firms of Utah and throughout the United States. I am pleased that the House appears to be moving forward on consideration of this important legislation. We all knew that every for-

eign capital is watching the developments in Washington, D.C. on trade promotion authority.

Now Chairman Baucus, let me just say that I applaud the way that you and Senator came together on the tax bill. I know you took some hits in your own caucus on that issue. But you did the right thing for the people of Montana and the American public.

I know that you are a great believer in the benefits of international trade.

The U.S. has much to gain. For example in the growing area of e-commerce we have much work to do to see that the fruits of U.S. innovation are protected and respected by our trading partners. The ability to download important data is a twin-edged sword. Data, music, and movies can be immediately transported to the four corners of the earth. We must make certain that this valuable information is adequately protected.

So we have much to do. And we have to work together to do it.

Mr. Chairman, I saw what you did on taxes. I was a little taken aback on the pessimism with respect to TPA in your opening statement. Frankly, I am not sure it is constructive to characterize the President's views on labor and environment as "trite, partisan rhetoric."

Let's spend our time and energy resolving these issues, not making the obstacles bigger than the already are. If we work together the citizens of Utah and Montana and across the country can get a tremendous benefit from trade promotion authority legislation.

PREPARED STATEMENT OF PETER L. SCHER

Thank you, Mr. Chairman, for the opportunity to testify before the Finance Committee today.

Since you have heard and no doubt will continue to hear a number of very distinguished witnesses articulate the economic case for why trade, and in particular, Trade Promotion Authority, is so important to the United States and our economy, I wanted to use my time this morning to address how we begin to realize the benefits of trade at a time when there is deep public scepticism—indeed, in many cases—strident opposition to globalization? How do we square the benefits and the potential of our global economy with rioting in the streets of Seattle? How do we build support and a constituency for trade among American workers and farmers?

Given the clear economic and social success of previous efforts to promote trade, you might conclude that support for future efforts should be easy. We know, of course, that's not the case. Despite fifty years of immense economic, technological and social progress where the world economy has grown six-fold, per capita income world-wide has tripled, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds and famine has all but disappeared from most of the earth despite all of this, there remains among so many Americans and frankly, so many citizens throughout the world, a deep skepticism about the global trading system. We saw it in Seattle. We saw it in Quebec City. We saw it last week as the leaders of the European Union met in Sweden.

While it might be expedient to dismiss all of the opposition in the streets as part of the fringe, young people searching for a cause, there is clearly a divide in this country on trade. A growing view that the global trading system benefits elites or big corporations and does not address the concerns of working people. Even among those Americans who accept that trade can benefit our economy, many believe that those benefits are outweighed by the costs for many sectors of our society.

The challenge then is how do we overcome these perceptions to regain support of the American people for moving our trade agenda forward?

This may be a political question—but it need not be a partisan question. No significant trade legislation in the post-War history has been achieved without bipartisan consensus. In the last ten years, all of our trade accomplishments: fast track in 1991, NAFTA in 1993, the Uruguay Round in 1994, PNTR for China last year all of these required bipartisanship and active support from the President. By the same token, no future trade achievement will be possible without bipartisan support.

The question is, how do we do it?

Trade Promotion Authority is the obvious starting point for this discussion. TPA has significance that is both practical and symbolic. From a negotiator's standpoint, it is far easier to engage in trade talks under a clear grant of congressional authority. In fact, many of our trading partners demand it. More broadly, TPA symbolizes our national commitment and Congress's commitment—to trade expansion. The im-

portance of TPA to our workers, farmers, businesses and the entire U.S. economy cannot be overstated.

But the debate over TPA has largely become a debate over labor and environmental standards. The threshold question is this: Are labor and environment legitimate topics for trade negotiations? For several reasons, I believe they are.

First, it is a matter of economics. With fierce competition in the global marketplace, the manner in which a country treats its labor and environmental standards can be very relevant to the economic position of our own companies. However repugnant, slave labor and child labor do confer a competitive advantage on countries which employ them—but that is not a competitive advantage which the world trading system should accept as legitimate. The concern about US compliance with the Kyoto Convention to lower CO₂ emissions is based on the belief that it would give an unfair advantage to competitors from developing countries. By this logic, shouldn't we also be concerned about countries that weaken or fail to enforce their environmental laws thereby placing US companies at a competitive disadvantage?

In my view, it is clear that labor and environment standards can have a direct economic impact that justifies their inclusion in trade negotiations.

The second argument, frankly, is one that both President Bush and Ambassador Zoellick have so eloquently offered that is, our trade policy should reflect our values. One of the values that it seems we can all agree on is that trade should lift people up, raise their standard of living and not become a race to the bottom with countries offering the lowest standards to attract investment.

So if you accept on some level that these issues are at least relevant to the trade discussion, the question then becomes, what kind of commitments should we be asking countries to make. I don't believe there is one answer to this question. Every trade negotiation and every trade agreement is different. One size does not fit all.

In terms of labor standards, I would suggest that it is reasonable and right for the United States to promote so-called "core labor standards," as defined by the International Labor Organization. These are:

- elimination of forced labor;
- the abolition of child labor;
- the right to organize and to bargain collectively; and
- elimination of discrimination in respect of employment.

These are not exactly what you would call radical concepts—in any country. In fact, virtually every country in the world is a member to the ILO conventions recognizing these rights. It is not unreasonable to suggest that when we open our market to the products and services from other countries they maintain these basic labor standards.

On the environmental side, my own view is that the recent U.S.-Jordan FTA struck the right balance. The agreement recognized the right of each country to establish its own level of domestic environmental protection and established as a goal that each country "strive" to ensure that its laws provide for high levels of protection. Further, the agreement recognized that it is inappropriate for one country to attempt to gain a competitive economic advantage by relaxing their domestic laws and that the countries should, once again, "strive" to ensure that they don't waive or derogate such laws to encourage trade.

This is, in my view, a reasonable approach that respects the sovereignty of each country while recognizing the impact that these issues can have on global commerce.

Once we have established the obligations, the other difficult issue arises: how should those obligations be enforced?

In my view, one of the main reasons the public fails to support trade is the view that while the United States keeps its commitments and opens its market, other countries do not keep their obligations. The American people need to have confidence that when other countries make trade commitments, they keep those commitments. An effective enforcement mechanism is critical to this.

In my own experience, effective enforcement of trade commitments requires a credible threat that there's a price to pay for a country failing to fulfill its obligations. We saw this with beef in Korea, with IPR protection in China, and with magazine sales in Canada as well as a host of other disputes. In the banana case which Ambassador Zoellick recently concluded, Europe refused for years to even discuss a resolution until there was a real possibility of retaliation. While sanctions has taken up much of the debate over enforcement, sanctions may not be the only way, nor are they always the best way to achieve enforcement. But whatever mechanism is developed must be credible and must ensure that there is a price to pay for violating obligations. U.S. negotiators must have a range of options, including sanctions, to use as appropriate to ensure enforcement of trade commitments.

Mr. Chairman, I recognize that the issues of labor and environment are complex. I know you're hearing conflicting advice from both ends of the political spectrum. On the one hand, there are those who believe that trade linkage is the mechanism for resolving all of society's ills. I disagree with them. There are those who believe that trade and environment issues have no place in discussions of trade. I disagree with them as well.

There is a middle ground. In the spirit of throwing some ideas on the table, let me summarize the four elements that I believe are critical to building a new consensus on trade:

First, preserving national sovereignty: In setting standards, our starting point must be the sovereign rights of nation states. That means that no country should be held to an obligation that it has not willfully accepted. In labor, this generally would mean compliance with ILO core labor standards—which virtually every country in the world already has accepted. In the area of the environment, this would mean compliance with a country's own environmental laws.

Second, there should be no "second class" standards: When obligations are undertaken in the context of trade agreements—they must be upheld and all obligations must be treated equally. Labor and environment obligations should not be treated as less important than other trade obligations. There must be parity.

Third, there are limits: Disputes over labor and environmental issues should not be a part of trade agreements except where those disputes are directly related to trade. We should not make our trade agreements the fora for resolving every dispute over labor and environment. But we should also not allow countries that have open access to our market use their own environmental or labor standards to gain a competitive advantage. The requirement for a direct relationship to trade is a reasonable line.

Fourth, enforcement is the key: Sanctions are not a cure-all for compliance we've seen that in our dealings with Europe. But U.S. negotiators need the flexibility of an array of options that includes consultation, negotiation, adjudication, incentives and fines. Trade sanctions must also be one tool in the toolbox available to negotiators. When negotiators bring an agreement back to Congress for approval, they will have to demonstrate that whatever enforcement mechanism they developed is adequate for ensuring compliance.

The labor and environment issues underscore an essential fact about the trade agenda it's a moving target. Twenty years ago, trade negotiations focused primarily on tariffs and quotas. The politics of trade were tough then too, but the mechanics were mostly about math. Ten years ago, after years of effort we began to address agriculture, services and intellectual property, despite cries from many that these were not appropriate topics for trade negotiations and should better be left to other fora. While much work remains in these areas, their position on the agenda at least is clear.

Winning public support for trade requires us to keep up with the times to continue to address the issues that arise as the world economy evolves. One clear example today is the digital economy. When we concluded the Uruguay Round in 1993, there were a grand total of 130 sites on the world wide web. Today, there are 476 web sites devoted to Britney Spears alone. More than 300 million people are online, which is expected to grow to more than 1 billion by 2005.

The Internet is changing the way all of us do business, are entertained, for many, it is providing educational opportunities that once seemed impossible. Addressing issues on the cutting edge of the technological revolution, developing a framework for a networked global society, these are some of the complex issues facing our trade negotiators today that our trade policies must keep pace with.

In the agriculture sector, which I know is of interest to many members of this Committee, our greatest challenges are no longer just high tariffs and restrictive quotas, but what are too often phony scientific barriers that countries use to block our exports of beef to Europe, or varietal fruit to Japan, or corn and other grains developed through modern biotechnology. The ability of U.S. negotiators to address these complex issues must be reflected in the grant of trade negotiating authority. Let me take this one step further: one of the complaints I often heard when I visited with farmers and other agricultural leaders throughout the country had to do with the different environmental standards our competitors had to comply with. As the Chairman, and other Members of the Committee may remember, this is one of the key concerns that many farmers in the Northern Plains states have about their competitors in Canada that Canada farmers have different environmental requirements which skew the market-place. To limit the ability of negotiators to address these issues, frankly, will not help advance a more competitive and level playing-field for American farmers and ranchers.

Mr. Chairman, obviously none of these issues are easy. If they were, you wouldn't need to call all of us here today. There are competing interests and competing pressures, as well as genuine disagreement. But the challenge we face, to build a trading system for the 21st Century, to help create jobs, maintain prosperity and promote our shared values that is very real and it requires the support of the American people.

The creation of the trading system in 1948 and its development over the next fifty plus years stands as a tribute to the ability of American leaders to define and realize our common interest. That is the challenge we face today and it is imperative that we meet it.

I very much appreciate the opportunity to take part in this discussion.

PREPARED STATEMENT OF JOHN J. SWEENEY

Chairman Baucus, members of the Committee, I am glad to have the opportunity to talk with you today on behalf of the thirteen million working men and women of the AFL-CIO about proposed fast track legislation.

How the Congress chooses to delegate trade negotiating authority to the executive branch will have an enormous impact on the content of new trade agreements, as well as on the process of negotiating these agreements. Our members recognize that their jobs, their wages, and their communities have been profoundly affected by past trade agreements, and they want their voices heard as these important decisions are made.

Today, our country finds itself in the middle of a heated debate over the rules and the institutions of the global economy. Ordinary citizens from all walks of life are educating themselves, forming new alliances, and sometimes even taking part in street demonstrations, as they conclude that the global community needs a dramatic change in trade, investment, and development policies if we are to build a global economy that truly works for working families—here in the United States and around the world.

These ordinary citizens reject the status quo of growing global inequality, persistent poverty, financial and political instability, egregious human rights abuses, and environmental degradation. And it should come as no surprise that American workers reject trade proposals that ignore continued job loss at home. Mr. Chairman, we have lost almost half a million manufacturing jobs since the first of the year. These outcomes are not inevitable; they result from the rules and institutions we put in place. The Congressional debate about fast track legislation is a crucial starting point to begin addressing these serious problems.

Last week, Congressman Phil Crane introduced a fast track bill called the "Trade Promotion Authority Act of 2001," H.R. 2149. Astonishingly, Mr. Crane, with the support of the Republican leadership of the House of Representatives, chose to completely ignore the debate that has raged in the halls of Congress, and on the streets of Seattle, Quebec, and Washington, D.C. over the last several years—a debate about how to reverse some of the devastating impacts of unchecked globalization on workers, on family farmers, and on the environment.

Instead of acknowledging and correcting the failures of current policies, Mr. Crane's bill simply offers more of the same, and would send our negotiators to the table with virtually the same set of instructions that produced today's global inequities. **In fact, H.R. 2149 represents a giant step backwards, even from the flawed fast track rejected by the Congress in 1997 and 1998.**

Even many in the business community now acknowledge that our trade policies must address the crucial issues of labor and environment, although we are far from consensus on precisely how to do so effectively. And polls consistently show that a huge majority (between 75% and 95%) of the American people believe our trade agreements should include workers' rights and environmental standards. But H.R. 2149 does not even mention workers' rights and environmental standards, not as negotiating objectives, not as ancillary issues to be considered, certainly not as what they ought to be: key national priorities.

This fast track bill lists four overall objectives and ten "principal negotiating objectives." It offers considerable detail and an ambitious agenda for our negotiators on issues as diverse as market opening, trade in services, investment rules, intellectual property rights, and agriculture. It instructs our negotiators as to precisely what kinds of enforcement mechanisms they ought to seek with respect to protecting intellectual property rights: "accessible, expeditious, and effective civil, administrative, and criminal enforcement mechanisms."

Yet in 52 pages, this bill never so much as mentions workers' rights or environmental protections. It also fails to acknowledge many of the concerns that have been

raised by development, labor, and religious groups with respect to negotiations on services, intellectual property rights protection, and investment.

The only place in the bill where labor and environmental provisions could conceivably be included is in a section titled, "Other Presidential Objectives." The President may include in a trade agreement an issue not explicitly mentioned in the principal negotiating objectives, so long as it is (1) directly related to trade, (2) consistent with the sovereignty of the United States, (3) trade expanding and "not protectionist," and (4) does not prevent a country from changing its laws in a way consistent with "sound macroeconomic development."

These four constraints do not apply to any of the principal negotiating objectives, so they must be designed precisely to limit the President's ability to negotiate meaningful labor and environmental provisions.

Two of the four constraints ("directly related to trade" and the one concerning "sound macroeconomic development") were also included in the 1997 and 1998 fast track bills.

But two constraints are new: requirements that provisions be consistent with sovereignty and trade expanding (similar to language in President Bush's Trade Agenda). It is worth noting that H.R. 2149 does not require that negotiations on investment provisions in new trade agreements also be "consistent with U.S. sovereignty," even though many legitimate concerns have been raised about the impact of NAFTA's Chapter 11 on U.S. environmental, public health, and labor regulations.

And the requirement that "other objectives" be achieved in a way that is "trade expanding and not protectionist" appears to be an attempt to preclude the use of trade sanctions to enforce workers' rights and environmental standards. This takes viable enforcement mechanisms off the agenda before we even sit down at the negotiating table. Congress should reject this lopsided approach.

H.R. 2149 also constructs additional procedural hurdles that apply only to these "other objectives." The Crane bill requires the president to engage in additional consultations with Congress and advisory committees before he starts to negotiate provisions on labor and the environment, and those consultations must address how any such provisions will comply with the four limitations laid out above.

Unlike the 1997 fast track bill, H.R. 2149 contains no positive goals with respect to promoting respect for workers' rights or supporting the work of the International Labor Organization (ILO). While these previously proposed provisions were far from adequate, it is remarkable that this bill does not even make a pretense of addressing these concerns. Certainly, this bill offers the President no guidance whatsoever in terms of laying out a positive agenda with respect to these important issues. And this bill places the President under absolutely no obligation to demonstrate any progress with respect to labor and the environment, in contrast to the "principal negotiating objectives."

The lack of any positive agenda in this fast track bill to improve the protection of workers' rights is simply reinforced by President Bush's budget. President Bush proposes slashing in half the funding the United States allocated in the year 2000 for international labor initiatives, including ILO programs to prevent child labor and promote respect for core workers' rights.

The 1997 fast track bill offered some non-binding "guidance for negotiators" with respect to domestic U.S. policy objectives. It instructed negotiators to "take into account" domestic objectives, "including the protection of health and safety, essential security, environmental, consumer, and employment opportunity interests, and the law and regulations thereto." Given the concerns raised over ongoing investment and services negotiations and the unwelcome outcomes of past agreements, this language needs to be strengthened, expanded, and made binding on negotiators. **Instead, H.R. 2149 leaves it out altogether, signalling to our negotiators that trade negotiations do not need to take these issues into account.**

All in all, this bill is an insult to the millions of Americans whose lives have been adversely affected by current globalization policies and an affront to those who have struggled to come up with constructive solutions to complex policy problems.

The AFL-CIO believes that any trade negotiating authority must **require** the inclusion of enforceable workers' rights and environmental standards in the core of all new trade agreements. New trade agreements must ensure that all workers can freely exercise their fundamental rights and require governments to respect and promote the core labor standards laid out by the ILO. Workers' rights and environmental standards must be covered by the same dispute resolution and enforcement provisions as the rest of the agreement, and these provisions must provide economically meaningful remedies for violations. Monetary fines modeled on the NAFTA labor side agreement or the Canada-Chile agreement are inadequate and have proven an ineffective means of enforcement. An agreement that does not meet these principles must not be considered under Fast Track procedures.

*It is **not** sufficient simply to revise the list of negotiating objectives to include workers' rights and environmental protections. Workers' rights have been among our negotiating objectives for more than 25 years, with very little progress being made.*

Congress must also ensure that ordinary citizens have access to negotiating texts on a timely basis, and that negotiators are accountable to both Congress and the public as to whether mandatory negotiating targets are being met.

Trade agreements must not undermine public services or public health, nor allow individual investors to challenge domestic laws. Trade authority must delineate responsibilities for investors, not just rights, and must not require privatization or deregulation as a condition of market access.

Trade negotiating authority must also instruct U.S. negotiators that a top priority is to defend and strengthen U.S. trade laws. Fast-tracked trade agreements must not prevent our government from implementing national policies to promote a strong manufacturing sector.

I commend Chairman Baucus and this Committee for scheduling a markup on the Jordan Free Trade Agreement next week. As you know, I share the view that this agreement marks an important advance in that it incorporates enforceable workers' rights and environmental protections in the core of a trade agreement, under the same dispute resolution as all the other provisions. I urge the Finance Committee to act expeditiously to pass it without any amendments, and to resist any attempts to undermine or weaken its provisions with executive actions such as side letters or memoranda of understanding.

I look forward to your questions and to working with you on these important issues in the months to come.

PREPARED STATEMENT OF MARK VAN PUTTEN

I am Mark Van Putten, President and Chief Executive Officer of the National Wildlife Federation, the nation's largest conservation education and advocacy organization.

For over a decade, the National Wildlife Federation has been involved in the development of United States trade policy. Our members are America's mainstream and main street conservation advocates who share a commitment to United States leadership in building a global economy that protects the environment while raising living standards for all people throughout the world.

A NEW CONSENSUS ON TRADE AND ENVIRONMENT

Today, we have an historic opportunity to demonstrate leadership and forge a new consensus on trade policy in the United States by developing Trade Promotion Authority that reflects the values and interests of all Americans. A new consensus on trade is achievable and within reach. Yet, the challenges ahead are significant.

Let me be emphatically clear. To the degree that a stereotype is being created in the public mind that the environmental community wants to "shut down" international trade, that stereotype is false.

Indeed, the greatest and most immediate risk to the trade agenda is in attempts to exclude environmental issues. This approach to trade promotion authority will polarize the debate and paralyze the process rather than begin the hard and deliberate work towards building consensus.

The National Wildlife Federation wants to get to yes on trade.

Even more, the National Wildlife Federation wants international trade to achieve its fundamental goal improving the quality of life for individual citizens in the nations that join international trade agreements. Because the quality of our air, water, land and wildlife is inextricably linked with our quality of life, the environment is inextricably linked with trade. We want that relationship recognized in U.S. trade policy and in international trade agreements.

The National Wildlife Federation supports further trade liberalization if U.S. and international trade policies and institutions are reformed with common sense measures to integrate economic and environmental priorities.

One of the greatest challenges facing the members of this Committee and the Administration is that the international trading system is in a crisis of plummeting public confidence. Until trade rules embrace such core democratic values as environmental stewardship, new trade agreements are unlikely to win the public support needed to implement them.

Regrettably, recent Trade Promotion Authority proposals lack specific assurances on environmental goals, may unnecessarily restrict the capacity of negotiators to address environmental issues in trade negotiations, and fall short of the mark in setting us on the road to consensus.

Three common sense, achievable principles must be incorporated into Trade Promotion Authority and trade negotiations before new trade agreements qualify for "Fast Track" treatment in Congress.

THE NATIONAL WILDLIFE FEDERATION'S THREE PRINCIPLES

1. Trade Liberalization Should Support, Not Undermine, Environmental Protection.

Expanding trade and protection for the environment can be compatible. The problem is that some have tried to use trade rules to undermine environmental protection, and there is a danger that environmental protection will be weakened in a misguided effort to gain trade advantages. Let me give several examples of the corrective action that must be taken to ensure that trade rules and environmental protection are compatible:

Trade Promotion Authority and new trade and investment agreements should ensure that private investors cannot challenge environmental laws before international tribunals.

NAFTA's Chapter 11 investment provisions have recently been used in major challenges to environmental safeguards. Chapter 11 creates the potential for challenges to environmental protections using trade agreements when such challenges would be rejected under U.S. law.

The problems with Chapter 11 need to be corrected and must not be replicated in new trade agreements. Trade law and policy should preclude the type of private right of action created under Chapter 11 which has been used by investors to challenge domestic laws such as those relating to water contamination, hazardous waste, and bulk water exports. Trade law and policy should also constrain overly broad interpretations of the terms "expropriation" and "fair and equitable treatment."

More generally, trade agreements must recognize legitimate national and international environmental standards. For example, individuals and nations should be able to take into account the environmental effects of how imports are produced.

Agreements should also ensure that nations enforce environmental laws and agree not to lower environmental standards to gain trade and investment advantages. Mechanisms to ensure compliance with environmental provisions in trade agreements should be on par with commercial provisions.

2. The United States Should Promote Global Consensus.

Liberalized trade abroad can be vital to securing the means for less developed nations to implement policies for sustainable development and environmental protection. But these results are not a given. They do not occur automatically. Trade agreements should be accompanied by a systematic program to assess and improve international environmental performance through cooperation, capacity-building assistance and technology transfer.

The United States should evaluate the lessons of NAFTA and strengthen and extend the commitment to environmental cooperation institutions under NAFTA and beyond. The level of engagement by the United States in these environmental cooperation institutions linked to trade agreements will be a key factor in measuring U.S. commitment to integrating trade and environment.

3. Trade Negotiation and Dispute Procedures Should Be Reformed to Make Them More Open, Democratic, and Accountable.

The era of international trade negotiations being insulated from public concerns, including respect for the environment, is over. Trade institutions and negotiations must adopt modern, democratic principles of due process, including recognition of the right of the public to review and comment on the written record of a trade dispute, access to the working text of agreements and a permanent role for nongovernmental organizations (NGOs) in trade institution activities. Environmental review of proposed trade agreements should be ensured so that the environmental ramifications are carefully evaluated and taken into account in deciding whether to join in an agreement and on what its terms should be.

THE ROAD TO CONSENSUS

Consensus on trade and environment will not be built in a day, but as work goes forward on Trade Promotion Authority legislation there are immediate opportunities for the Administration to demonstrate support for reasonable solutions.

For example, the Administration should support Congressional approval of the Jordan agreement 'as is' and with no strings attached in the form of interpretative agreements that erode what was accomplished.

For example, the Administration should reject efforts that are being made to undercut the checks and balances between the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) that ensure that environmental criteria are applied to infrastructure funded under NAFTA.

For example, in the upcoming meeting of the NAFTA environment ministers in Guadalajara, Mexico, the Administration should ensure that the new working group with responsibility for the Commission for Environmental Cooperation (CEC) biodiversity strategy will have stakeholder participation, including NGOs.

For example, the Administration should support the Article 14 and 15 citizen submission process and the issuance of factual records, including those involving the United States, since elucidation of the facts is the minimum that should be done to explore citizen complaints.

For example, the Administration should ensure full funding and provide strong support for the environmental cooperation institutions under NAFTA.

The list goes on. The point is there is no need to wait.

CONCLUSION

It is in the interest of all traditional trade advocates who remain committed to old approaches to take into account public concern for the environment as part of a new international trade system.

It is in the interest of everyone who wants trade to succeed to establish public confidence in the institutions and policies governing trade. Fortunately, consensus solutions are within reach and we look forward to working with this Committee and all concerned to find common ground.

In this effort, the National Wildlife Federation is engaged and committed to advancing the cause of conservation in the global economy. I can summarize by saying that we need to recognize for the new international economy what we began to recognize about our own national economy as the 20th century opened that trade is not an end in itself. It is a tool to achieve human aspirations, to improve standards of living and to enhance the quality of life. Our environment, our wild places and wild things are part of humanity's quality of life.

Thank you.

PREPARED STATEMENT OF ALAN WM. WOLFF*

Mr. Chairman, Members of the Committee:

I appreciate this invitation to return to the Senate Finance Committee. The first and most intensive visit that I have had with this Committee occupied much of the year 1974, when I represented the Administration in the drafting of the first fast track provisions.

That first, very successful effort of the Congress to work out terms for a partnership with the Executive Branch in trade now needs to be built upon. The provisions expired in 1993. U.S. negotiators and Congress need a new treaty of the Potomac for the United States to engage fully in broad international trade negotiations. There is no more important trade policy question that this Committee will face during this Congress.

What is called "trade promotion authority" legislation is not literally "authority" at all.¹ Under the Constitution, the President has full authority to negotiate with foreign countries, and the Congress can neither add to it nor subtract from this authority. Major trade legislation is not about "authority" in any formal sense. It is instead your way to create a mandate and set of objectives for America's negotiators and set the rules by which the Congress may approve and implement trade agreements. Passage of this mandate and adoption of a process for review and implementation would make U.S. negotiators far more credible abroad. It will also provide

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¹**Truth in labeling.** Russell Long, as Chairman of the Senate Finance Committee when the original fast track was conceived introduced a floor amendment to change the name of the bill from the "Trade Reform Act" to simply the "Trade Act of 1974", because, he announced, he was not sure how much "reform" was involved. Following that precedent, "trade promotion authority", which provides no authority to implement a major regional or multilateral trade agreement could better be described as the "Trade Mandate and Approval Process (Trade MAP)". "Fast track" is in fact a more accurate description of what the legislation that is sought would do.

the legitimacy that will make the results of their efforts far more likely to receive approval from Congress.

International trade is vital to America. The Trade Agreements Program, initiated by Franklin Roosevelt in 1934, has been extraordinarily beneficial to our economy and as well as to the world. Much in the way of trade liberalization and promotion of a rules-based system remains to be done. At the same time, there are defects in the current international trading arrangements that need repair and there are risks in new negotiations that should be avoided. This Committee must play a key role in assessing benefits and identifying deficiencies and risks so that trade agreements ultimately serve America's broad and specific interests, and so that the agreements negotiated meet with your approval and are implemented. Before the 1974 enactment of fast track, outside of instances in which specific advance approval was given, most trade agreements were gutted or spurned by the Congress. It is worth an intensive effort by this Committee to avoid returning to that sorry state of affairs.

NEGOTIATING PRIORITIES

a. The positive list

The continued opening of markets abroad should remain very high on America's list of priorities. This Committee will receive much advice from the private sector on areas in which specific benefits can be achieved. In particular, I would stress the following:

- Approving negotiation of a Free Trade Agreement of the Americas;
- Promoting integration of China into the world trading system—this is both of enormous geopolitical and economic importance;
- Assuring that the benefits of the technological revolution represented by E-commerce not become encumbered with new restrictions—as will surely occur absent new trade agreements; existing information technology goods and services should trade freely, without tariffs;
- Dealing more effectively with private restraints of trade, as they are more difficult to combat than more transparent forms of market closure, and are not effectively regulated.²
- Providing for balanced rules for border adjustment of direct and indirect taxes (for example by adopting the solution the U.S. and the European Community agreed to twenty years ago);
- Obtaining clearer and more effective rules on regional integration; and
- Continuing and accelerating agricultural and services trade liberalization under the WTO's "built-in agenda."

While some of these issues are not yet fully ripe for negotiation in all aspects, progress can be made, and they are all important. In addition, the means must be found to avoid protectionist responses to new scientific breakthroughs in agriculture, while respecting legitimate concerns over human health. Trade can and should promote America's social values as well. Solutions, whether through trade or through other means, must be found to serious issues raised over labor, human rights and the environment. Due consideration must also be given to fostering the continued economic development of the developing countries. However, proposals in these areas should not result in a reduction of the positive benefits that arise from a more open international trading system. It should be recognized that opening markets by itself leads to rising standards of living and reinforces the global trend toward the spread of democracy and the market economy as the most desirable means of organizing commercial activity.

b. What should not be done—the negative list

It would be a major error to proceed to negotiations assuming that all trading nations have relatively similar economies and legal systems. They do not. Differing economic and legal systems require keeping effective interface mechanisms in place. China, Russia, Japan, the United States, and the rest of the WTO Member countries, some to a greater degree, some to a lesser degree, differ substantially each from the others. Some are nonmarket economy countries or have nonmarket economy sectors, some have highly protected markets, some still utilize large government subsidies, and some use competition policy to limit foreign competition.

²It may not yet be possible to address private restraints of trade in the WTO. As the EU last proposed it, this subject holds more risks for world trade than benefits. This is the same reason that the International Trade Organization (the ITO) was spurned by the United States and never came into being.

What “preserving an interface mechanism” means in practice is that first and foremost, the trade remedies must not be diluted. The only way to accomplish this, given the fact that the 140 other WTO members would like to weaken the WTO-approved defenses against dumping and subsidies, is to keep these issues off the table. The trade remedies should not be subject to negotiation. You should take whatever measures are necessary to assure yourselves that this position is adhered to as the U.S. negotiating position. Sixty-three members of the Senate have recently written President Bush to put themselves on the record on this subject. This is not a minor issue. To open up the trade remedies would divide the American private sector in a way that could undermine any hope for sufficient support for approval of any major new agreements.

There are other matters of significance to be avoided: backsliding by developing countries on their obligations, such as on market access, phasing out subsidies and living up to intellectual property obligations.

c. Remedying current defects in the WTO—needed reforms

WTO dispute settlement has been one of the greatest disappointments of the new World Trade Organization. It has drawn criticism from both conservatives and liberals alike. The WTO’s dispute settlement panels are creating obligations that were never agreed to by the parties. Moreover, relying on ad hoc panels has led to concerns over bias and incompetent analysis, and has caused undue reliance on an international bureaucracy that has its own objectives. And the proceedings are carried out in secret, although there is no legitimate reason to exclude those in the private sector most directly affected by the decisions, nor any reason to exclude the press and the public, for that matter.

A series of reforms are needed at the WTO, including:

- Opening all proceedings to the public;
- Including representatives of the Congress and interested private sector parties on U.S. litigation teams;
- Insisting that the standards of review which were negotiated are adhered to; and
- Creating a standing, highly qualified judiciary, screened for conflicts of interest and supported by an independent group of clerks.

It is also important to create an independent WTO Dispute Settlement Review Commission that was called for by Senators Dole and Moynihan at the time of implementation of the Uruguay Round agreements and was agreed to by the Clinton Administration. This would provide an independent assessment for Congress and the Executive Branch of whether WTO dispute settlement was straying from its authorized function by instead “filling in the blanks” and correcting perceived ambiguities in agreements. WTO dispute settlement has created a non-accountable international legislative process, imposing new obligations where the parties to the original negotiations of the underlying agreements were unable to conclude what the international rules should be.

One of the most serious defects of the WTO dispute settlement system lies in the attempt of WTO members to obtain by binding dispute resolution what could not be obtained at the negotiating table. Consideration should be given to making dispute settlement panel decisions non-binding. Binding dispute settlement has promoted unwarranted litigation and already led to serious friction between the U.S. and the EU. It has created retaliation and threats of retaliation where negotiated settlements are called for. As a start, the U.S. and the EU should sign a WTO litigation non-aggression pact, and get back to the bargaining table. Litigation should not and cannot replace trade diplomacy.

CRAFTING THE NEW TRADE PARTNERSHIP BETWEEN CONGRESS AND THE
ADMINISTRATION

a. Forging a renewed national consensus on trade, setting objectives

Congress has a central role to play in holding extensive hearings in Washington as well as across the country to obtain and provide a greater understanding of what international trade agreements should and can achieve. We are in the post-NAFTA era, in which trade agreements are more widely distrusted than at any other time within the last two generations. There was a message in the streets of Seattle that there are other concerns. These are rising in volume if not always in clarity, and it is best to understand what these concerns are and how they should be best addressed (including where necessary simply disagreeing with the concerns where they are not well founded).

It is important to add resources in the trade field in both the Executive and Legislative Branches. You, Mr. Chairman, have proposed the creation of a Congressional

Trade Office. Both elected branches of government should commission studies on matters proposed for negotiation. Nontariff barriers and services were both the subject of extensive studies and reports prior to the previous rounds of negotiations.

b. Procedures for Congressional consideration of trade agreements

The 1974 fast track procedures, as the Administration says about the ABM Treaty, were appropriate for their time. In that earlier, more simple era, where codes on product standards, government procurement, customs valuation, and the like, were being negotiated with very close consultations with the Congress, the fast track system worked. At present, with far more complex matters at stake (including binding dispute settlement now filling in the blanks in agreements, the presence of contentious labor and environment issues, and the continuing attack on the interface mechanisms—antidumping, countervailing duties, and safeguards—needed to buffer trade exchanges between differing economies), some re-thinking is clearly needed.

Fast track in its original form is unlikely to be granted by Congress. Many of those in America affected by trade agreements view the original fast track as having ceded too much authority to the Executive branch agencies³. In addition, it has become apparent that authority may have been unintentionally ceded to an international bureaucracy through WTO dispute settlement, where obscure three member WTO panels representing no one make far-reaching decisions. Democratic accountability has been deeply eroded. If the necessary domestic support for further trade liberalization is to be achieved, Congress will have to take a more assertive role.

There is now an historic opportunity for restoration of the appropriate balance in Constitutional roles between the branches of the U.S. Government and in the division of powers between international mechanisms and the areas to be preserved to domestic sovereignty.

To implement the national trade consensus that you will help to achieve, new procedures are needed for consultation during and before negotiations, as well as for consideration and implementation of agreements that have been concluded. Procedural changes are needed as conditions for special Congressional rules requiring a vote on a no-amendment, time-limited basis. In particular, you could consider requiring:

1. Senate Finance Committee and House Ways and Means Committee resolutions of endorsement at key checkpoints in the negotiations. This could occur prior to major ministerials, and prior to initialing or signature of agreements. This process will require notice and time for action.

2. Inclusion of representatives of Congressional advisors as an integral part of U.S. negotiating teams. The presence of staff and other Congressional representatives will help assure transparency and information flow. (Congressional representatives cannot appropriately serve as U.S. negotiators, however.)

3. Formal recognition in the statute of the non-mark-up process, in which the Finance and Ways and Means Committees and other key committees of jurisdiction are responsible for the content of the implementing legislation.

4. Specific recognition that re-balancing amendments are “necessary and appropriate.” Trade agreement legislation should envisage inclusion in implementing bills of directly relevant matters that are useful in obtaining passage of the implementing bills, even if these provisions are not required to implement trade agreements. The cooperative nature of the drafting process between Congressional committees and the Administration will be a safeguard against abuses. This is how “fast track” functioned in 1979 and 1994 and this should be set out explicitly in new trade legislation.

5. Exclusions from implementing bills. Consistent with the points made earlier in this statement, implementing bills should not be permitted to include amendments to Title VII of the Tariff Act of 1930 (antidumping and countervailing duties), title II of the Trade Act of 1974 (safeguard measures), or any antitrust law of the United States. This is the approach, Mr. Chairman, which you have taken in the Free Trade Agreement bills that you have introduced in the last few weeks.

³For example, when I served on the Services Policy Advisory Committee, we were told after the fact what was in the U.S.-Israel Free Trade Agreement. There was no meaningful consultation.

c. No direct implementation without Congressional approval

Congress has a strong vested interest in making sure that international agreements do not override the prerogatives of Congress when administrative agencies implement trade laws. Section 102 (a)(1) of the Uruguay Round Agreements Act seeks to limit the direct effects of trade agreements on domestic law by explicitly providing that domestic statutes are not to be subordinate to trade agreement provisions. However, the question arises whether administrative agencies should be guided in the exercise of their discretion by WTO panel decisions. This is an issue whether or not the United States was a party to the dispute in question.

Section 129 of the URAA covers disputes that involve the United States directly. There is no provision regarding the effect of cases in which the United States was not a party. In neither instance should administrative practice be changed as a result of WTO dispute settlement without formal notification to the Congress, with a period during which Congressional consideration can occur. This provision would allow for consideration of legislation, under specifically provided fast track rules on the subject at hand. It might be provided that deviations from prior administrative practice that are particularly substantial should be subject to direct Congressional approval via a fast track process, prior to any change in practice.

CONCLUSION

There will be calls to renew fast track quickly, without considering any changes. This would be a serious mistake. It is very important to get right the mandate for major new negotiations and the related process for obtaining Congressional approval. The steps that I have outlined above can, with an intensive effort, be accomplished in time to give U.S. negotiators the Congressional support they need before they enter into detailed substantive negotiations. To do less will risk a serious setback to the trade agreements program through inadequate public support for the results of new international trade negotiations.

PREPARED STATEMENT OF CLAYTON YEUTTER ¹

Mr. Chairman, it is a pleasure to appear before this distinguished Committee, for the first time in several years. I am delighted to do so on the subject of Trade Promotion Authority (TPA), for this issue certainly deserves to be in the upper echelon of your legislative agenda.

This authority should have been renewed ages ago, at the time the Uruguay Round Agreement was approved by the Congress. The attempt was made, but it foundered on language relating to worker rights and environmental issues. Since then nothing much has changed; we've spun our wheels on Trade Promotion Authority for the past several years. That is a most regrettable situation, for we've hurt no one but ourselves. No other nation in the world has tied the hands of its trade negotiators in this manner as we've moved into the 21st century.

Trade Promotion Authority really should be permanent. In today's world, we are bound to be negotiating somewhere, somehow, all of the time. Bilateral disputes never go away; they are a constant with all our major trading partners. Of course, many of those—the simplest and most straightforward—can be resolved without TPA. But complex bilateral agreements (such as the U.S.-Canada FTA, negotiated during my tenure as USTR) require TPA, as do regional/plurilateral agreements (such as the Free Trade Agreement of the Americas, now being negotiated) and World Trade Organization (WTO) negotiations. It is the latter that should be of particular interest to the Committee at this point in time.

As everyone will remember, the U.S. hosted a WTO ministerial meeting in Seattle some months ago, at which time an effort was made to launch a new round of negotiations. The objectives were laudable, but the preparation (not just by the U.S., but by all major participants) was seriously flawed. That meeting was doomed to fail, and it did. Were the U.S. to have gone into that meeting with Trade Promotion Authority in hand, it still would have failed. But we'd have had more leverage, and in that setting every bit of leverage helps. All of us want our negotiators to debate from a position of maximum strength, but they cannot do that when TPA is absent.

Our next opportunity to launch a new WTO trade round (the first in 16 years) will occur in November when trade ministers meet in Qatar. We cannot afford another Seattle! November is only a few months away, and there is still a tremendous amount of preparatory work to be done before a new round can be launched. Not

¹Mr. Yeutter served as U.S. Trade Representative from 1985–1989. He is currently Of Counsel to Hogan & Hartson, L.L.P., a Washington, D.C., law firm.

only does Ambassador Zoellick need Trade Promotion Authority, but he and his colleagues must move mountains if an agreed agenda is to emerge from the Qatar discussions. There were huge differences among the major trading nations as agenda priorities were discussed prior to the Seattle meeting, making it impossible for the ministers to bridge those gaps at the meeting itself. That too is an experience that cannot be repeated at Qatar.

WTO member nations could, of course, launch a new round whether or not the U.S. has TPA at the time. That would not be unprecedented—but it would be a mistake. After flailing around on this issue for several years, we no longer have much credibility if and when we assure our fellow WTO members that TPA will be coming soon. If I were they, I wouldn't commit much in the way of human or financial resources to a new round until the U.S. gets its negotiating authority act together. I do not believe they will do so, which means we'd not only continue to spin our wheels at the FTAA, but in WTO negotiations as well. That's a mighty poor way to stimulate international commerce and create jobs, here and abroad.

The world is awaiting U.S. *leadership*, on this and all other trade issues. And there is no better time for us to display it. Not only has the U.S. economy weakened appreciably over the past year or thereabouts, but much of the world economy is shaky as well. Many countries, including the U.S., have taken fiscal and monetary measures to counter those troublesome trends, but there are limits on how much more these tools can be used. It is time to take the trade policy wrench out of the tool box, and put it to use. The world has gained significant benefits in recent years from the trade facilitating benefits of the Uruguay Round, and those will be ongoing. But we all need the additional boost that another WTO round can provide. That will not happen instantaneously, for it will take three or more years to negotiate the round, and the benefits of new reforms will be phased in over time. But it is better to start sooner than later, and now is the time.

The Stumbling Blocks

Domestically the major stumbling blocks are obvious, worker rights and the environment. There are no easy answers to the handling of these contentious issues, but neither do I believe they are impossible.

In an ideal world, global standards for worker rights and environmental protection would be harmonized. Were that to occur, the present debate would be moot. So, since this is not yet an ideal world, we ought to encourage greater harmonization of both worker rights and environmental standards. The question then becomes how best to do that and, more specifically, whether the WTO is the proper international forum for doing so.

These are important issues, deserving of the concerted attention of international policymakers. But my own view is that they ought to be confronted in whatever global forum has the greatest expertise for dealing with them. The WTO is not now that forum, and I wonder if it ever will be, or should be.

The logical forum for handling worker rights issues clearly is the International Labor Organization (ILO). As you know, it has been in existence for many years, and seemingly has done a good job in identifying the world's most egregious violations of worker rights. Many will argue that the ILO has done little more than that, and will contend that it has failed in its presumed mission of persuading nations to honor and respect its standards by vigorously implementing them. Why not reinvigorate the ILO, where the expertise lies, rather than transfer its mission and responsibilities to the WTO, which has limited experience at best in handling worker rights issues.

Environmental protection/preservation spans a spectrum of issues that are incredibly complex and far beyond the scope of anything ever attempted at the WTO. There is today no international organization assigned the responsibility of establishing fundamental environmental policies, or even for attempting the harmonization of those policies which presently exist. (There are some peripheral examples of this, but none that span the realm of global environmental concerns.) The world may well need such a forum, but wouldn't it be better to create it rather than attempt a transformation of the WTO to encompass this immense challenge? Until recently the WTO has had almost no exposure to environmental issues, and the global expertise on these matters assuredly does not lie within the trade negotiating community. That expertise can, of course, be tapped by trade negotiators if they are to be given this assignment. But that seems to me to be an indirect and terribly inefficient way to proceed. Environmental advocacy groups should, and undoubtedly do, aspire to something better than that.

The WTO already has the flexibility, in certain circumstances, to examine environmental policies which directly impede commerce. That is as it should be. But the WTO has no right to challenge environmental policies, food safety policies, and oth-

ers of that ilk, so long as they are based on sound science. That is as it should be. Nor can the WTO force any nation to alter its environmental policies, for that is an issue of national sovereignty. That too is as it should be.

In my view, the U.S. should take the lead within the ILO in pressing for harmonized worker rights standards and effective implementation thereof, particularly where egregious violations of fundamental worker rights are concerned. And the U.S. should also lead in the development and harmonization of global environmental standards. With both subjects, we should identify the most appropriate international forum for moving an action program forward, and we should seek to influence global public opinion as to the merits of our position. But the WTO clearly is not now ready to serve as that forum, and we should not place on its negotiating agenda issues that it is not prepared to handle skillfully and rationally.

Furthermore, we must recognize that the U.S. cannot impose its will on other WTO member nations, on these issues or any others. The WTO still operates by consensus on almost all matters, and many WTO members (especially the developing countries) are vigorously opposed to adding either worker rights or environmental issues to the traditional negotiating agenda. That agenda is already complex, straining the resources of the less affluent nations of the world. One can readily understand why they would resist the inclusion of new, highly controversial issues that they are just not prepared to address. Those nations might some day become less hesitant about having their trade negotiators confront such issues, but that is unlikely to happen in November in Qatar. Though protectionists in the U.S. might prefer a failure in Qatar, that would be shortsighted indeed.

This Committee now has the unenviable task of determining what, if anything, to say about worker rights and the environment in TPA legislation. My counsel is to be cautious about what you ask U.S. negotiators to achieve in these areas, on the new round agenda and in the round's ultimate work product. Let's focus first on what we can accomplish outside the context of a new WTO round, so that we can get that exercise underway. If during the round it becomes apparent that a broadening of the agenda is imperative, we ought to be able to persuade our negotiating partners to broaden—on these topics or on others that become critical to a successful outcome. If we try to accomplish too much now, as the negotiating agenda is being prepared, we run the risk of accomplishing nothing. We've already had that experience, in Seattle.

One should add that environmental and worker rights advocacy groups have a lot at stake in the launch of a new round, no matter what the agenda does or does not say about these subjects. A successful round will generate a higher level of economic growth in most, if not all, WTO member nations. It is economic performance that provides the financial wherewithal to improve the environment, and it is economic performance that creates jobs, thereby helping facilitate the abandonment of indefensible worker rights policies. The U.S. is the classic example of this, for we've benefited more from GATT/WTO negotiations since World War II than has any other nation. That success story is demonstrated in our own environmental and worker rights policies, imperfect though they may be. We're proud of what we've achieved in these areas, and a successful trade round will clearly provide a boost to emulation on those policies elsewhere in the world.

The Traditional Negotiating Agenda

A few words on the more traditional negotiating agenda might also be in order. In Seattle, the U.S. favored a limited negotiating agenda, with final agreement hopefully achieved in three years (in contrast to about eight years for the Uruguay Round). It would be useful, for many reasons, to conclude a new round in three or four years rather than the much longer time period consumed by both the Uruguay Round and its predecessor, the Tokyo Round. But let's be careful about having too narrow an agenda. The fewer issues on the table the more difficult it is to achieve closure, and to accomplish anything significant in the process! If we're going to have a negotiation involving 150 countries or thereabouts, let's make it a worthwhile endeavor. The lesser developed countries are already skeptical about whether a new round is in their interest; and, if it accomplishes little, they may also become skeptical about whether WTO membership is in their interest.

In addition, a narrow agenda makes it particularly difficult to reach agreement on contentious issues such as agriculture. It may not be necessary to have an agenda with the breadth of the Uruguay Round; that was unprecedented. But it needs to be sufficiently broad to give negotiators maneuverability. Otherwise, there is a risk of the negotiations dragging on for years, or of their being concluded with little to show for the effort. I know this Committee does not seek those outcomes.

At Seattle, the U.S. asserted its unwillingness to negotiate on antidumping, a subject of intense interest in much of the rest of the world. Not surprisingly, that gen-

erated a lot of enmity toward our country, and we ought to correct that impression as we go forward. We cannot expect other nations to negotiate on issues that are politically sensitive for them if we refuse to negotiate on issues that are politically sensitive to us. In my judgment, we should not be fearful of negotiating on any of the Uruguay Round issues, if they are of priority interest to most of the WTO member nations. We should defend our laws, on antidumping or in any of the other traditional negotiating areas. If we cannot defend them, we should be willing to change them.

Other Major Negotiations

We already have a lot of time, energy, and intellectual capital invested in the Free Trade Agreement of the Americas (FTAA), and we need to bring that exercise to a satisfactory conclusion as soon as we can. Otherwise, our trade relations with Latin America will splinter into a myriad of ad hoc arrangements, which will do little to advance the cause of open trade. Some of those arrangements are likely not to be in our best interest. U.S. negotiators need Trade Promotion Authority to complete this task.

We're also trying to improve our economic relations in the Asia Pacific region through APEC, and TPA will be essential if we wish to move that supposed market opening program to fruition. And, finally, the possibility of other, major bilateral or plurilateral FTAs is on the back burner, and some of those could move up the priority list over the next two or three years. TPA may be necessary to help make that happen.

Conclusion

Mr. Chairman, there is essentially no downside risk to renewing Trade Promotion Authority. As you know, I served as U.S. Trade Representative during the second Reagan administration, at a time when our trade deficit had become a huge concern here in America. In response, we helped launch the Uruguay Round, and we negotiated the U.S.-Canada FTA along with a host of bilateral agreements. You granted us what was then called "fast track" authority, and we considered that to be a special privilege in the relationship between the Congress and the Executive Branch. We sought never to abuse that privilege, and I do not believe we did so. We spent a lot of time with you, Mr. Chairman, and other Members of this Committee as the negotiations unfolded. No trade agreement is perfect, and we might today make changes in some or all of them. But, in general, those accords have served the nation well.

I believe you can expect that same kind of working relationship with Ambassador Zoellick and his team. Therefore, I hope you'll grant him Trade Promotion Authority, with a minimum of legislative constraints or demands. In this fast changing world, he needs flexibility to get this job done. The U.S. team should be able to alter either its strategy or its tactics if that be necessary in achieving the overall negotiating objective. This Committee should not hesitate to exercise its oversight responsibilities, but I encourage you to do that on an ongoing basis, rather than impose it prematurely through TPA legislation.

Thank you for granting me the privilege of testifying on this key topic. I would be pleased to answer any questions you may have.

PREPARED STATEMENT OF HON. ROBERT B. ZOELICK

Chairman Baucus, Senator Grassley, and Members of the Committee:

Thank you for this opportunity to return to the Finance Committee. I have benefited from my discussions with each of you and appreciate the guidance and support you have offered.

I am pleased that one of Chairman Baucus' first steps was to convene this hearing on U.S. Trade Promotion Authority. It is an encouraging sign of bipartisanship, in accord with the impressive tradition of this Committee, that the Chairman shares the priority assigned to trade by his predecessor, Senator Grassley.

Regaining Momentum on Trade

The Committee's interest in U.S. Trade Promotion Authority is especially timely. The Administration has been gaining momentum for expanding trade with Europe, Latin America, East Asia, Africa, and Australia yet we need the Congress to act so we can keep moving ahead. This is a moment we must seize together. As Pascal Lamy, the European Commissioner for Trade, has pointed out with realism: "If Trade Promotion Authority is denied by Congress, it would be hard for the U.S. Administration to establish itself as a credible trading partner."

The failure to seize this moment would hurt American farmers, ranchers, workers, businesses, and families.

I just returned a few days ago from my second visit to Europe within a month. Led by the President, our aim has been to reenergize the launch of a new global round of trade negotiations in the WTO. Frankly, the preparations for new global negotiations had been moving, at best, at a snail's pace. The repercussions of the failure in Seattle had left many dispirited. Working closely with the European Union and others, including some key developing countries, we are now seriously discussing frameworks for negotiations. But we do not have much time left before Trade Ministers meet in Doha to reverse the damaging economic and political legacy of Seattle.

Two weeks ago, I was in Shanghai at an APEC meeting of trade ministers from across the Pacific. While in China we built on the work of Ambassador Barshefsky and Secretary Daley by negotiating a breakthrough on China's accession to the WTO. After 15 years of discussions, we are now well-positioned to work with the other WTO members to bring the PRC and Taiwan into the WTO this year. Moreover, the Chinese joined us and others in sending a clear signal to the nations of the Asia-Pacific that the train for the launch of the new WTO round is moving, spurring interest in getting aboard.

Two months ago, at the Quebec City Summit of the Americas, President Bush pressed forward the negotiations for the Free Trade Area of the Americas to a new and more defined stage. That train is moving, too. It was most helpful that Chairman Baucus and Senator Grassley joined the President in Canada to help make the case for the United States. Others, including Senator Graham of Florida, have deepened our drive for trade liberalization within our own hemisphere by promoting the renewal of a more robust Andean Trade Preference Act.

The United States is also regaining trade leadership through bilateral agreements. We are actively pursuing free trade agreements with Chile and Singapore; we intend to complete the U.S.-Chile FTA this year. Drawing on the guidance of Senators Kerry and Murkowski, along with others, the President has sent the U.S.-Vietnam Trade Agreement to the Congress for action. I had a useful meeting with Trade Minister Vu Khoan of Vietnam while in Shanghai, where we discussed steps to promote prompt implementation of that agreement. The Administration also hopes to secure the U.S.-Jordan FTA, and we have discussed with Committee members our ideas to assist its passage through both Houses with broad-based approval. Given the friendship between our two nations and the fragility of Mid-East politics and security, it is important to signal support for King Abdullah and his government by putting this FTA into force.

Strategy & Leadership

Stepping back, one can see that we are starting to move key pieces of the President's trade strategy into proper position: We are advancing trade liberalization and America's interests globally, regionally, and bilaterally. We are creating a "competition in liberalization" with the United States at the center of a network of initiatives.

By leading, the United States adds to its ability to shape the future trading system. By leading, the United States is guiding the merger of regional integration within an open global system. By leading, the United States helps create models of liberalization that we can apply elsewhere. As a result, the United States can add to its leverage on behalf of America's farmers and ranchers, industries and service providers, workers and families.

Yet the Executive branch cannot successfully lead alone. We need a partnership with the Congress to pioneer new markets for American farm products, goods, and services. We need a partnership with the Congress to break down barriers to the spread of American entrepreneurship. We need a partnership with the Congress to help us export individual freedom and the rule of law. The Congress enjoys the Constitutional authority to regulate commerce with foreign nations. Therefore, we need a partnership with the Congress to restore American leadership on trade. If the Congress stalls, others will lead, the United States will fall behind, and Americans will pay the price.

Enforcement & Opening Markets

The Bush Administration recognizes that to keep faith with the Congress and the public on trade, we must also monitor and enforce agreements, as well as resolve disputes in ways that serve America's interests. In the space of a few months, we have begun to make progress on this front as well. We were pleased to finally resolve the 9-year old dispute with the EU over bananas. We headed off a problem

with livestock crossings into Mexico and increased access for dried beans and telecommunication operations there.

In connection with President Bush's recent visit to Poland, the Polish government significantly reduced tariffs on a number of U.S. exports, including grapefruit, wines, almonds, gas turbines, tractors, and certain medical and scientific equipment. Working with India, we removed quantitative restrictions or cut tariffs on more than 2,000 products including consumer products, processed foods, almonds, and citrus products. We have resolved a variety of intellectual property concerns and are targeting others. Across the board, working closely with Secretary Veneman, USTR has stressed how inappropriate sanitary and phytosanitary measures can create a new wave of agricultural protectionism.

As I have pledged to this Committee previously, we will also enforce, vigorously and with dispatch, U.S. trade laws against unfair practices. This is fundamental to building public support at home for open trade.

Safeguards & Adjustment

The Bush administration is committed to the effective and creative use of statutory safeguards, consistent with WTO rules, to assist American producers under extraordinary stress. Used properly, these safeguards for example, Section 201 can give U.S. producers a vital breathing space while they restructure and regain competitiveness. It is a fact of life in this globalized economy that some industries and communities critically dependent on them cannot change at the pace of near-instantaneous capital and information markets. Our response should be neither to hide these industries behind costly barriers, nor to abandon these businesses, workers, and communities. Instead, we need to use the safeguards in cases of serious injury as part of a comprehensive commitment to try to restructure and regain competitive strength.

That is why the President took the lead in calling for the initiation of a comprehensive Section 201 investigation for the steel industry, in combination with a call for international negotiations to address global steel problems. We listened closely to steelworkers hard-working, dedicated Americans, too many of whom had their backs against the wall. They deserve this chance to reverse misfortune, and we will work with the business leaders and workers to make the most of the opportunity.

Our recent work with the wheat gluten industry gives further definition to our safeguards policy. As you know, the International Trade Commission concluded that the U.S. wheat gluten manufacturers had used their Section 201 breathing space well and are on the way to regaining competitiveness. Having reached the 3-year WTO deadline, however, the price of a continued safeguard for wheat gluten would have been international retaliation against the U.S. corn gluten industry. Therefore, the Administration devised an alternative: a financial assistance package for the wheat gluten industry that is equivalent to the benefits of at least 2 more years of safeguards. Moreover, this approach makes the price of support transparent.

A Time for Congressional Action or Falling Behind

In sum, the elements of the President's trade strategy global, regional, and bilateral negotiations; enforcement and dispute resolution; action against unfair trade practices; and safeguards and adjustment are mutually supportive. We are backing words with actions across this agenda. We are starting to see results. Now, after months of consultations with the Congress, Americans need action on the legislative front, too.

If the Congress cannot or will not act, the United States will pay a price. Since the Congressional grant of authority to negotiate trade agreements expired in 1994, America has fallen behind.

Consider the facts. Today, the European Union has 27 free trade or special customs agreements around the world, 20 of which it negotiated in the 1990s; moreover, the EU is negotiating another 15 right now. Last year, the EU and Mexico the second largest market for U.S. exports negotiated a free trade agreement. Countries throughout East Asia are quickening the pace of special trade negotiations. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with Canada, Mexico, Korea, and Chile.

We have no one to blame for falling behind but ourselves. And there is a price to pay for our delay. As Senator Graham of Florida has pointed out, during the last century, when it came time for countries to adopt standards for the great innovation of that era electric power Brazil turned to European models because the United States was not active in Brazil. So when you visit Brazil, be sure to bring an electric adapter. Today, Brazil is making decisions about standards for autos and other

products so the United States needs to decide whether it wants to stand on the sidelines again.

Inaction hurts American businesses, farmers, ranchers, workers, and families as they find themselves shut out of the many preferential trade and investment agreements negotiated by our trading partners. To cite just one example, while U.S. exports to Chile face an eight percent tariff, the Canada-Chile trade agreement frees Canadian imports of this duty. As a result, U.S. wheat and potato farmers are now losing market share in Chile to Canadian exports.

Consider this forecast: If we are unable to overcome the breakdown in Seattle by launching a new Round of global trade negotiations, special trade agreements will proliferate even more quickly, most often without the United States. The President needs to have the negotiating authority to help achieve a successful global trading round and to preserve our trading interests regionally and bilaterally.

High Stakes

The stakes are high for the United States. As Congressman John Tanner told me, "America's place in the world is going to be determined by trade alliances in the next ten years in the way military alliances determined our place in the past." We have an unparalleled opportunity to shape the post-Cold War, globally integrated world to promote both our values and interests. But we must move now.

In less than 20 weeks, ministers from around the globe will gather in Doha to endeavor to launch a new multilateral trade liberalization round. U.S. leadership is vital to its success. We need a united American front on trade. A new round will bring real benefits to American workers and families.

Trade promotes economic liberty, which spurs political liberty. Open markets generate private sector energy. This openness and private exchange advances the rule of law. And trade prompts stronger economic growth a foundation for development and healthy civic societies.

Trade also helps the families who are the backbone, muscle, and genius of America. Together, the two landmark trade agreements of the 1990s NAFTA and the Uruguay Round have boosted the annual income and lowered the cost of purchases for an average family of four by \$1300 to \$2000. That is real money for farmers, police officers, teachers, health care professionals, and office workers. When trade is restricted, and imports more costly, hard-working mothers and fathers pay the biggest portions of their paychecks for higher cost food, clothing, and appliances through the taxes on trade.

U.S. Trade Promotion Authority

I know from my consultations with many Members of Congress that there is a substantial bipartisan majority that supports the trade negotiations we are advancing.

So now it is time for this Congress to act. Prior Congresses granted the five prior Presidents this authority to negotiate trade agreements. So I urge this Committee, with its special tradition of cooperation on trade, to grant President Bush the same authority by the end of the year. U.S. Trade Promotion Authority is the President's top trade priority.

Chairman Crane has introduced a strong bill in the House to provide the President U.S. Trade Promotion Authority. I thank him for his initiative and commitment to free trade.

Earlier this year, Senator Roberts introduced a bill, co-sponsored by Finance Committee members Senator Gramm of Texas and Senator Murkowski, as well as others outside the Committee, granting the President extensive trade promotion authority. I thank them, too.

President Bush's 2001 International Trade Agenda, presented to the Congress on May 10, outlines our suggestions for U.S. Trade Promotion Authority. I have enclosed additional copies of that Agenda for your reference.

Each of these proposals recognizes the key point about Trade Promotion Authority: It must be based on a partnership between the Executive and the Congress, founded on trust, close consultation, and mutual respect. This partnership needs to be structured carefully, so that the Executive can negotiate effectively and productively, and the Congress can establish objectives, ensure close consultation at various stages of the negotiations, review and advise on work in progress, and make the ultimate judgment on trade agreements.

The precise formats of the partnership have evolved over the years, but they all rest on the logic advanced first by Secretary of State Cordell Hull once a Member of this Committee along with Franklin D. Roosevelt in the 1930s. Hull's cooperative model for Congress and the Executive led to a stream of successful trade negotia-

tions, American leadership in setting the course of trade policy after World War II, and one of the great New Deal legacies.

The Connection of Trade with Other Issues

I appreciate that some Senators are particularly interested in trade and how it may connect to other issues, including promotion of standards for workers, environmental improvements, development, and health policies to counter pandemics.

As we have seen at home, the foundation for serious progress on labor standards and environmental protection is economic growth, openness, support for private sector development, and the related expansion of civil society.

In the past few months, the Administration has demonstrated good faith on these issues through a series of steps. We have announced that we will conduct and have begun environmental reviews of major trade agreements, and we have urged other countries to do the same. We have added environmental representatives to technical advisory committees. We are pursuing trade negotiating objectives that counter harmful environmental practices such as fishing subsidies and are reaching out for other suggestions. We are promoting ways to improve environmental conditions cooperatively with trading partners. We just won a major WTO case defending U.S. law that enhances the conservation of sea turtles without discriminating against our trading partners. And I have been meeting with environmental NGOs, at home and overseas, to solicit their ideas.

We have used the GSP and Caribbean Basin review processes to press successfully for the defense of core ILO labor standards. We have engaged the International Labor Organization to help in particular countries and to consider additional ways to support core labor standards. I have met with leaders of labor unions at home and abroad and have other meetings scheduled to listen to their concerns.

Indeed, these meetings including with top officials of the AFLCIO and the Steelworkers contributed importantly to the President's consideration of a Section 201 investigation of steel imports. We then acted to help these workers.

I am pleased with the initial discussions between Members of Congress of both parties with the Department of Labor and USTR to reauthorize and improve the Trade Adjustment Assistance programs so they will be more effective, timely, and appropriate for the rapidly changing conditions of the global economy.

Please consider this reality: It really will not help working men and women at home or abroad or environmental causes to paralyze trade negotiations with cumbersome limits or sanctions or pressures. Together, we want to achieve results, not procedural breakdowns.

Conclusion

This Administration is committed to re-energizing America's trade agenda globally, regionally, and bilaterally. We are starting to gain traction.

We are also serious about consulting and working with the Congress to get moving again on the trade agenda at home. We have listened. We have offered some new ideas and taken serious action.

The eyes of the world are now on the Congress and this Committee. Wherever I go, whatever progress we make, I am asked the same question: Will the Congress join with the Administration in supporting trade?

I urge this Committee to answer yes by enacting a U.S. Trade Promotion Authority we can use to reassert America's leadership in trade. It is within our grasp to build a post-Cold War world on the foundations of freedom, opportunity, democracy, security, free markets, and free trade. Together, we need to seize this opportunity and set a course for peace, prosperity, and America's interests, not just for a year or two, but for decades.

THE PRESIDENT'S
2001 INTERNATIONAL
TRADE AGENDA

*Expanding Trade, Expanding Freedom,
Expanding Prosperity*



PRESIDENT GEORGE W. BUSH

2001 International Trade Legislative Agenda

"Open trade fuels the engines of economic growth that create new jobs and new income. It applies the power of markets to the needs of the poor. It spurs the process of economic and legal reform. It helps dismantle protectionist bureaucracies that stifle incentive and invite corruption. And open trade reinforces the habits of liberty that sustain democracy over the long term."

--President George W. Bush, April 17, 2001

Introduction & Background

For some 60 years, Presidents and Congresses of both parties worked together to open markets around the globe. This successful collaboration is among the main reasons for 17 years of economic growth, peace and freedom that we know today.

But since 1994, the Executive Branch has not had the authority it needs from the Congress to negotiate agreements to continue this prosperity. The bill has now come due. The European Union has 27 preferential or special customs agreements with other countries and is negotiating 15 more. Japan is negotiating a free trade agreement with Singapore and considering agreements with Mexico, Korea and Chile. There are over 130 preferential trade agreements in the world today -- and the United States is a party to only two of them.

Now, more than ever, U.S. leadership is essential to reinvigorating the international trading system, including launching a new round of global negotiations, as well as regional and bilateral negotiations.

History has shown that expanded trade -- imports as well as exports -- leads to more prosperous U.S. businesses, more choices of goods and lower prices for consumers, and more opportunities for American farmers and workers leading to higher wages, more jobs and economic growth. Expanding trade brings particular benefits to lower-income Americans who are squeezed both as consumers and taxpayers.

Expanding trade also has many benefits abroad. Open markets promote economic and political freedom around the world; economic and political freedom in turn creates competition, opportunity and independent thinking that strengthen democracy; and greater political freedom and democracy across the globe substantially enhance U.S. national security. As we dismantle trade barriers around the world, especially in the developing world, we help create the economic and social conditions necessary for countries to make progress on the environment, observance of labor standards, the protection of children, and other critical issues.

The President's trade agenda for 2001 is intended to further each of these benefits of expanding markets for American consumers, farmers and workers, *and* to advance a forward strategy for freedom, economic development and increased living standards around the world by pursuing a new round of global trade negotiations, a Free Trade Area of the Americas, and other important regional and bilateral agreements.

The President's 2001 International Trade Agenda

President Bush's 2001 legislative agenda for international trade, outlined below, reflects his commitment to open markets around the world for American workers, farmers, and businesses and to provide lower prices and greater choices for U.S. consumers and industries. It also reflects the President's commitment to work with the Congress to rebuild the bipartisan consensus for American leadership in the trade arena. It serves no one's interest for the United States to remain on the sidelines.

For that reason, the President has placed enactment of U.S. Trade Promotion Authority at the top of his trade legislative agenda. The attached outline presents a conceptual framework that distills those principles the President believes should shape a renewed grant of trade negotiating authority. Central to this approach is flexibility for the President to take full advantage of the market-opening opportunities that present themselves in the coming years while maintaining the closest possible consultation and collaboration with the Congress.

The President seeks to build an American trade agenda from the ground up, reflecting the views and interests of American farmers, workers, businesses, and the American people. Our negotiating objectives -- to open foreign markets for U.S. goods, services, farm products, and intellectual property, combat unfair trade practices, protect American businesses abroad from discriminatory treatment to name but a few -- must represent an agenda that serves the interests of all Americans.

An important part of that agenda is addressing trade-related labor and environmental concerns. As President Bush said last month in Quebec City: "Our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards." The conceptual framework for U.S. Trade Promotion Authority set out below recognizes that there are many ways to carry out this commitment. The TPA framework makes clear that these goals must be pursued in a way that respects U.S. sovereignty and avoids self-defeating protectionism.

Enclosed with this agenda is an illustrative "toolbox" of actions that the United States can take in combination with trade negotiations to promote these important goals. The President has expressed his desire to work with the Congress to refine these ideas as well as the other concepts included in the framework for U.S. Trade Promotion Authority.

The outline that follows also describes the other key components of the President's 2001 trade legislative agenda. As an important complement to the grant of U.S. Trade Promotion Authority, the President seeks to improve this country's trade adjustment assistance programs for workers by emphasizing improvements in skills training. To rebuild a national consensus in support of trade, American workers must have the tools that allow them to compete in new jobs and new industries when job transitions occur. Consistent with the President's overall goals for training and education, these programs should increasingly be geared toward helping American workers meet the challenges of the 21st century.

The President's agenda also asks the Congress to implement three important commercial agreements to help bolster security and promote open markets in vital regions of the world -- a bilateral free-trade agreement with Jordan and bilateral trade agreements with Vietnam and Laos. In addition, the President urges the Congress to re-authorize the Generalized System of Preferences program and

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THE PRESIDENT'S 2001 INTERNATIONAL TRADE AGENDA

Andean Trade Preferences Act, and pass legislation providing similar trade benefits for the nations of southeast Europe, a region that has been beset by conflict in recent years. These programs are important because they allow us to help developing countries and emerging markets begin the process of integrating themselves into the world trading system.

Last year, the Congress enacted the African Growth and Opportunity Act to encourage and promote economic growth and reform in sub-Saharan Africa. This legislation holds real promise for helping to integrate African economies into the world trading system. The Congress should consider whether more progress can be made along these lines.

In conclusion, the President has developed a broad trade legislative agenda that serves America's best interests. The Administration is committed to working with the Congress, the states, and interested groups to shape the agenda and build the consensus needed to pass trade legislation with overwhelming bipartisan support. From the President's perspective, now is the time to roll up our sleeves and get to work on behalf of American workers, farmers, businesses, and a brighter American future.

Outline of the President's International Trade Agenda

I. U.S. Trade Promotion Authority

A. Statement of Purposes

1. To achieve:

- a. Economic growth, higher living standards, higher wages and full employment in the United States;
- b. Economic growth, development, reduction of poverty, and increased democratization around the world;
- c. Mutually supportive trade and environment, and trade and labor, policies;
- d. More open, equitable and reciprocal market access for U.S. goods, services and investment;
- e. The reduction or elimination of barriers and other trade-distorting policies and practices that decrease market opportunities for U.S. exports;
- f. The reduction or elimination of unfair trading practices; and
- g. A more open, transparent, and effective system of international trade disciplines and procedures.

2. To pursue:

- a. A new round of global trade negotiations under the auspices of the WTO to promote global economic growth and reinvigorate the international trading system;
- b. A Free Trade Area of the Americas agreement to expand economic cooperation and opportunity in the Western Hemisphere; and
- c. Other regional and bilateral trade negotiations, including free trade agreements with Chile and Singapore, to advance our national interests.

B. Negotiating Objectives to Advance U.S. Priorities

Expand market opportunities for U.S. goods, services and intellectual property by:

- 1. Reducing or eliminating tariffs and other barriers that impede *U.S. exports* from competing in foreign markets.
- 2. Enhancing market opportunities for *U.S. agriculture*.
- 3. Dismantling barriers to exports of *U.S. services*.
- 4. Keeping *electronic commerce* free from trade barriers.
- 5. Reducing or eliminating artificial or trade-distorting barriers to *U.S. foreign investment*.
- 6. Encouraging protection for U.S.-created *intellectual property* and creating export opportunities for goods embodying U.S. intellectual property.
- 7. Preserving our ability to combat *unfair trade practices*.
- 8. Encouraging *the protection of children* and adherence to *core labor standards* in connection with international trade in a manner consistent with U.S. sovereignty and trade expansion.
- 9. Encouraging mutually supportive *trade and environmental protection* policies, in accordance with the objective of sustainable development and in a manner consistent with U.S. sovereignty and trade expansion.
- 10. Ensuring that *U.S. rights under trade agreements* are secured through rapid, effective, and transparent enforcement procedures appropriate to the parties, nature, and subject matter of the agreements.
- 11. Improving the *transparency and management* of international trade organizations and agreements.

12. Helping *developing countries* realize the benefits of the international trading system.
13. Encouraging governments to observe *procedural due process* in adopting rules and regulations and to combat *corruption* affecting international trade.

C. Additional Measures in Support of Negotiations

1. In determining whether to initiate negotiations, take into account whether the country has implemented its Uruguay Round obligations.
2. Work to ensure that provisions in trade agreements are compatible with important domestic policy objectives, such as health, safety, environmental protection, and improved employment opportunities.
3. Consider environmental effects when formulating negotiating positions, take into account the results of environmental reviews performed, and encourage trading partners to conduct environmental reviews of trade agreements.

D. Strengthening Congressional Consultation

1. In order for TPA to apply to negotiated agreements, each agreement must make progress toward achieving applicable negotiating objectives.
2. In addition to seeking input from the public, the Administration will also notify and consult with the Congress and advisory committees at key stages of each negotiation and after the agreement is concluded, including by:
 - a. Notifying the Congress before beginning negotiations and consulting on specific objectives.
 - b. Keeping relevant Congressional committees and Congressional trade advisors informed of negotiations on a timely basis at all stages of the negotiations.
 - c. Notifying and consulting with the Congress and trade advisory committees well in advance of signing any agreement regarding how the agreement meets applicable negotiating objectives.
 - d. Consulting with relevant Congressional committees on how an agreement affects issues within their jurisdiction, on plans for implementing the agreement, and on any related agreements the President plans to conclude.

E. Duration of Authority

The President needs U.S. Trade Promotion Authority for a sufficient time to allow completion of several regional and bilateral agreements, and to begin and possibly complete global trade negotiations. An extension mechanism would also allow the Congress to determine whether to continue this authority.

F. Tariff Authority

The President will need the appropriate authority to reduce tariffs, including the authority to fulfill the objectives of WTO zero-for-zero and harmonization agreements.

II. Improve Worker Training, Education and Adjustment

Re-authorize and improve Trade Adjustment Assistance programs to promote worker re-training necessitated by sudden economic dislocation.

III. Implement the U.S.-Jordan Free Trade Agreement

- A. To create a free trade area between the United States and Jordan in order to support Jordan's domestic economic reforms, encourage efforts by other Middle East countries to open their economies, and enhance regional stability.
- B. To provide benefits to consumers and businesses in the United States and Jordan by increasing choices and lowering prices of goods and services.
- C. To encourage bilateral business ties and thereby increase employment opportunities in Jordan.

IV. Implement Vietnam Bilateral Trade Agreement

- A. To promote economic stability and openness in Vietnam through enhanced trade and investment, advancing the bipartisan normalization process.
- B. To open the Vietnamese market to U.S. goods and services, and provide strong intellectual property rights protection through comprehensive trade and investment liberalization by Vietnam.
- C. To provide benefits to consumers in the United States and Vietnam by increasing choices and lowering prices of goods and services.
- D. To provide authority for the President to apply normal trade relations duties to Vietnamese goods and to put the agreement into effect.

V. Renew Andean Trade Preference Act

- A. To renew and expand the ATPA program to promote export diversification and broad-based economic development that provides sustainable economic alternatives to drug-crop production in the Andean region.
- B. To bolster democracy and the rule of law in the region.
- C. To complement U.S. aid programs by providing trade opportunities for private firms in Andean countries.
- D. To support the promotion of core labor standards by making the program's eligibility criteria conform to those in existing preferential trade programs.

VI. Enact the Southeast Europe Trade Preference Act

- A. To promote stability and economic development in Southeast Europe through increased access to the U.S. market and the facilitation of regional investment and to encourage a broader opening of markets in Europe and elsewhere to goods from within the region.
- B. To support the promotion of core labor standards by adopting criteria that conform to those in existing preferential trade programs.
- C. To encourage governments in the region to eliminate trade in persons.

VII. Re-authorize the General System of Preferences Program

- A. To assist developing countries move from dependency on foreign aid towards opportunity, growth, reform, and openness.
- B. To promote the integration of least developed countries into the global trading system.
- C. To provide trade incentives that promote economic growth and alleviate poverty in beneficiary developing countries.
- D. To promote stronger economic and political ties between the United States and developing countries.
- E. To provide benefits to U.S. consumers by increasing choices and lowering prices.
- F. To encourage the protection of intellectual property rights, assist in promoting market access for U.S. exports, and promote observance of core labor standards.

VIII. Implement Laos Bilateral Trade Agreement

- A. To promote economic stability and openness in Laos through enhanced trade and investment, advancing the bipartisan normalization process.
- B. To open the Lao market to U.S. goods and services, and provide strong intellectual property rights protection.
- C. To provide benefits to consumers in the United States and Laos by increasing choices and lowering prices of goods and services.
- D. To provide authority for the President to apply normal trade relations duties to Lao goods and to put the agreement into effect.

Labor and Environment “Toolbox”

The following illustrative list identifies a “toolbox” of actions the United States could take in combination with trade negotiations to promote the protection of children, adherence to core labor standards, and mutually supportive trade and environmental protection policies.

Labor:

- Use labor standards in existing and proposed preferential trade programs -- *e.g.*, the Generalized System of Preferences program and programs under the African Growth and Opportunity Act, the Andean Trade Preference Act, the Caribbean Basin Trade Partnership Act, and the Southeast Europe Trade Preference Act -- to build respect for, adherence to, and enforcement of core labor standards.
- Employ U.S. Agency for International Development (USAID) and other assistance programs to encourage acceptance of, adherence to, and national enforcement of core labor standards.
- Urge the World Bank and the regional development banks to encourage borrowing countries to guarantee core labor standards and to collaborate in international efforts to reduce child labor. The multilateral and regional development banks also should try to ensure that in consultations on their country operations with civil society, unions are represented.
- Encourage the World Trade Organization (WTO) to cooperate with international financial institutions to examine the interrelationships between social issues and global economic integration, including between labor standards and trade.
- Strengthen and raise the profile of the International Labor Organization (ILO) and provide strong support for ILO initiatives aimed at fostering member countries' adherence to core labor standards, such as the ILO Declaration on Fundamental Principles and Rights at Work and the new Convention on the Worst Forms of Child Labor.

- Strengthen and raise the profile of the ILO by improving the ILO's ability to fact-find, spotlight, and hold member countries accountable for violations of core labor standards by strengthening the ILO's existing mechanisms for enforcing member countries' adherence to the conventions they have ratified.
- Encourage cooperative arrangements (joint work programs) between the WTO and the World Health Organization and the ILO.
- Use the labor standards adopted by the Overseas Private Investment Corporation (OPIC) to build respect for, and adherence to, core labor standards.

Environment:

- Improve the effectiveness of United Nations environmental programs, in particular those focused on environmental capacity-building.
- Work to increase the extent to which key environmental concerns are included in multilateral and regional development bank lending and structural adjustment strategies, *e.g.*, by bolstering efforts to strengthen environmental and related safeguards built into lending programs, by supporting initiatives to enhance the capacity of borrowing governments to protect the environment, or by giving consideration to augmenting funding for debt-for-nature swaps.
- As appropriate, highlight in National Trade Estimate country reports, and work to address, measures that both negatively affect the environment and distort trade and investment flows.
- Improve the effectiveness of the North American Development Bank's activity on environmental infrastructure projects.
- Propose the inclusion in WTO Trade Policy Reviews and in APEC Individual Action Plans of discussion of ways in which a country's or a member economy's trade and environment policies mutually reinforce each other.
- Expand environmental elements in USAID's country plans.
- Use the environmental policies of the U.S. Export Import Bank to build respect for, adherence to, and enforcement of environmental protection laws and regulations.
- Promote adherence to environmental guidelines by foreign export credit agencies.
- Use the environment standards adopted by OPIC to build respect for, and adherence to, environmental protection laws and regulations.

RESPONSES TO QUESTIONS FROM COMMITTEE MEMBERS

Question from Senator Grassley:

A WTO Dispute Panel recently ruled that the U.S. implementation of its sea turtle law is fully consistent with WTO rules and complies with earlier recommendations of the WTO's Appellate Body. Doesn't this and earlier WTO decisions, for example, in reformulated gasoline and asbestos cases, show that WTO rules do not undercut health, safety and environmental concerns despite claims to the contrary by many groups? In fact, developing case law in the WTO would seem to demonstrate quite clearly that the U.S. is free to set whatever standards of protection it sees fit for public health, safety and the environment provided it does not discriminate against foreign producers. Do you have any comment on the recent WTO ruling?

Answer: I am very gratified by this significant U.S. victory. The panel report sustains the U.S. position on every point and squarely upholds our ability to advance sea turtle conservation consistent with WTO rules. This victory, along with the Appellate Body reports in the Reformulated Gasoline case and the recent Asbestos case sustaining France's ability to ban asbestos imports on health grounds, should provide further confirmation that the WTO—contrary to the views of some—is indeed sensitive to legitimate environmental, health and safety concerns.

Question from Senator Nickles:

Global trade is critical for economic growth and prosperity for American families and businesses. Trade promotion authority is critical to expanded free and fair trade.

But we cannot discuss global trade without raising concerns about the European Commission's actions to block the merger of two prominent U.S. companies—General Electric and Honeywell. The U.S. Justice Department has cleared this merger after vigorously reviewing the potential impact of the merger on competitors, customers, suppliers, and the marketplace as a whole. And the merger has been cleared by several other foreign jurisdictions, including the Canadian government.

Despite the U.S. clearance, the European Commission has not approved the merger. This could be the first time that the EC has blocked the merger of two U.S. companies after the companies received clearances in the U.S. I question the EU stance and fear the negative impacts that their decision could have on global trade and U.S.-European relations.

Would you comment on U.S. Government concerns raised by the EC stance on the GE/Honeywell merger?

Answer: The European Commission's decision on the GE-Honeywell transaction represents a significant divergence between how our respective competition authorities viewed the competitive impact of this proposed merger. Given the importance of the proposed merger, the European decision raises important questions about how similar antitrust assessments reached dramatically different conclusions.

The Justice Department has noted that the Commission's decision shows the continuing need for consultations between our respective competition authorities to promote greater policy convergence. U.S. and European Commission competition authorities have enjoyed a close and cooperative relationship—and we anticipate this will continue.

Question from Senator Bingaman:

During the hearings yesterday and today I have heard a lot about the advantages of free trade for Americans and the rest of the world, and the need to keep moving forward on international trade agreements. I understand why the Administration is asking for fast-track, and I think that we can find common ground on the outstanding questions. I would hope we could pass a bi-partisan bill that satisfies the major concerns of my colleagues.

I would like to go at this issue a different way though, and I would like to hear your thoughts. I think that most people would agree that the United States as a country has benefitted over time from the implementation of trade agreements. But one of the problems we face with these trade agreements is that they inevitably have a negative impact on a portion of American workers and communities. For a number of years now, the Federal government has helped ease this impact through the provision of trade adjustment assistance. Trade adjustment assistance is up for re-authorization this year, and I think it is time to make a serious effort to revise and enhance the program. What is the Administration's position on trade adjustment assistance? Do you feel there is room for cooperation between the Administration and Congress on this issue?

Answer: Senator Bingaman, I fully agree with you that this may be the time for revising, reforming and enhancing our trade adjustment programs. It is unfortunate, but true, that existing programs seem to be weak in both directions: They have never been fully utilized by eligible workers; and at the same time there are workers who have been adversely affected by trade who are not eligible for existing programs. I believe that the Administration and Congress can cooperate on this issue and it is the Administration's intent to support a reform and re-authorization of TAA.

As you know, I have had a long standing interest in this subject. Several years ago, I suggested that a revised TAA program may benefit from a form of wage insurance. This would encourage workers to seek and accept jobs in entirely different occupations and industries, even if it meant a temporary reduction from their prior wage levels. We have to be careful, of course, that trade adjustment programs remain just that—programs to help workers and their communities adjust to changes

in trade flows—and not entitlement programs. But it is my belief that changes are possible that would make adjustment programs both more efficient and more accessible and beneficial to eligible workers.

The Department of Labor, of course, is taking the lead in a thorough reexamination of both the Trade Adjustment Assistance (TAA) and the NAFTA Transitional Adjustment Assistance (NAFTA-TAA) programs. Staff from USTR, both in our economic policy group and our new Assistant USTR for Labor, as well as staff from other agencies have worked with DOL to develop a forward-looking proposal. We expect an Administration proposal shortly, and I would be happy to discuss it further with you at that time.

COMMUNICATIONS

STATEMENT OF THE COUNCIL OF THE AMERICAS

The Council of the Americas is the premier business organization dedicated to promoting regional economic integration, free trade, open markets and investment, democracy and the rule of law throughout the Western Hemisphere.

The Council strongly believes that Fast Track or Trade Promotion Authority ("trade negotiating authority") is essential to the ability of the United States to negotiate and ratify trade agreements, which in turn are vital to the continued economic and national security of the United States.

Indeed, in the absence of trade negotiating authority, U.S. business is quickly losing competitive advantage as the rest of the world presses forward with trade agreements that exclude the United States. These agreements lower costs for our foreign competitors, diverting business from U.S. companies. The European Union already exports more to South America than does the United States, and talks for a free trade agreement between the Mercosur and the EU are rapidly moving forward.

The U.S. position in ongoing negotiations, in particular negotiations towards a Free Trade Area of the Americas (FTAA), has been weakened by the current and previous Administrations' lack of trade negotiating authority. FTAA negotiations are now entering a critical phase, making it increasingly important that the Congress renew the President's trade negotiating authority this year.

The Importance of Trade Negotiating Authority

Trade negotiating authority enables the United States to effectively negotiate and ratify trade agreements, by meeting several important needs:

- Providing Congressional direction and objectives to U.S. trade negotiators;
- Ensuring ongoing formal consultation between the Congress and the Executive branch on trade policy and priorities;
- Guaranteeing timely up-or-down votes, without amendments, on trade agreements; and
- Providing U.S. negotiators with the authority and the credibility to make deals.

It is difficult for U.S. negotiators to be responsive to the goals and concerns of Congress in the absence of specific negotiating objectives that have been approved through the legislative process. In passing trade negotiating authority, Congress has an opportunity to communicate fundamental principles for negotiators to follow in pursuing trade agreements. When negotiators are presented with those principles in advance they have a much better chance of coming back with an agreement consistent with Congressional objectives.

By granting the President trade negotiating authority, Congress not only establishes parameters for negotiators to follow, but ensures that the Administration continues to consult with Congress as an institution through a formal process. Individual Members of Congress can always communicate their personal views to the Administration, but it is important to have a process for consultation with the Congress as a whole.

The early establishment by Congress of negotiating objectives and a consultation process are the quid pro quo for the expedited consideration and the non-amendable status of trade agreements under trade negotiating authority. When Congress waits until negotiations are concluded or well underway to pass trade negotiating authority it is essentially forfeiting its own jurisdiction over trade agreements, agreeing to expedited, non-amendable status, but ceding its prerogative to provide direction and engage in ongoing consultation with negotiators.

Both sides of this equation are equally important. Participation in the negotiating process is a right and a responsibility that Congress should not abandon. Conversely, non-amendable trade agreements, and expedited consideration, are fundamental to the ability of the United States to secure deals with our trading partners.

Trade negotiating authority impacts not only the kind of agreements we reach, but our ability to reach agreements at all. U.S. negotiators deserve the authority to make deals that will be upheld. Without that certainty, conveyed by a Congressional grant of trade negotiating authority, our trading partners hold back their best offers in the knowledge that Congress may attempt to re-negotiate the deals they have worked out with our negotiators.

Ongoing FTAA Negotiations

The process to create the FTAA began in 1994 at the Miami Summit of the Americas. Since then a substantial amount of groundwork for the agreement has been laid, including the laborious task of identifying and cataloging the existing laws, standards and practices of the 34 participating countries. This preliminary work is especially important, because the FTAA will cover a broader, more complex set of trade policy issues than any previous agreement.

In 1998, in Santiago, Chile, trade ministers recommended and the heads of state agreed, that a sufficient framework had been laid to begin actual FTAA negotiations. Consequently, U.S. negotiators and their counterparts have now compiled draft FTAA chapters for each of the nine negotiating groups. Those chapters, composed of the initial proposals of each FTAA country, form the basis for negotiations that are now addressing substantive trade policy issues.

A number of significant deadlines in this process have either passed already or are rapidly approaching. The Council considers it of the utmost importance that Congress put its views and objectives on the record now by passing trade negotiating authority this year. Without that authority, U.S. negotiators are forced to make deals that do not necessarily reflect the values and concerns of the U.S. Congress.

For these reasons, the Council of the Americas urges the Senate Finance Committee and the whole Congress to renew the President's trade negotiating authority this year. It is a critical element in the formulation of U.S. trade policy that ensures both Congress and the Administration fulfill their responsibilities in the most efficient and effective manner possible. In our view, this authority should be renewed and updated on a continual basis. It is too important to be allowed to lapse again.

The following specific deadlines applicable to FTAA negotiations will likely pass without Congressional input if Trade Promotion Authority is not passed **this year**:

Deadline	Issue	Status
November 2001	Guidelines for treatment of small economies	Ongoing
April 1, 2002	Recommendations for disciplines related to anti-dumping and countervailing duty laws.	Ongoing
April 1, 2002	Recommendations for disciplines related to agricultural subsidies	Ongoing
April 1, 2002	Recommendations regarding application of Sanitary and Phyto-sanitary measures.	Ongoing
April 1, 2002	Methods and modalities for agriculture negotiations	Ongoing
April 1, 2002	Methods and modalities for tariff negotiations	Ongoing
April 1, 2002	Negotiation of safeguards regime	Ongoing
April 1, 2002	Recommendations for modalities and procedures for investment negotiations	Ongoing
April 1, 2002	Recommendations for competition policy negotiations	Ongoing
April 1, 2002	Modalities and procedures for services negotiations	Ongoing
April 1, 2002	Recommendations for government procurement negotiations	Ongoing
May 15, 2002	Begin substantive agriculture negotiations	Imminent
May 15, 2002	Begin substantive tariff negotiations	Imminent
May 15, 2002	Begin substantive investment negotiations	Imminent
May 15, 2002	Begin substantive services negotiations	Imminent
May 15, 2002	Begin substantive government procurement negotiations	Imminent
August 2002	Submit new versions of FTAA draft chapters for consideration by trade ministers.	Imminent
October 31, 2002	Next FTAA Ministerial	Imminent

Source: Buenos Aires FTAA Ministerial Declaration, April 2001.

STATEMENT OF THE INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

This statement is submitted on behalf of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). The UAW represents 1.3 million active and retired members in the automobile, aerospace, agricultural implement and other industries.

The UAW appreciates this opportunity to present its views on the critically important issue of U.S. trade policy and trade negotiating authority. We welcome the Committee's interest in developing a U.S. trade agenda that addresses the concerns of UAW members and all American workers.

The UAW has consistently taken the position that international trade and investment can contribute to improving living standards for workers in the U.S. and abroad. We have argued for a results-oriented U.S. trade policy that balances international fairness with fairness to American workers. By our measure, recent international trade agreements, and the U.S. negotiating objectives and overall trade policy that produced those agreements, have failed to satisfy this standard.

For many years, the UAW has been calling for a thorough re-thinking of the U.S. approach to trade policy. The UAW strongly opposed legislation in 1997 and 1998 that would have extended fast-track trade negotiating authority because it represented the deeply flawed trade policy agenda that has produced flawed trade agreements, like NAFTA. These trade agreements have led to massive trade deficits that have caused serious job losses and economic dislocation and downward pressure on wages and working conditions for millions of American workers. We will continue to oppose any and all proposals for trade negotiating authority that build upon the decayed foundation of current U.S. trade policy.

The UAW believes that all U.S. trade and investment agreements must have effective provisions in many areas of concern to American workers. These issues include: dramatically improving the transparency (i.e., openness to input from Congress, unions, non-governmental organizations) of the U.S. negotiating process and of the international institutions in which negotiations and international economic decisions take place; limiting the volatility and damaging effects of exchange rates on living standards and trade; controlling the de-stabilizing effect of the international flow of investment capital into and out of countries through regulation, taxation and other necessary measures; focusing on the need to stimulate international economic growth through debt relief for countries that are poor and have been saddled with debt obligations that cannot be paid without imposing terrible economic burdens on their citizens; restricting the use of technology transfer and production-sharing arrangements (offsets) that sacrifice domestic production and employment for the benefit of corporate market access; and, improving the ability of the U.S. government to protect against surges of imports that cause serious and, often, permanent dislocation for American workers in high-productivity industries that pay family-supporting wages.

In addition, the UAW believes that an essential element of a U.S. trade policy is the inclusion of core worker rights and environmental standards in the body of all agreements, subject to the same dispute resolution process as other provisions. Relegating these issues to "side agreements," or creating special conditions that apply to their negotiation and enforcement, is simply unacceptable. The NAFTA side agreement on labor has not changed the variety or the severity of the problems facing workers who try to organize independent unions. Employers continue to use intimidation, illegal firings and other illegal tactics to prevent workers from exercising basic labor rights. Because there is no effective dispute resolution process, petitions filed against employer abuses and government inaction have not led to reinstatement of workers or sanctions on employers.

The absence of rules covering worker rights and standards in trade agreements is a critical stumbling block to ensuring that increased international trade and investment contribute to improved living standards and working conditions. We believe that the expansion of international commerce has made a significant contribution to widening income inequality in developed and developing nations alike by depressing compensation for a large share of workers. Higher productivity and new investments have raised workers' skills and their contribution to output, but the share of the increasingly international value of output received by workers has, at best, stagnated.

The resistance to taking action to incorporate worker rights into all trade agreements is driven, principally, by the threats of multinational corporations and the actions of non-democratic governments. Instead of listening to their self-interested opposition, we believe all countries should be held to their claim that the intention of the trade rules is to generate higher living standards, not greater economic leverage for the largest global corporations and repressive, authoritarian governments.

All of the issues raised here have been the focus of intense discussions concerning U.S. trade negotiating authority and economic globalization in recent years. There have been numerous domestic and international forums in which these issues have been debated. In addition, popular opposition to the current path of trade negotiations and globalization has been highly visible at every international economic meeting since the massive demonstrations at the WTO Ministerial in Seattle in 1999.

International institutions that have contributed to the economic and social suffering that has accompanied implementation of the pro-corporate trade and investment agenda have been the targets of protests. It is clear that these protests will continue as long as the current policies of expanding the rights of corporations at the expense of the rights of democratic governments, workers and the environment remain in place.

In our judgment, the debate over incorporating worker rights and environmental protections into trade and investment agreements must be at the center of Congressional deliberations concerning new trade negotiating authority. The inadequate treatment of these concerns, or the absence of any treatment, played a significant role in Congress's failure to pass fast-track trade negotiating authority in 1997 and 1998. In light of this reality, the absence of any mention of either of these issues in the Trade Promotion Authority Act of 2001 (H.R. 2149), introduced by Representative Crane last week, shows that this legislation is not a serious effort to establish a trade agenda that has broad popular support. In addition to leaving labor and environmental issues off the list of U.S. trade negotiating objectives, this legislation simply repeats the old list of negotiating objectives. It totally ignores recent experience with the damage caused by international financial crises, crushing international debt obligations on development in poor countries, investment rules that grant excessive rights to international investors to sue governments and the use of trade rules covering services, investment and intellectual property rights to undermine governmental regulatory powers in the areas of public health and safety and essential services. In short, H.R. 2149 offers only the same flawed approaches and the same flawed trade policies that have produced decades of U.S. trade deficits and, most recently, six successive years of record merchandise trade deficits.

The only piece of H.R. 2149 that could allow for the negotiation of labor and environmental provisions in trade agreements establishes special criteria that must be met. These criteria apply to establishing issues as negotiating objectives, including them in specific trade negotiations and including them in the implementing legislation that Congress considers when an agreement has been reached. Each of the criteria is designed to stymie the inclusion of labor and environmental provisions in any trade negotiations. By specifically requiring that provisions related to "other Presidential objectives" must be "directly related to trade," "consistent with the sovereignty of the United States," "trade expanding and not protectionist," and "not affect a country's ability to make changes to its laws that are consistent with sound macroeconomic development," H.R. 2149 tightly circumscribes the worker rights and environmental issues that can be covered in negotiations, exempts the U.S. from coverage under any provisions, prevents the use of trade sanctions to enforce them and justifies the actions of countries to backtrack on laws and regulations already on the books. The intent of these provisions is clear to undermine the ability of any president to put labor and environmental issues on the negotiating table in international trade and investment talks and to prevent any provision that could possibly be negotiated from having any effective impact.

In light of the controversies that have arisen over the international trade rules that apply to investment, intellectual property rights, agriculture, services and other areas of negotiations, it is striking that none of the criteria applied to consideration of labor and environment are applied to these negotiating objectives. The direct relationship to trade to these issues has been questioned and the application of the investment rules in NAFTA has certainly challenged sovereignty. Despite this reality, H.R. 2149 does not condition negotiations or negotiated provisions in these areas on meeting the four extra criteria that are applied to labor and environment issues.

The treatment of labor and environmental trade issues in H.R. 2149 is far more restrictive than in the 1997 and 1998 fast track negotiating authority proposals rejected by Congress. By not specifically mentioning these issues in the list of U.S. negotiating objectives and further restricting their potential consideration, H.R. 2149 has moved a giant step in the wrong direction for U.S. trade policy. The UAW strongly opposes H.R. 2149 and urges Congress to reject this flawed proposal.

The UAW appreciates this opportunity to present our views to the Committee. The international economy has a profound impact on the living standards and working conditions of American workers. The changes we seek in U.S. trade policy must be adopted in order for trade to be a positive force rather than the source of downward pressure on their well-being. We hope that the Committee will agree that these fundamental changes are necessary and will undertake the serious review required to arrive at a new U.S. trade policy that takes account of the globalization process that is underway and the interests of American workers, their families and communities.

Thank you.

STATEMENT OF LEVI STRAUSS & CO.

Levi Strauss & Co. (LS&CO.) is pleased to respond to the Senate Finance Committee's request for comments regarding Trade Promotion Authority (TPA) legislation.

LS&CO. is one of the world's largest manufacturers of apparel products, producing jeans, jeans-related products, and casual sportswear under the Levi's, Dockers, and Slaters brands. We manufacture in more than 60 countries and market our products worldwide.

As a major multinational corporation, LS&CO. is a strong advocate of global trade liberalization and benefits from lowering customs duties and other charges incurred at the border. Likewise, lowering non-tariff trade barriers such as quotas, and eliminating other onerous trade restrictions are of critical importance to the competitiveness of LS&CO. and our ability to deliver our products to our customers in a timely and cost-effective manner.

LS&CO., therefore, strongly supports legislation that would grant the President the Trade Promotional Authority (TPA) necessary to negotiate sound trade agreements on a regional, multilateral and bilateral basis. We believe that TPA is necessary to give our trade negotiators sufficient leverage to secure the best trade deals possible—deals that improve market access, protect our intellectual property, and streamline the flow of our finished products and raw materials across international borders.

In addition to using TPA to negotiate improved market access and more liberal trading environments around the globe, LS&CO. also seeks the support of Members of the Committee in addressing key labor issues within the context of any negotiations that might be conducted under new TPA authority.

As a global company, LS&CO. seeks to conduct its business in a responsible manner in all of the countries in which we operate. In 1991, LS&CO. made worker rights a public priority by becoming the first multinational company to establish a comprehensive code of conduct. Known as our "Terms of Engagement," the code helps us select business partners who follow workplace standards and business practices that are consistent with our company's values and policies. The guidelines are applied to every contractor who manufactures or finishes products for LS&CO.

LS&CO. has always believed that corporate social responsibility is a fundamental aspect of our business and one that is tied to competitive advantage and commercial viability. Given our strong commitment to worker rights and workplace standards, we firmly believe that labor issues should be an integral part of any trade negotiations, whether they are multilateral, regional or bilateral.

As a result, we would urge the Senate Finance Committee to pass legislation renewing TPA authority in a way that takes into account the important linkage between trade and international worker rights. While we are flexible regarding the specific mechanisms used to protect workers in trade agreements and are open to a variety of mechanisms and penalties (including sanctions if necessary) to enforce those protections, we are resolute in our commitment that future trade agreements must include strong language on labor protection at their core. These protections should include effective measures and processes to ensure compliance.

By including sound provisions on labor rights in the TPA bill reported out of the Senate Finance Committee, you will help ensure that future trade agreements will include the necessary discussion of labor rights. You will also send a strong message that the Senate is prepared to play a constructive, leadership role in resolving the trade/labor debate, which has contributed to a delay in further liberalization of the international trading system. We urge you to take this important step and are confident that the trade and labor linkage we propose will result in a "win-win" situation for global companies like LS&CO., as well as for the workers who make our products.

Thank you for your consideration.

