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RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

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RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES

THURSDAY, AUGUST 4, 1983

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9:57 a.m. in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Dole, Chafee, Heinz, Grassley, Symms, Baucus, Long, and Bradley.

[The press release announcing the hearing and the prepared statements of Senators Dole, Grassley, Heinz, and Symms follow:]

[Press release]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARING ON THE ADMINISTRATION'S PLANS FOR RENEWING THE GENERALIZED SYSTEM OF PREFERENCES

Senator John C. Danforth (R., Mo.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced that on Thursday, August 4, the Subcommittee will hold a hearing on the Administration's plans regarding renewal of the Generalized System of Preferences.

The hearing will commence at 9:30 a.m. in room SD-215 of the Dirksen Senate Office Building.

The Generalized System of Preferences is a preferential tariff program for developing countries authorized by Title V of the Trade Act of 1974. It permits duty-free entry of articles from developing countries, subject to certain conditions and limitations. The authority for this program expires January 3, 1985. The Administration is expected to seek its renewal.

At this hearing, only U.S. Trade Representative William Brock will testify. Chairman Danforth expects to schedule further hearings at a later time at which members of the public will have an opportunity to testify.

STATEMENT OF SENATOR DOLE

RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES

I welcome Ambassador Brock today to explain the administration's proposal for renewal of the generalized system of preferences (GSP). Since its inception 10 years ago, the GSP has not played a large role in terms of its coverage of total imports. Nevertheless, the program clearly is of importance to our political relations with the third world, and to their economic growth. Because U.S. exports are increasingly tied to the growth of developing countries—and thus, to their ability to import—we must carefully review how well the GSP has worked, and what might be done to improve it.

The GSP authorizes the President to proclaim duty-free treatment for articles from developing countries, subject to certain conditions and limitations. The conditions, very similar to those included in the Caribbean Basin Initiative legislation the Congress passed last week, are an appropriate combination of criteria reflecting the needs of the potential beneficiary countries, and matters of concern to this country that we should expect countries benefiting from unilateral tariff preferences to observe. We should not extend such benefits to Communist countries, for example, or countries that do not cooperate in U.S. efforts to interdict illegal narcotic trafficking. I believe the conditions for GSP eligibility the Congress established in 1974 have served their purpose well.

The limitations perhaps deserve somewhat closer scrutiny as we consider whether to renew the program. In general, duty-free treatment may be limited because certain dollar or import quantity limits have been breached. Further, the President may "graduate" countries that he determines are sufficiently competitive with respect to particular articles so as not to require preferential treatment.

The committee established competitive need limitations on GSP imports because it sought to prevent only the few, most advanced of the developing countries from dominating the program's benefits. Further, the committee has supported the increased integration of those countries into the world trading system. Countries that are in fact fully competitive in particular industrial sectors should play by the same rules as everyone else. Finally, our domestic firms and workers should receive some assurance that GSP benefits will not be abused.

I was pleased by the report of the International Trade Commission in May on the operation of the GSP program. The ITC concluded that there has been little domestic impact resulting from GSP imports. I am reassured by this report that the existing limitations appear to serve one of their intended purposes.

But I hope our hearing today, and the further hearings on this matter Chairman Danforth intends to convene, will shed light on whether GSP benefits are properly distributed among developing countries, and whether the United States is obtaining concrete benefits from offering these preferences. In this regard, I am interested by the Administration's proposal to condition, in certain circumstances, the extension of full GSP benefits on commitments by the advanced developing countries regarding access to their markets by U.S. exporters, and on similar issues of interest to the United States. For example, Kansas manufacturers of General Aviation Aircraft are effectively denied access to the Brazilian market, even though that country is fully competitive in the aircraft manufacturing sector. Perhaps a limitation on Brazil's preferred access to this market will convince them to be more cooperative regarding our export interests.

The question how to balance our export interests with the need to assist developing countries to grow economically is a difficult one, and involves much more than whether to renew the GSP. But the GSP is an important program, and I look forward to Ambassador Brock's testimony on how to improve it.

Senator Charles Grassley's Statement on GSP Hearings in Finance Committee, August 4, 1983

Mr. Chairman: I want to commend you for holding this hearing on the Administration proposal to renew the Generalized System of Preference.

While I realize that developing countries purchase 40 percent of U.S. exports, which is considerably greater than U.S. exports to the EC and Japan combined, I am concerned that we not renew this program with countries that maintain significant barriers to trade in goods and services and to investments which impede U.S. exports. As you may recall one of the arguments that I raised during our C.B.I. hearings in which we provided similiar duty free treatment, was that trade is a two way street and if we are going to provide preferential treatment to any country the least we can expect in return is that they not put up any tariff or non-tariff barriers on U.S. goods.

I recognize that trade, rather than aid, is a more effective way of promoting broadbased sustained economic development and that it is one method we can use to help them meet their debt services requirements. The fact that the nineteen (19) other OECD developed donor countries are committed to a balanced continuation of the GSP and most have already extended the program leads me to believe we should give serious thought to doing the same.

I look forward to the information which we will be receiving today on this subject and have several questions I would like to ask at the appropriate time.

In conclusion, I would just like to commend you for the leadership role you have taken not only on this subject, but other trade matters in the past to create additional opportunities for trade among the developed and developing countries of the world and the United States.

Statement by John Heinz, Hearing on the Generalized System of Preferences Program, August 4, 1983

I welcome this hearing as the first step in the effort to renew the GSP program. I want to be clear from the beginning that I support renewal, and I support the effort of the Administration to refocus GSP benefits on less developed countries. As I have indicated in the past when I introduced legislation on this subject, it is clear that over the past six years the lion's share of the benefits under the GSP program have gone to four or five countries, none of which can be considered truly lesser developed countries.

Accordingly, I support the effort to refocus the benefits of this program and want to work with the Administration to that end. The original suggestions of USTR staff that the way to achieve that objective is to graduate the newly industrializing countries and then encourage them to, in effect, "buy" their way back in through agreement to reduce their own trade barriers and performance requirements is a good one. It has started me thinking about this problem, and I plan shortly to have some amendments to offer to the Administration bill. Those amendments will, generally speaking, articulate these principles:

Concessions obtained in return for GSP benefits should focus on non-tariff barriers and performance requirements; agreements should be bilateral and not made on an MFN basis; and agreements made and benefits extended should be reviewed by Congress pursuant to the procedures in section 151 of the Trade Act of 1974.

Through this approach, we can best insure that the GSP program addresses the needs of those nations with the greatest development problems while at the same time we encourage those nations that are making economic progress to assume international responsibilities commensurate with that growth.

Senator Steve Symms, Senate Finance Committee/International Trade Subcommittee, August 4, 1983

International trade is, and will continue to be, a vital component of both of our economies. A prosperous, well-functioning trading system will make an important contribution to the success of our economies, and it is a cornerstone of America's national security program.

Trade is an increasingly powerful source of innovation and growth for all economies. Everyone gains from the access to the world's markets and the spur of international competition. Trade clearly reinforces everyone's efforts to reduce inflation, to increase production and to expand employment.

In addition, and very importantly, trade can contribute to mutually beneficial cooperation among nations. Healthy trade relations can strengthen friendships and alliances, and can help integrate countries into the market-oriented trading system which has served us all so well.

The current trade policy of the United States has its roots in historical experience. Following World War II, the major industrial nations recognized that the bilateral agreements and protectionist policies pursued by many nations during the inter-war period had done severe harm to their economies, played havoc with the international economy, and contributed to the frictions and tensions which ultimately led to the outbreak of war. The U.S. and its partners therefore set out to create a new trading system based on fair trading rules, on nondiscrimination among trading partners, and on the commitment to reduce trade barriers—especially high tariffs.

That system is embodied in the General Agreement on Tariffs and Trade (GATT). Despite its imperfections and departures from certain of its principles, this system has brought enormous benefits to virtually every nation in the world and has served American interests as well. The dramatic growth in trade since the war has strengthened our own economy and that of our trading partners. U.S. exports grew from $10.8 billion in 1950 to $221 billion in 1980. This has meant millions of jobs for everyone concerned. And, while we are currently facing some problems with the system, we would be considerably worse off if we had chosen a trading system based on more restrictive principles and rules. Such a system might well have brought prolonged economic weakness to our trading partners and, poorer markets for everybody's exports.

Today, there are strains in the system. Competition among developed countries and with developing countries is more intense than it was years ago. And slower growth in many developed nations increases the difficulty of adjusting to rapid increases in imports.

In the face of keener competition, many countries face enormous pressures to protect individuals by restricting imports or supporting noncompetitive exports. They are tempted to work out bilateral trade arrangements which protect certain patterns of trade or limit trade. Investment practices are increasingly used as a means of forcing increased procurement or increased exports. Barriers exist in services, where the U.S. is very competitive. Certain countries that benefit greatly from the trading system seem to have failed to open their markets adequately, even while taking advantage of open markets in other countries.

Unless we attempt to solve these problems and distortions they will severely weaken the international trading system. Efforts to strengthen international cooperation among both the developed and developing nations will be threatened and the world economy will be disrupted.

I am committed to the support of an open trading system on the basis of agreed rules. At the same time, I would expect similar undertakings from other countries. Open trade on the basis of mutually agreed upon rules is in our best economic interests, and is consistent with both of our commitments to strengthen our economies.

Consequently, I believe the most important challenge the United States faces today is making sure that trade is a two-way street. Increased equity and reciprocal market access and opportunities for U.S. exporters and investors is my goal. The United States cannot make a contribution to the goal of free trade by ignoring attacks upon it by others or by not pursuing increased market access for our goods, services and investment. Clearly, no nation can long sustain public support of any policy unless its people sense that there are equity and tangible benefits for them in the application of that policy.

The United States' adherence to a free trade policy requires that it strictly enforce existing trade agreements, to strengthen our domestic trade laws to make them more useful and responsive to the needs of those they protect, and seek expanded coverage of trade issues under the mutually accepted international framework of the General Agreement on Tariffs and Trade (GATT).

What does an internationally accepted free trade policy mean? It means gaining market access to overseas markets in areas where we are competitive.

Specifically, the two issues which I believe the Congress is most concerned about is adequate market access for American products and a resolution to the protection of the industrial property rights, copyrights and patents of U.S. firms and artists.

Many of the countries who are the prime beneficiaries of the GSP are counterfeiting our products and denying the United States fair market access to their domestic markets.

Resolution of these matters is essential to the continued mutually beneficial trade relations between the United States and our trading partners.

We are going to have to work closely to address the problems of the trading system in order to maintain open markets for developing countries. An open trading system, based on common adherence to agreed rules, is an objective towards which we should all strive.

Senator DANFORTH. The first topic today is the "Generalized System of Preferences." And, Ambassador Brock, good to have you.

STATEMENT OF AMBASSADOR WILLIAM BROCK, U.S. TRADE REPRESENTATIVE, WASHINGTON, D.C.

Ambassador BROCK. Thank you, Mr. Chairman.

Let me try, if I can, to give a few personal thoughts on GSP, and what we are trying to do in our renewal proposal. And I will submit a complete statement for the record.

Mr. Chairman, I think first of all I would state that based on conviction that this program has been of enormous benefit to the United States. I know that there are those who view it as some structural benefit to poor countries, and argue that it is logical in that sense, and I agree. But GSP benefits both sides.

If you've looked at the foreign sector, for example—we have some members of this committee who represent their States—last year we brought in, I think, $721 million worth of agricultural products under GSP. We exported in that same year to those same countries $15 billion worth of agricultural products, or 20 to 1 cost-benefit ratio. That's not bad. That's good business.

If you look at the alternative of trying to help those countries with foreign aid, I think you can see the logic of trying to give people a chance to earn their way into productive life. And that's what this program is all about.

Second, we imported from all the beneficiary countries about $8.4 billion worth of products under GSP of all sorts, industrial and agricultural. We exported to them well over $80 billion in goods and services, and that is at least a 10 to 1 benefit ratio, which I commend to you as something we should try to achieve in a host of different Federal programs.

Now having said that GSP was of benefit to us in the past, let me try to describe two or three of the changes that we have suggested to illustrate the basic concern we have for how it will work in the future. The change that I think has gotten the most attention is one in which we recommend a reduction in the competitive needs formulation from 50 percent of imports down to 25 percent, and from approximately $50 million down to $25 million as a lower level of competitive need above which countries would normally be graduated. But in doing so, we would consult with those countries if they saw fit to ask for higher limits. And one of the criteria we would use in our consultations with them and in our evaluation of their request would be the degree of openness to our products that they have in their markets.

In simple terms, I think what we are saying is that the more advanced countries should take on greater responsibility in the international trading system as they progress and develop, there should be some maturation; some willingness to accept the greater disciplines of the international system of exchange; and some willingness to open up and allow trade to flow in in both ways.

Now with that, I want to conclude with the additional request that we make. That we simply provide automatically, for the exclusion from the competitive need limits of the imports from the LLDC's because these countries are so terribly, terribly impoverished that we would like to provide them with every possible opportunity that they could get to sell their products in our markets. In all candor, that's not a major economic item. That they only sell us about $50 million worth of products now. They are so poor, and so depressed economically they don't have a lot to sell. They don't have the infrastructure that allows them to sell in a competitive market such as ours. But to the extent we can open ourselves up for their products, to the extent that we can hopefully create a circumstance in which maybe investment would flow into those countries and help them to grow and progress, I suggest that it's in our interest to do so.

The bottom line, then, is that we are seeking a 10-year extension of a program that has clearly benefited the United States. We ask that the President's authority to lower the competitive need limit on a product specific basis be clarified so that he may lower the limit to 25 percent and $25 million in imports; that the President be allowed to waive the competitive need limit after considering among other factors, the degree of competitive circumstance of the country, specific industry, and the degree of openness to our markets, and that we be allowed to exempt the LLDC's from all competitive need limits so that they might hopefully expand significantly their exports into our markets.

I think that's enough of a summary of personal views, Mr. Chairman. And I would be happy to respond to your questions, if I might.

Senator DANFORTH. Thank you.

[The prepared statement of Ambassador Brock follows:]

STATEMENT BY AMBASSADOR WILLIAM E. BROCK, UNITED STATES TRADE REPRESENTATIVE

Mr. Chairman: Thank you for the opportunity to address the Trade Subcommittee on renewal of the U.S. Generalized System of Preferences (GSP). As you know, the GSP program will expire on January 3, 1985. I wish to share with you some of our thoughts concerning the role of the GSP in its first eight years of operation, as well as its potential contribution to U.S. economic interests during the next decade.

PURPOSE AND HISTORY

We are all familiar with the general purposes of the GSP. It is intended to assist the economic development of the world's poorer countries by encouraging greater diversification and expansion of their production and exports. This is accomplished by granting preferential duty-free treatment to many of their exports.

When the United States joined other industrialized countries in supporting the concept of a GSP in 1968, it was apparent that one of the major impediments to accelerated economic growth and development was the developing countries' inability to compete on an equal basis with developed countries in the international trading system. For many developing countries, export earnings constituted not only the primary source of investment funds needed for development but also for financing basic commodities essential to maintain existing standards of living. Through the extension of tariff preferences, developing countries could realize an increase in exports and diversify their economies thereby decreasing their dependence on foreign aid.

As initially conceived, GSP systems were to be: (1) temporary, unilateral grants of preferences by developed countries to developing countries; (2) designed to extend benefits to sectors of developing countries which were not competitive internationally; and (3) designed to include safeguard mechanisms to protect domestic industries sensitive to import competition from articles receiving preferential tariff treatment. In the early 1970's nineteen other members of the Organization for Economic Cooperation and Development (OECD) instituted GSP schemes.

Congress authorized the establishment of a U.S. GSP scheme with the passage of the Trade Act of 1974, the GSP's authorizing legislation. The Act gave the President broad authority to implement and administer a program that would contribute to the development process of developing countries while avoiding any harmful repercussions for domestic producers and workers.

The U.S. GSP was implemented in January 1976, with preferential duty-free treatment extended to 140 beneficiary developing countries on 2,700 products. Each product included in the original GSP list was carefully reviewed pursuant to statutory procedures and the requirement that import-sensitive articles be barred from eligibility.

This program, which has been refined over eight years of operation in response to changes in the competitive position of both beneficiary countries and U.S. producers, has been instrumental in promoting its development objectives. These objectives are not entirely altruistic, and that the United States has a critical stake in the strong economic development of GSP beneficiaries and thus a critical stake in the program.

The importance of trade to the economic well-being of the United States as well as developing countries cannot be overemphasized. Developing countries now purchase nearly 40 percent of U.S. exports—more than the EC and Japan combined. They are now the fastest growing markets for U.S. products, increasing at an average annual rate of 12.5 percent since 1976, as compared to the 9.6 percent growth recorded in our exports to traditional developed country markets. The GSP contributed to this growth by enabling developing countries to earn increased foreign exchange with which they in turn have purchased more U.S. goods and services.

The GSP spurred this mutual expansion of trade opportunities not with costly grants of aid, but through a system that encourages broad-based sustained economic growth based on the realities of the marketplace. The GSP is not a targeted development project; rather, it is a system of opportunities which encourages each developing country to draw and build on its own relative strengths.

During the debate on the renewal of the GSP it is important to remember that the GSP is a small program. GSP imports, which account for only 3 percent of total U.S. imports, do not represent a threat to U.S. economic interests. Despite the fact that GSP imports increased from $3.0 billion in 1976 to $8.4 billion in 1982; the GSP has not had any appreciable effect on imports' share of the U.S. market.

In a study released this May, the U.S. International Trade Commission concluded that GSP imports have averaged 0.5 percent or less of total U.S. consumption. For the seven major product sectors examined by the Commission, the largest GSP import penetration was only 2.1 percent. Disaggregating still further, the Commission found that only 12 of 650 commodity groups have witnessed a significant increase in import penetration as a result of GSP imports.

The International Trade Commission concluded that the absence of significant import growth in the vast majority of product areas was attributable to the substitution of GSP imports for imports from developed countries. For the limited instances in which GSP imports did contribute to increased import penetration, the increases were found to be attributable primarily to the inclusion of new items in the GSP, as opposed to a significant increase in actual imports of a specific product.

One of the principal strengths of the GSP program has been its ability to adjust, on a product-specific basis, to changing market conditions and the changing needs of producers, workers, exporters, importers and consumers. Through our annual product review procedures we have tailored the program's coverage to reflect changing conditions of competition and any resultant changes in import sensitivity. In this regard, our product review has been very responsive to the concerns of U.S. producers and workers. It has ensured that the GSP program does not adversely affect domestic interests.

Many Members of Congress are familiar with the GSP product review and have participated actively in it. In fact, the U.S. program is widely acclaimed as the most open and accessible donor country GSP program. Any interested party, whether he be a U.S. worker, manufacturer, farmer or importer or a beneficiary government official or exporter can submit a petition requesting a modification in the list of articles eligible for GSP treatment.

The petitioning process is uncomplicated and straightforward. After a preliminary screening of petitions by the interagency committees, all interested parties are afforded the opportunities of testifying in public hearings and submitting written comments. While the product review is normally a ten-month process, we have acted on an expedited basis in several instances where more immediate consideration was warranted.

As a result of our product review procedures, 31 products with GSP trade valued at $0.6 billion have been removed from duty-free treatment. Approximately 300 products, with GSP trade valued at $1.3 billion, have been added to the GSP list. One-third of these product additions have consisted of agricultural products of special interest to less developed beneficiaries. Nonetheless, GSP imports of agricultural products, almost half of which consist of sugar, account for only 9 percent of total GSP imports.

Some improvements have been made to the administration of the product review in order to provide greater predictability to U.S. business utilizing the GSP. Establishment of a GSP Information Center and early notification of changes to the list of eligible articles have improved the program to the mutual benefit of foreign and domestic interests.

Many have noted with concern the fact that a limited number of GSP beneficiary countries account for the majority of the programs's benefits. This has occurred despite the operation of the program's competitive need limits, which automatically exclude almost one-half of these top beneficiaries' trade from GSP eligibility.

In response to these concerns and in keeping with our desire to integrate developing countries more fully into the international trading system, the Administration strengthened its graduation policy in 1981. As outlined in the President's "Report to Congress on the First Five Years' Operation of the GSP", the Administration began graduating beneficiaries from GSP eligibility on a product-by-product basis. Graduation decisions have been based on a consideration of three factors: the beneficiary's general level of development; its competitiveness with respect to the particular product; and the overall economic interests of the United States, including the import sensitivity of U.S producers and workers.

As a result of this policy, $448 billion in GSP trade was graduated in 1981, $651 million in 1982, and $900 million earlier this year. The seven leading beneficiaries of the GSP have been affected by graduation on 131 different products. It is important to remember that these exclusions are over and above the statutory competitive need exclusions, which now total over $7 billion annually in over 200 product categories.

Before addressing our goals in a renewed GSP program, let me note that nineteen other industrialized countries have found it in their interest to extend their GSP programs through 1990 or beyond. These countries have realized tangible benefits from their programs, in such forms as increased trade and trade-related jobs, improved foreign relations and greater consumer benefits. In short, most of the industrialized world has made a commitment to GSP programs because they offer important benefits at little or no cost.

The Administration has transmitted for your consideration a bill to renew the GSP program. I believe that this bill represents a fair and balanced response to the legitimate interests of beneficiary developing countries and domestic producers and workers, many of whom have shared with us their views on the program's current operation and continuation.

We are asking Congress to extend the U.S. GSP for a ten-year period. We also are asking that the statutory authority for the program be modified in certain aspects in response to two general trends: the increasing competitiveness of many GSP products and the increasing importance of developing country markets to U.S. exports.

The Administration is not proposing that graduation be made even more explicit through the establishment of lower competitive need limits for highly competitive products. These limits, which would be set at 25 percent of the value of total U.S. imports and $25 million, would be applied to products in which a country was found to be highly competitive after a general product review. In this review, the President would consider the various factors required under current statutory and administrative procedures.

One of these factors involves the extent to which a beneficiary country has assured the United States of reasonable and equitable access to its markets. This factor will be considered, not only with respect to the limitation of benefits through the application of the lower competitive need limits, but also with respect to a liberalization of benefits on certain products. The Administration proposes that the statute allow for the liberalization of competitive need limits on various products as a means of further inducing beneficiaries to provide significant access to their markets.

In its market access considerations, the Administration will examine not only beneficiary country tariff and non-tariff barriers to trade in goods and services, but also other trade-distorting practices such as performance requirements and inadequate protection of intellectual property rights. In recent years we have received an increasing number of complaints about such LDC barriers. Significant additional market opportunities exist for U.S. exports to many key developing country markets. We need to tap this potential. It is clear that the United States has much to gain from a GSP program restructured to help induce beneficiaries to liberalize their markets in a manner commensurate with their level of development.

Before concluding, I also ask that Congress keep in mind the special needs of the least developed beneficiaries, a group of approximately 30 of the world's poorest countries. These countries do not possess the resources and infrastructure required to export most of the products eligible for GSP treatment and thus have often failed to realize an appreciable benefit from the program. Furthermore, in some instances they have been excluded from GSP treatment on eligible products because of the statutory competitive need limits.

The Administration proposes that the President be authorized to waive competitive need limits applicable to products of the least developed countries as a small but important step toward assisting their development process. While such waivers would have limited practical effect in the immediate future, they could provide an important incentive for longer-term investment in the economies of the least developed countries.

CONCLUSION

The GSP program has provided important opportunities for developing countries to diversify and expand their economies. This has been achieved without any significant adverse impact on the U.S. economy in terms of production, employment or balance of payments. In fact, GSP duty-free imports have accounted for no more than 3 percent of total U.S. imports since the program began.

We have before us the opportunity to extend the GSP in a manner that will further not only the program's laudable development objectives, but also the export goals of U.S. producers. Operation of the GSP by the United States and other industrialized countries has demonstrated—and will continue to demonstrate—that trade can be an effective force for world economic growth.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Ambassador Brock, I think we all agree with the objectives of the GSP, to help a country like Upper Volta or some of the countries in Africa, the poorer countries. We can all understand that.

But I really have difficulty understanding how some of these other nations listed and entitled to GSP—Hong Kong and Korea and Israel and even Taiwan—how do you have those countries as lesser developed countries? What criteria do you use?

Ambassador BROCK. The criteria are the same that we have been using for a number of years. In the instance of the top four or five or six beneficiaries of this program, they have made enormous progress in recent years. Their per capita income generally has improved substantially. Their gross national product has improved substantially. And it is true that they are moving into full membership in the industrial world. They are not there yet, but they have made a lot of progress so what the GSP program does is to allow us to evaluate not the country, but the industry that is seeking GSP treatment. In some industries they have reached competitive circumstances, and we have already graduated them. We've had a significant graduation program since this administration took over.

Senator CHAFEE. By that, they have moved right out of the GSP program?

Ambassador BROCK. Yes. In other areas where they have not reached full competitive circumstance, we continue to give them GSP on those remaining items.

Senator CHAFEE. Well, what criteria do you use? I mean how can Hong Kong or Israel be in that category? Just take two countries.

Ambassador BROCK. Well, I guess there is always a difficulty in drawing a fine line. We have decided since it's so difficult that we ought to look at the individual industrial sector or product. And if a country has the capital and the sophistication and the equipment and the technology and the educated work force to sell automobiles in this country we would assume, as we do, that they are competitive.

Now we do not make such an assumption on automobile spare parts because it doesn't take the degree of capital intensity or technology to produce certain basic automobile spare parts.

Senator CHAFEE. Well, I'm down at a much more fundamental level. I'm down to jewelry. And the thing that bothers me—I'm for the program and supportive of it, and think it's splendid that we are doing it for those countries that are truly entitled to it, but when you read that the top five countries gobble up 63 percent of the advantages under this program, you just wonder how much of it is getting out to the LLDC's that we are truly worried about.

Ambassador BROCK. I understand that. I remember a couple of lifetimes ago when I was just going into business and I used to marvel at the fact that most of our business was done with a very small number of customers. And I think that is true in life. Eighty-five percent of your business is usually going to be done with about 15 percent of the numerical customers you have out there. And that's true with GSP.

The 5 or 10 countries that are the most competitive are going to receive the overwhelming bulk of the benefit. But I pose it to you a different way, Senator. What if we removed the benefit from the top three, four, five, six, whatever number, and simply said they are not allowed to have GSP? I think we can document the fact that all of the benefits that they now get would go to Japan and Germany and Great Britain and France and almost none would go to the least developed that I think you and I are concerned with.

The fact is that the people that would step into the vacuum created by the removal of GSP from these countries are not the least developed. You wouldn't be doing anything for the poorest if you did that.

Senator CHAFEE. I didn't quite get that. Suppose you took Hong Kong off.

Ambassador BROCK. OK.

Senator CHAFEE. What would happen?

Ambassador BROCK. Well, Hong Kong is a pretty good case example. If Hong Kong gets GSP on——

Senator CHAFEE. Take jewelry. [Laughter.]

Ambassador BROCK. If Hong Kong got GSP on jewelry, and that GSP were removed, the sales would not go to Upper Volta. They can't make jewelry. It probably wouldn't go to any of the LLDC's.

What would go to Bangladesh or Sri Lanka if Hong Kong lost something? Textiles would. But you see, textiles aren't covered by GSP because we already exempt them because of the import sensitivity. The Congress did that by statute when it passed the law.

So the kind of industries that would flow to the least developed generally are not on GSP. And I'm not sure that you would do much for the least developed by changing the standards. That's all I'm saying.

Senator CHAFEE. Well, my time is up. We will get back to it.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Several of the other countries in the OECD are extending the GSP programs. Are the other countries who have done this already—and I assume that they all have not—doing so along the same basic lines as our administration has proposed or are there major differences? And if so, are they serious for us to be concerned about?

Ambassador BROCK. There are some differences. The EC and Japan have differentiated among beneficiaries through some tariff rate quota approaches instead of the competitive need formulation which we have here. But if you take the general approach, I think it is relatively similar. And the benefit levels are relatively similar among the primary developed countries. There are about 19 countries, if I remember correctly, that have extended GSP for either 10 years or some without any ceiling at all. And only the United

States and Canada have yet to act to extend a GSP program. But at least both administrations have made a commitment to do so.

But the basic approach to preferential tariffs is pretty similar among the developed countries.

Senator GRASSLEY. The way it is evolving on this second round, nothing disturbing to us?

Ambassador BROCK. There is a difference in what we are suggesting with regard to the reduction in competitive need and the consideration of our access to their markets. That is not generally done by most of the countries.

Senator GRASSLEY. It is not?

Ambassador BROCK. No. I think it should be. And I think it will be if we take the lead.

Senator GRASSLEY. All right. So you are saying in those instances, then, where we don't like the directions that other countries have taken, we are trying to exercise some leadership and get them to go a different route?

Ambassador BROCK. Yes, we are. If you remember, the President raised this concern on a number of occasions, most recently, at Williamsburg with the summit nations in which he encouraged a good deal more conversation about the north/south trading opportunities and the need to expand that.

Senator GRASSLEY. I want to bring up a new subsection G, to section 5 of the Trade Act, which would provide that all GSP eligible products from countries deemed to be least developed will be exempt from any competitive needs limit.

Ambassador BROCK. Right.

Senator GRASSLEY. We just don't have much information on that. Could you explain that more fully? And why we would want to go that far?

Ambassador BROCK. Well, today they can seek a waiver of competitive need, and the President can make that determination. We, frankly, felt that these countries are so small and so poor and have so little to sell that it would simplify life for them and for us to simply provide an exemption for the least developed, the 30- to 35-odd very tiny countries. There is almost no way any of them can reach the competitive needs limits anyway except in the area of sugar.

Senator GRASSLEY. You are saying they are never going to be a threat in any way?

Ambassador BROCK. No, sir, not while this program is being implemented in the next 10 years.

And remember the competitive need is a financial limit, a dollar limit, but each year we review all of these products, and any citizen in this country and any foreign country can ask for a review of a particular product to see if, in fact, it should be left on GSP. So if my forecast that they are not going to be a threat is wrong, we still have the capacity to remove GSP if, in fact, they do pose a serious threat of disruption to U.S. workers and industry.

Senator GRASSLEY. Under section 4, why have we gone to 25 percent and $25 million instead of the present 50 percent and $25 million that is presently in section 504 of c(1)?

Ambassador BROCK. Two reasons. First, there has been a good deal of sentiment here in Congress for reducing the competitive needs formulation in order to tighten up the procedures. Second, we felt, on my part at least, that by tightening up and expanding the number of products that would be covered in that kind of review we would open up the opportunity for more conversations with more countries, and then would by the conversations have an opportunity to encourage them to open up their markets.

A lot of those countries seek GSP from us, and don't buy our products. And I don't think that makes a lot of sense. I think we ought to try to change that.

Senator GRASSLEY. Mr. Chairman, I want to put a statement in the record on both GSP and the Export Administration Act.

Senator DANFORTH. Ambassador Brock, this bill provides the President with authority to establish competitive need limits in light of the access granted to U.S. products by the recipient countries. Could you explain how you anticipate that working?

Ambassador BROCK. I'm sorry. Would you say it a different way?

Senator DANFORTH. The bill provides that the President may determine to impose lower competitive need limits, setting new ceilings on duty free imports of approximately $25 million.

Ambassador BROCK. Right.

Senator DANFORTH. Or 25 percent of total imports of articles. These lower limits may then be waived by the President if he determines it is in the national interest to do so based on other things, on assurances that the country will provide equitable and reasonable access to its markets.

Ambassador BROCK. Fundamentally, in evaluating a country's request to waive the competitive need formula we will place great emphasis on three essential criteria. One, the overall competitive situation of the country. Two, the competitive situation of that particular industry or product. And, three, the access that our products have to their markets.

Now, Senator, you are well aware of the trade distortions that go on in this world. Some of them are subject to remedy under U.S. law. If a country is subsidizing their product into the country, we can deal with that with countervailing duty.

Where it is hard for us to deal with a problem is when they by some device, tariff or nontariff barrier, inhibit the opportunity for us to compete in their markets. And we would like that to be part of our evaluative process. What we are asking, is for your granting to the President the authority to take into consideration the degree of access that we have in their markets as we consider their request for a special access to ours. It's fairly straightforward. What we would suggest is that we would be obviously more forthcoming to a country that had an open market for our products. And that imposes no false restraints.

Senator DANFORTH. And would the administration's consideration include other forms of unfair trade practice other than shutting off access?

Ambassador BROCK. Absolutely.

Senator DANFORTH. For example, counterfeiting U.S. products?

Ambassador BROCK. Counterfeiting would be on anybody's consultation list with some countries. It is a serious problem. And it does have to be dealt with.

There are new problems developing every day. The mind demand is incredible in finding devices to impede trade. And if you look at the services area, there are countless new techniques for impeding our competitive prospect. And in investments, the export performance requirements are used, and things like that that are not subject normally to U.S. law, and in many cases, even to international accord.

This gives us an ability to say, yes, you have a sovereign right to do those things, but don't ask us for special benefits if you are going to do them to us.

Senator DANFORTH. Is that the present policy of the administration?

Ambassador BROCK. Yes.

Senator DANFORTH. Do you have that kind of latitude right now?

Ambassador BROCK. This would increase the latitude a bit. It gives us a little more flexibility. It's a few more tools.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

Under the proposed change, when a country gets to a certain level, they graduate. And if they didn't go back below that level they are then back under GSP. I'm curious whether it wouldn't make more sense to have it once that a country has demonstrated its competitiveness by hitting the competitive need limit that maybe graduate that country in that product forever as opposed to just for that year. Maybe the next year or the year after they are back down. I mean they have shown their competitiveness and why not graduate them forever?

Ambassador BROCK. Well, I would be a little reluctant. I would be particularly reluctant to do it if you accept our request to reduce these competitive need limits. In some products, $25 million is not a lot of money. And I guess the fear I would have in a hypothetical case—let's say that there was a normal supplier that wasn't on GSP; didn't receive any preference at all, but sent us $100 or $200 million worth of that product per year. And all of a sudden they had a drought, and they lost the ability to ship. Or a strike or something, and some of the smaller countries then fill the demand on a short-term basis.

I think you might put that smaller country into jeopardy because the drought might be over the following year. And the big company or country would then have the advantage.

That's the caution I would raise. And I think we have tried in this legislation to put in enough caveats to be sure that it doesn't get abused.

Senator BRADLEY. Let me go a little bit to what Senator Danforth had asked. And that is what is the amount of Presidential discretion here? I frequently see that, you know, we intend to have Congress playing a role in the process and then we have left a loophole in the law and the President—whoever the President is—is doing things that the Congress has no say over. So I'm curious.

You mentioned reasonable trade purposes for that discretion. But as it is written, I could read into that that there would be a broader discretion there. And that a President, even though a country might be following trade practices that are contrary to our interest and then doesn't deserve the waiver, might make the waiver anyway the way it is written for other vague reasons. And I'm curious whether this power to raise and lower tariffs essentially should be as broad as it seems to me you have asked for.

Ambassador BROCK. That's a fair question. Having looked at it from both sides, I would be a little cautious, I think. I'm very confident as long as I have the job. I don't know who is going to come next.

And I think it's fair to say let's be pretty cautious. We do have certain mandates. We are required in any of these things to work through a private sector advisory process, a congressional advisory process. Senator, if you want to take a look at how to be sure that that is, in fact, followed as a matter of rule, I would be happy to work with you. I wouldn't have any objection to that sort of thing.

Senator BRADLEY. Good. Why don't we talk a little further since we are going to have a number of hearings here.

Ambassador BROCK. Sure.

Senator BRADLEY. One last question, do you see any conditions under which we would like to prevent the exercise of Presidential discretion in waiving competitive need limits? I mean, for example, such as in the CBI on copyright infringements, or tax havens.

Ambassador BROCK. I think it's possible that you could think of a couple of exceptions. We did in CBI—narcotics was one area that we covered. Tax evasion was another.

Senator BRADLEY. If you are supportive that that might be something that we might consider.

Ambassador BROCK. I don't think it would trouble me. I would like to look at the specifics, but I'm not bothered by that sort of suggestion.

Senator BRADLEY. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Long.

Senator LONG. Mr. Secretary, first there are some figures that we would like to have. The committee staff has provided a table showing those 15 countries that have benefited most from the GSP in 1982—this table shows the value of imports to each country which benefited from GSP. For example, Taiwan sent us $2.3 billion worth of imports duty free because of GSP. The table does not show how much would have been paid in tariffs on this $2.3 billion worth of import if they had not come in duty free.

Would you please provide us for the record your best estimate of how much was forgone in tariffs for each of these 15 countries in 1982 as a result of the GSP?

Ambassador BROCK. I'd be delighted to.

[The information from Ambassador Brock follows:]

RESPONSE TO QUESTION FROM SENATOR LONG ON GSP RENEWAL

According to preliminary data analyses, the average trade-weighted MFN rate of duty applicable to GSP imports from the GSP's top 15 beneficiaries in 1982 was 6.85 percent. Applying this rate to the value of each beneficiary's actual GSP imports, we have arrived at the following estimates of duties forgone through the GSP:

	In million dollars
Taiwan	159.8
Korea	74.6
Hong Kong	54.5
Mexico	41.0
Brazil	38.6

	In million dollars
Singapore	29.4
Israel	27.9
India	12.9
Yugoslavia	12.3
Argentina	11.9
Thailand	11.1
Chile	10.3
Philippines	9.4
Peru	7.1
Portugal	7.1
Subtotal	507.9
All Other	69.3
Total	577.2

For comparison purposes, it should be noted that the estimated $577 million in duties forgone through the GSP represents 6.6 percent of the $8.7 billion in total duties collected by the United States in 1982.

Senator LONG. Now, Mr. Secretary, I want to alert you to a situation that is going to give increasing concern unless something is done about it. It's a matter which I believe has been poorly handled between the two countries for several years now. Logically, we should be buying natural gas from Mexico. I'm not here to point the finger of scorn at anyone to blame for all this. But as of now because of the state of affairs between the two governments, that gas is available to their own local people at a price in the range of around 40 cents or a little more. It's for sale to foreigners at about $4.90 or something of that sort. Roughly 10 times the price.

Now the Mexicans, being unable to arrive at what from their point of view was a satisfactory arrangement to sell us natural gas, now proceed to buy or to build capital-intensive plants—I wouldn't be surprised if we helped to finance them out of this country, we probably cooperated if we didn't do it directly—to make that natural gas into chemical products. Ammonia is one of the first examples. But there is no doubt in my mind that if they do it with ammonia, they are going to do it with the other products that can be made of natural gas.

So here is a product that they put into our market, and if the only cost of that product were gas, then the way I read it, that would be a zero cost. When you ask what the cost of ammonia is supposed to be and our people start looking into it, I think what they do is to figure it backwards. They start out figuring what the commissions were, what the transportation was, what the labor cost was, and by the time they get to the end of the line, if there is anything left, that is what they would attribute to the natural gas.

Now we are confronted with a situation where that gas is not available to us to buy at 40 cents a thousand. It's available to us for $4 and whatever. But on the other hand, Mexicans seek to put the products into our market at a price at which we can't compete.

Now as I understand it, the administration seems to feel—at least up to this point—that the United States does not regard this as a price subsidy. But on the other hand, under the law, the President is required to consider whether U.S. companies will get access to raw materials of a developing country in deciding whether to declare a country eligible for GSP benefits. Now it would seem to me that in this situation, if the administration would care to cooperate with those others who have the problem, it would give this matter scrutiny in connection with GSP.

We are looking at 65,000 jobs. Not at the moment. We are losing about a thousand in Louisiana now. But in due course this process could cost as much as 65,000 good jobs in capital intensive industry. The kind of jobs that we ought to be trying to keep in this country.

Can you cooperate with us or help us work this thing out in such a fashion that they cannot have advantage of a GSP so long as they are claiming the right to deny us equal access to those raw materials?

Ambassador BROCK. We would be happy to try to work with you, Senator. It's an extremely difficult problem. And it's going to get more so. It's going to get more serious as we see a number of countries with enormous natural gas reserves and an inadequate market opportunity for those reserves, for whatever reason, turn to highly capital intensive industries to, in effect, use that feedstock for all types of alternative programs. And if they calculate it in at a zero cost or very low cost, it is going to prove a hazard to our petrochemical industry, our chemical industry, some of our best and most competitive firms. And it is something that we have to be very careful about. And we have to see what we can do about it. It is something to worry about.

Senator LONG. My thought is, Mr. Secretary, if they want to sell us that gas for the kind of price they are putting it into those chemicals for, we would be glad to buy their entire supply.

Ambassador Brock. Yes.

Senator LONG. Even though that does mean we would have to cut back on drilling in Louisiana. But if they want to dedicate that gas to the U.S. market, I think it would be a great thing for both countries. If you could work that out, that would be fine. Now you are not going to do that because they are not going to sell it for anything like that.

But it's not fair for them to sell that gas domestically at 10 percent of what they are willing to sell it for internationally, and then put products made with it into our market, and put our industries out of business. Furthermore, that isn't implementing a policy. It's helping them the wrong way, as I see it. If we want to help Mexico, it looks to me like we ought to be helping them in areas that are labor intensive. It would make better sense that we help to see that those type of industries flow in there.

Ambassador BROCK. I would value your suggestions. And we would be happy to take a look and see what we can work out.

Senator DANFORTH. Senator Dole.

Senator DOLE. I just want to indicate this is only the first hearing we are going to have on this subject. I am pleased to have Ambassador Brock here to commence them. I believe that this matter should be carefully reviewed along the lines just expressed. We have some concerns, including the need to determine whether the United States is really getting any benefits from these preferences. As I understand it the administration proposes to condition the extension of full GSP benefits on commitments by advanced developing countries regarding access to their markets by U.S. exporters. This is a proposal that touches matters in my State and I think in other States. We look at Brazil, for example, which denies access by our aircraft industry in Kansas to its markets. Perhaps the limitation on Brazil's preferred access to this market might convince them to be more cooperative regarding our export interest.

Ambassador BROCK. Yes, sir.

Senator DOLE. I think you are familiar with that particular case, but it's probably not unique. I assume every member of this committee could pick out a case or two or a country or two where that might be a matter of some concern. But we do have some—and I don't want to suggest parochial—interests, and certainly an obligation to try to make certain we have access to some of these markets where we are competitive. Where we are not competitive, perhaps we shouldn't complain about it.

I have a full statement that I will ask to be made part of the record.

Let me repeat that we are pleased to have you here this morning, and I will be working closely with Senator Danforth and his subcommittee trying to put this program back together.

Ambassador BROCK. Thank you very much.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. No questions.

Senator DANFORTH. Thank you very much, Mr. Ambassador.

Ambassador Brock. Thank you very much.

Senator DANFORTH. Senator Chafee has one additional question of Ambassador Brock.

Senator CHAFEE. What bothers me, Ambassador, about the competitive needs standards—you have an ability to waive those competitive needs standards——

Ambassador BROCK. Yes.

Senator CHAFEE [continuing]. Under the legislation. Now isn't that going to open the roof to bilateral negotiations between us and a GSP nation? In other words, let's say that in the case of Hong Kong, for example, that you have determined that you will waive the competitive needs standard on *X* product. And in return Hong Kong will enter a bilateral agreement with the United States on another matter. First of all, the worries I have on that are, one, you may well be sacrificing an industry in order to obtain a bilateral agreement. And, secondly, are bilateral agreements compatible with GATT to start with. But let's take the first.

If you waive the competitive needs standard, where is that—are you not running the danger that in that particular industry you are throwing that industry to the wolves, if you want, for the overall good of the nation, as you view it, for the enactment of the bilateral treaty?

Ambassador BROCK. I cannot imagine a circumstance like that because of the other criteria that are used in any GSP evaluation. We are required to consider the import sensitivity, the potential for dislocation, displacement of American workers, a whole list of criteria are used.

Senator, under U.S. trade laws if an industry is affected adversely by subsidy or whatever, even without Government intervention, just if they are materially injured, they can seek remedy under article 19 of the GATT, under sections 201 or 301 proceedings. If there are unfair Government practices, they can petition under CVD or antidumping laws.

But it's a very tough test to prove material injury. We don't apply any such severity to the test of GSP. It's a much lower standard. Because it is preferential, we are very cautious about doing anything that would damage the opportunity for an American industry or American workers to survive.

First of all, I think that is the most important answer. And that is reviewed every single year. And any citizen, any union, any company can petition us and give us the reason to put a product on or to take it off. We go through an extensive process with the private sector, with public hearings, with the Congress. And I just don't believe that you would have that as a prospect. If you did, then we are not doing our job.

Senator CHAFEE. Well, thank you.

Mr. Chairman, I want to commend you for holding this hearing, and the hearings that follow on that schedule for September. This is an important area. It's an area that I think the country should move ahead in. But as the Chairman indicated, it's an area that we have interest in without destroying the concept in any way. Certainly, that's not my objective here. But I think it is something that we all should pay attention to.

Thank you, Mr. Ambassador.

Ambassador BROCK. Thank you, Senator.

And, Mr. Chairman, I again thank you for introducing the bill for us, and for giving us a chance to testify.

Senator DOLE. We are going to submit some questions in writing.

Ambassador BROCK. Thank you. That would be fine.

[The questions follow:]

QUESTIONS FROM SENATOR DOLE FOR AMBASSADOR BROCK AND THE RESPONSES THERETO

Question. With MFN tariff rates scheduled to reach an average rate of about 4 percent in a few years as a result of the multilateral trade negotiations, what incentive does a developing country have to bargain for higher GSP competitive need limitations in return for trade concessions to the United States?

Does GSP offer a real benefit to these countries?

Answer. By January 1987, the average MFN rate of duty on GSP items will have declined to approximately 4.5 percent from a pre-Tokyo Round level of roughly 9.0 percent. Despite this erosion in the margin of preference provided to beneficiary countries through the GSP, recipient countries view the program's economic benefits as highly significant. For many of the more "homogeneous" products on the GSP list, the slightest difference in tariff rates can be a critical factor in a U.S. importer's sourcing decision. For some other products, particularly those that are relatively labor-intensive, the MFN rate of duty is significantly higher than the trade-weighted average for all GSP products. In such instances an article's GSP status is often pivotal in deciding whether to source from a beneficiary or a non-beneficiary country.

Also it should be noted that there is frequently intense competition among beneficiary countries themselves in the U.S. market for many products. As a result, beneficiaries are extremely anxious to avoid losing GSP status on an item for which some of its leading developing country competitors may be retaining GSP status. We had some evidence of this in our Section 124 negotiation with Taiwan, in which Taiwan sought small MFN concessions on many GSP-eligible products for which it had previously lost eligibility. Clearly, the loss of preferential tariff advantages was viewed as a major setback.

Question. In its report on the 1979 Trade Agreements Act, the Committee noted that the President has authority to "graduate" countries with respect to certain GSP products, and that he should exercise this authority to ensure the better distribution of GSP benefits. This Administration has exercised that authority for the first time.

A. What is the Administration's policy with regard to graduation?

B. In those instances where the graduation authority has been exercised, what have been the economic and political consequences?

C. An International Trade Commission study in May concluded that when beneficiary countries lost GSP treatment for particular products because of graduation, or by exceeding the competitive need limitations, the trade benefits did not flow to other developing countries. Do you believe graduation should be used to encourage such shifts? If that is a goal, and the ITC's conclusions are correct, is there another way to accomplish this goal?

D. During consideration of the Caribbean Basin Initiative, the AFL-CIO suggested to the Committee that it should adopt an amendment to that legislation that would have graduated immediately several principal beneficiaries of the GSP. Do you believe that the advanced developing countries should be denied completely the benefits of the GSP?

Answer. (A) Beginning in March 1981, the Administration graduated certain beneficiaries from GSP eligibility on a product-specific basis. Graduation has been applied in three contexts: (1) in response to petitions submitted by interested parties; (2) in precluding individual beneficiaries from eligibility on newly designated articles; and (3) in denying redesignation to beneficiaries eligible for redesignation on specific articles. Three factors have been considered in graduation actions: (1) the beneficiary's general level of development; (2) its competitiveness in the particular product; and (3) overall U.S. economic interests, including the import sensitivity of U.S. producers and workers. The value of trade excluded from the GSP pursuant to discretionary graduation, which has affected seven beneficiaries, is shown below:

	Million
March 1981	$448
March 1982	651
March 1983	900

(B) The Administration's graduation policy was designed to supplement the program's automatic competitive need limits by ensuring that a beneficiary's GSP status is terminated with respect to a product in which it no longer needs preferential tariff treatment to compete effectively in the U.S. market. Assuming that graduation is applied only in such instances, it should not have significant economic consequences for the affected beneficiaries. A recent report by the U.S. International Trade Commission (USITC) supports this expectation, noting that an analysis of import share trends indicates that the Administration's graduation actions have left the relevant country/product pairs "relatively unaffected." On the political side however, many beneficiaries have protested the Administration's graduation policy, arguing that it undermines the program's predictability while also contravening the GATT requirement that GSP programs be "nondiscriminatory."

(C) As noted in the USITC report, the exclusion of a beneficiary from GSP status on an item has not generally resulted in a redistribution of benefits to lesser developed countries. While the Administration is interested in ensuring that these lesser developed beneficiaries maximize the trade advantages provided through the GSP, it must be recognized that graduation alone will not prompt a significant redistribution. Many beneficiaries are simply unable to produce and export a large number of GSP-eligible articles due to insufficient resources and economic infrastructure. With much of their production concentrated in highly labor-intensive sectors such as textiles and footwear, which are statutorily excluded from the GSP, the program's ability to promote shifts to lesser developed countries is limited in the short run absent a significant expansion in product coverage.

(D) Suggestions that certain beneficiaries be removed entirely from the GSP, such as that set forward by the AFL-CIO, have focussed on the relatively small number of beneficiaries that account for the majority of GSP benefits. As noted above, the concentration of benefits among this group is primarily a reflection of other beneficiaries' inability to produce and export a large number of GSP-eligible articles. Thus, "redistribution" is not a valid rationale for complete country removal. Also, the increasing competitiveness of the GSP's top beneficiaries has varied from sector to sector and even from product to product. The GSP should respond to these variations through a sound product-oriented graduation policy, rather than through artificially drawn country cutoffs.

The complete removal of beneficiary countries from the GSP at this time would not only ignore the affected beneficiaries' development needs, but would also be contrary to U.S. economic interests. The leading graduation "candidates" are also the leading developing country markets for U.S. exports. In 1982 the GSP's top seven beneficiaries purchased over $30 billion of U.S. exports, representing 45 percent of U.S. exports to all beneficiary countries and 15 percent of global U.S. exports. Perhaps more importantly, U.S. exports to the leading beneficiaries grew at an annual rate of 14.7 percent during 1976–82, as compared to the 9.6 percent growth rate recorded in U.S. exports to developed countries.

The GSP treatment accorded to leading beneficiaries is strongly supported by U.S. consumers, importers and many U.S. producers. Many articles on the GSP list are not produced in commercially significant quantities in the United States; in fact, over 8 percent are not produced at all domestically. Many such articles and many component materials relied on extensively by U.S. producers are available primarily from the GSP's top beneficiaries.

Question. Under the Administration's proposal, the President would have the authority to set lower "Competitive Need" limits on duty-free treatment for countries and products that are highly competitive. These limits would be half of the normal ones. The bill also would allow the President to raise these limits based on assurances from the developing country regarding market access for U.S. products or other matters of concern.

A. Do you expect any GATT or other problems by discriminating in this fashion among the beneficiary nations?

B. Would there be any upper limitation on the amount of duty-free GSP imports of a product once such an agreement was reached?

C. The President's determination regarding lower competitive need limits will be based on whether a country "has demonstrated a sufficient degree of competitiveness (relative to other developing countries)." What is a sufficient degree of competitiveness? Why should it not be measured against the state of the U.S. industry producing the same product?

Answer. (A) The proposal conforms to the terms of the MFN waiver as extended by the Enabling Clause because it is non-discriminatory and non-reciprocal. The proposal is non-discriminatory because it requires the President to apply the same criteria to all GSP eligible products, except the products of the least developed BDCs, in deciding which products should be subject to a lower competitive need limit on the grounds that they are highly competitive. The exemption of GSP eligible products of the least developed beneficiaries from competitive need limits is consistent with the terms of the Enabling Clause which authorize special preferential treatment to foster the trade and economic development of such countries. The proposal, is non-reciprocal because it does not require beneficiaries to provide concessions in exchange for GSP benefits and instead merely places greater emphasis on market access as one of several factors that the President is to consider in deciding whether a product is highly competitive.

(B) Given the desire to avoid a confusing array of varying competitive need levels, it is anticipated that the waiver authority would be used only as a full waiver, as opposed to establishing higher competitive need limits. This "all-or-none" approach could well reduce the universe of articles for which the waiver would be used since it will be utilized only in those instances where there is no likelihood of adversely affecting U.S. industry.

(C) Determinations regarding the establishment of lower competitive need limits must also include an examination of the factors listed in Sections 501 and 502(c). Among these are two factors which require an assessment of the state of the relevant U.S. industry. Section 501(3) identifies "the anticipated impact of such action on U.S. producers of like or directly competitive products." A new factor to be added to section 501 is "developing countries' competitiveness with respect to articles designated as eligible. . . ." This factor will require, inter alia, an assessment of the beneficiary's competitiveness vis-a-vis U.S. producers.

Senator DANFORTH. Thank you, Mr. Ambassador.

[Whereupon, at 10:40 a.m., the hearing was concluded.]

[The following communication was submitted for the record:]

STATEMENT OF THE CIGAR ASSOCIATION OF AMERICA, INC. IN SUPPORT OF POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES, AUGUST 4, 1983

The Cigar Association of America is a non-profit organization representing domestic cigar manufacturers, as well as suppliers, importers and distributors in the cigar business, accounting for more than 90 percent of the large cigars sold at retail in the United States. Large cigars are defined as those weighing more than three pounds per thousand.

GSP eligibility was first extended to wrapper tobacco and certain cigars by Executive Order 12311, effective July 4, 1981. Specifically, the Executive Order covered:

(1) Wrapper tobacco under TSUS items 170.10 (unstemmed) and 170.15 (stemmed), and

(2) Cigars under TSUS item 170.70 (each valued at 23 cents or over).

The Cigar Association supports renewal of the GSP program for two reasons. First, the program has had a beneficial impact on the economies of the beneficiary developing countries. Second, the program has benefited the U.S. cigar industry in general.

GSP treatment has primarily affected imports of premium cigars. The countries which have gained the most from this are concentrated in this hemisphere, particularly in the Caribbean Basin. In 1982, the first full year of GSP treatment, cigar imports from GSP countries reached 107.7 million units and $39 million. In the three calendar years before GSP treatment was granted, cigar imports from GSP countries averaged 77.2 million units and $21.9 million per year. This can be seen from the table set forth below which shows that the GSP share of total cigar imports, by quantity, increased from an average of 75.2 percent for the three years prior to the granting of GSP status to 91.8 percent for 1982. In dollars the GSP share rose from 73.4 percent to 96.3 percent.

CIGARS—RATIO OF GSP IMPORTS TO TOTAL IMPORTS FOR CONSUMPTION

[In percent]

	1978	1979	1980	1981*	1982
Units	70.4	73.4	81.8	87.4	91.8
Dollars	67.6	69.9	82.7	92.2	96.3

* GSP in effect from July 4.

Source: U.S. Bureau of Census, IM-145, FT-110 and FT-135.

To a large extent the growth in cigar imports from GSP countries represents a shift of production from Spain—that is, the Canary Islands—rather than from the United States. We do not know to what extent that shift was caused by GSP treatment, but we can say with confidence that it was an important contributing factor. The result has been expanded investment, employment, foreign exchange earnings and diversification in GSP supplying countries—particularly in the Caribbean Basin.

In the case of wrapper tobacco, most GSP imports come from Central America, Cameroon and the Central African Republic. The extension of GSP treatment has apparently not stimulated increased imports of wrapper for the simple reason that in order to reduce costs U.S. cigar manufacturers have substituted manufactured sheet tobacco for natural leaf in certain types of cigars. However, wrapper is still used by U.S. makers of premium cigars. GSP treatment for wrapper is very important to these manufacturers, who are predominantly located around Tampa, Florida, because it permits them to maintain their competitive position vis-a-vis imported premium cigars which benefit from GSP treatment.

Turning now to the U.S. cigar industry, our industry has been in decline for approximately the last 20 years, during which time sales have dropped by about 60 percent. However, due in part to the increasing median age of our population and rationalization within the industry, we are optimistic about the future.

Today, very little tobacco grown in the U.S. is cigar-type tobacco. Most cigars manufactured domestically consists of a blend of various imported filler and scrap tobaccos. The wrapper consists of imported or domestic wrapper tobacco or manufactured sheet tobacco.

A large proportion of the cigars imported with the benefit of GSP status are manufactured in off-shore operations owned by U.S.-based companies. Moreover, since GSP treatment also applies to the most costly raw material in cigar manufacturing, that is, the wrapper tobacco, the program has had the effect of lowering the cost of manufacturing cigars in the United States where imported wrappers are used. The effect on the members of the Cigar Association has generally been favorable, since the duty rates for premium cigars and wrapper tobacco are relatively high and since the cigar industry has been through a period of decreased consumption. On that basis the Cigar Association strongly supports extension of the Generalized System of Preferences.

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