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PROPOSED UNITED STATES-ISRAEL FREE TRADE AGREEMENT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

MARCH 20, 1985

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Proposed United States-Israel Free Trade Agreement

WEDNESDAY, MARCH 20, 1985

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

The committee met, pursuant to notice, at 9:32 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable Bob Packwood (chairman) presiding.

Present: Senators Packwood, Dole, Danforth, Chafee, Heinz, Symms, Grassley, Bentsen, Baucus, and Mitchell.

[The press release announcing the hearing and Senator Packwood's prepared statement follow:]

[Press Release No. 85-003]

COMMITTEE ON FINANCE SCHEDULES MARCH 20 HEARING ON UNITED STATES-ISRAEL FREE TRADE AGREEMENT

Senator Bob Packwood (R-Oregon), Chairman of the Committee Finance, announced today the scheduling of a March 20, 1985, full Committee hearing on the proposed U.S.-Israel Free Trade Agreement.

The hearing will review the proposed U.S.-Israel Free Trade Agreement, on which negotiations by the Office of the United States Trade Representative and Israel were completed February 26, 1985.

"As a long-term supporter of strong U.S.-Israel economic and political ties, I welcome the opportunity to hear comment from Administration and public witnesses about the new agreement negotiated by the representatives of our two nations," Chairman Packwood said.

In November, 1983, President Ronald W. Reagan and former Israeli Prime Minister Shamir agreed to negotiate on the bilateral Free Trade Area. The Tariff and Trade Act of 1984 provided the President with the authority to conclude a trade agreement with Israel, providing for the reduction or elimination of tariffs and non-tariff barriers, and to submit the agreement for Congressional approval on an expedited basis. The March 20 hearing called by Chairman Packwood forms part of the process of Congressional services of the proposed agreement. The Committee will later consider appropriate implementing legislation. After this Committee review is completed, the President will sign the agreement and submit formal legislation implementing it. The Congress will then vote its approval or disapproval within 60 days.

The hearing will begin at 9:30 a.m., Wednesday, March 20, 1985, in Room SD-215 of the Dirksen Senate Office Building.

STATEMENT OF SENATOR PACKWOOD ON HEARING ON THE UNITED STATES-ISRAEL FREE TRADE AGREEMENT

I am very pleased to convene this hearing on the recently negotiated agreement that will create a free-trade area between the United States and Israel. The agreement marks an important strengthening of ties between the two countries. It will establish a permanent, open trading relationship that will bolster the exporters of both nations, while offering little threat to any of our domestic industries. It will encourage development in Israel that hopefully will lessen its dependence on U.S.

aid. More broadly, it represents a profound statement of commitment by this Nation to Israel's continued growth and stability.

The hearing today marks another step in the process by which the Congress will approve the agreement and legislation necessary to implement the obligations it will impose on the United States. Next week, the committee will informally markup an implementing bill, and thereafter meet with representatives of the Ways and Means Committee in an informal conference. Once we are agreed on the from and substance of the bill, it will be submitted by the President. The Congress will then have a maximum of 60 days in which to approve or to disapprove the bill. It is my intention to complete this process by the first week of May.

THE AGREEMENT

The agreement's core is the reciprocal elimination of all tariffs imposed on products traded between the two countries. This will be accomplished by January 1, 1995. Duties will be eliminated in phases, depending on the relative import sensitivity of products in both countries. Most products will fall into the first category, for which duties will be eliminated when the agreement becomes effective. This will not be a significant step for the United States, however, because 90 percent of all Israeli products already enter this country duty-free. The other three categories are:

2. Duty elimination in three stages, for full effect on January 1, 1989;
3. Duty elimination in eight stages, for full effect on January 1, 1995;
4. Duty elimination to be phased-in between approximately January 1, 1990 and January 1, 1995; the schedule will be based on advice from the International Trade Commission.

In the fourth category are products that the Commission previously determined are particularly sensitive to Israeli competition. The agreement commits the United States to removing tariffs on these products in 10 years, but the President will seek additional legislative authority after 5 years in order to fulfill that commitment. In that manner, the Congress will have a further opportunity to review the merits of duty-free trade in those products.

Besides tariff elimination, the agreement contains significant commitments on nontariff barriers to trade as well. Most importantly, Israel agrees to join the subsidies code of the General Agreement on Tariffs and Trade (GATT) and to eliminate its export subsidies within a relatively short period of time. In addition, the countries agree not to impose export performance or similar restrictions on the ability to import, and to limit licensing and other measures that might be used for balance of payments reasons to restrict imports or to foster infant industries. In addition, the two countries agree to open their government procurements to bidders of the other country to a greater extent than either is currently obligated to do under existing agreements. I congratulate Ambassador Brock for achieving a remarkable degree of assurance that trade with Israel will be conducted on a fair basis and that the opportunities offered by the agreement will not be thwarted by measures other than tariffs.

After a briefing by Ambassador Brock last March 4, I am confident that there will be little dispute about the agreement. The process I have outlined should provide sufficient opportunity to review the proposed agreement and implementing legislation. I intend to achieve the agreement's early approval so that the citizens of both our nations can enjoy its benefits as soon as possible.

CONCLUSION

In the attached Washington Post article of last March 14, economic columnist Hobart Rowen decribed Israel's severe economic straits—hyperinflation, zero real economic growth, huge defense demands, a $23 billion foreign debt—and the tough steps being implemented to restore the country's former vitality. Belt-tightening measures will doubtless restore calm and confidence in the country, even if living standards are lowered, at least temporarily. What particularly strikes me about the Israeli Government's efforts, however, is the determination not merely to arrest its free-fall by gliding at a lower altitude. Instead, Israel is determined to regain its former vigorous economic performance, in part by encouraging new and more competitive industries.

As Mr. Rowen asks: "Who is to tell the ingenious Israelis that it's impossible?" The Congress cannot only applaud their determination, we can positively encourage it by approving the free-trade arrangement between our two countries. Though small in impact compared to our $3 trillion economy, the expansion of trade with Israel resulting from this agreement will contribute significantly to Israel's recovery. This is a good ageement on its merits; it will make a tangible contribution to

Israel's—and the United States'—economic growth; and it reaffirms our commitment to a stable, democratic friend in the middle east. I thus look forward to completing the final stages of this important undertaking.

[From the Washington Post, Mar. 14, 1985]

ISRAEL'S EMBATTLED ECONOMY

(By Hobart Rowen)

Among the free world's ministers of finance, Israel's Yitzhak Modai may have the toughest assignment: It is his responsibility to deal with an economic crisis symbolized by an inflation rate that has—with the help of a fully indexed economy—exceeded 1,000 percent annually.

But Modai, who was here last week to help negotiate Israel's biggest-ever request for American aid, displayed in an interview that kind of optimism that has enabled Israel to fend off hostile neighbors and still scratch a democratic oasis out of the desert.

Faced with Israeli requests for $800 million in emergency assistance for fiscal 1985, on top of $2.6 billion for military and economic aid already being supplied, and $4.05 billion planned for fiscal 1986, the Reagan administration for the first time has found it necessary to place economic conditions on its aid to a foreign country, despite the "special relationship" with Israel.

For Israel, this will pose a severe test: it's not easy to advocate a policy that clearly means higher unemployment.

Chomping on a cigar in the best Paul Volcker style, Modai said that the embattled Israelis "have come to the realization that we are the only ones who can cure our own economy, and that we have no alternative but to take the necessary measures."

But what measures? So far, the Israeli government hasn't been able or willing to take the extremely tough anti-inflation steps pushed by the United States, although friends warn that it's best to face the music.

But Israel, like other heavily indebted nations, knows this is easy advice for outsiders to give and hard for governments to enforce and still stay in office. The jobless rate in Israel is now 5.8 percent, and will rise in "a planned manner this year to 7.4 percent, which is what we feel is the maximum that Israel can take," according to Dan Halperin, economic minister at the Israeli Embassy.

Israel's economic crisis stems from the financial drain of the 1973 war, which put an end to 18 consecutive years of real economic growth gains of between 9 and 10 percent. Last year, the Israeli real growth rate was zero, and it would have been a minus had it not been for exports. Piled on top of the $12 billion cost of the 1973 war were the two oil shocks (1973-74 and 1979-80), which quadrupled oil prices.

What's more, much of the extraordinary aid from the United States, starting after the Six-Day War of 1967 and until a few years ago, was in the form of loans, not grants. Fully one-third of Israel's burdensome $23 billion foreign debt was borrowed to buy weapons in the United States—and the annual servicing cost runs to $1.1 billion.

Modai, a member of the Likud Party, knows that the Israeli standard of living must be cut back. But as a successful politican, he also knows that there are social and political limits to the ability of the five-month-old unity government under Prime Minister Shimon Peres to take the kind of austerity steps recommended by the United States.

Modai argues that the new government has already accomplished much to put Israel's economic house in order through temporary wage and price controls and $1.5 billion in budget cuts, including slashes in government subsidies for basic consumer products. He pointed to a new law going through the Israeli parliament that will make it an offense punishable by loss of job or pension for public employees, including ministers, to exceed allowable budget expenditures. A second law to be presented shortly by the Peres government will give independence to the central bank in establishing the overall monetary policy.

But without basic changes in the indexation scheme, inflation will stay at the 900 to 1,000 percent levels. State Department officials and a working group of private economists look for fundamental changes: a bigger slash in the budget and a willingness to squeeze consumer demand even more.

But the Israelis look for a bigger pie rather than smaller portions. The basic economic solution for Israel, Modai insists, is for a return to growth in the 6–7 percent

range, stimulated by a 10 percent annual growth rate of exports, especially high-tech goods, and a new and historic free-trade agreement with the United States.

Who is to tell the ingenious Israelis that it's impossible? Modai insists that it can be done, even if peace is elusive, requiring maintenance of a huge defense budget: "In general if we have a peaceful time, it's good for the nerves, it's good for the planning, it's good for everything. But it's the one thing we cannot guarantee."

The CHAIRMAN. The hearing will come to order. I would remind the witnesses that their statements will be included in the record in their entirety, and I would ask that the remainder of my statement be placed in the record, hopefully as an inducement to other Senators and witnesses to be as brief as this has been. Senator Heinz?

Senator HEINZ. No opening statement.

The CHAIRMAN. I would ask the witnesses to limit their comments to 5 minutes, and this yellow light will go on when you have 1 minute left. The green light will be on until you get there, and then a red light will go on, and then I will terminate your statement. My experience has been on this committee that most Senators, when they are here, have an infinite number of questions, and you have no difficulty getting everything you want to say in response to questions. Because the attendance at this committee is usually so good, we go on and on and on. It is more our fault than yours, but if the witnesses go on and on and on, we are here interminably.

We will start this morning with the Honorable Doral Cooper, the Assistant U.S. Trade Representative, and she is accompanied by Mr. Claud Gingrich, the general counsel. Ms. Cooper? Oh, excuse me. Senator Baucus, did you have an opening statement?

Senator BAUCUS. No. Thank you, Mr. Chairman.

The CHAIRMAN. Ms. Cooper?

STATEMENT OF HON. DORAL COOPER, ASSISTANT U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ms. COOPER. Thank you, Mr. Chairman. I will try to be as brief as you were. The free trade area agreement recently negotiated between the United States and Israel is the first of its kind that the United States has undertaken. It will eliminate nontariff barriers and duties on all products traded between the United States and Israel by January 1, 1995. The negotiations began in November 1983, and we finalized our discussions with the Government of Israel just last month. From the outset of our negotiations, we have endeavored to meet all of the requirements set by the General Agreement on Tariffs and Trade on the establishment of free trade areas. Free trade areas must cover substantially all trade between the parties and must be staged into effect within a reasonable length of time. In addition to these requirements, our agreement goes beyond the GATT to cover such areas as trades and services, intellectual property rights, and trade related performance requirements, which have yet to be incorporated into the GATT. All commercial trade between the United States and Israel will be covered by the agreement. We used 1982 as the base year for our discussions because that is the only data which both sides had at the time we began our discussions. In that year, the United States ex-

ported $1.5 billion in trade to Israel, and Israel exported $1.2 billion to the United States.

The CHAIRMAN. Would you give me those again? $1.5 billion United States to Israel?

Ms. COOPER. Yes, sir.

The CHAIRMAN. $1.2 billion Israel to United States?

Ms. COOPER. Yes, sir. Of the Israeli imports into the United States, 45 percent is dutiable. An additional 35 percent is on the GSP, which also enters duty free, so we were liberalizing about 10 percent of Israeli imports. On the U.S. side—that is, U.S. shipments to Israel—about 82 percent was dutiable. Therefore, the Israelis had a much greater percentage of their trade to liberalize. The duty reductions on both sides will be staged into effect in four tranches. Duties on some products will be eliminated immediately, on other products by January 1989, and on other products by January 1, 1995. There is on both sides a most sensitive category where the duties will not be reduced for a 5-year period. The summary of the trade is in my formal statement, but I should add that on Israeli imports to the United States about $400 million will be reduced to zero immediately, and on our exports to Israel nearly $700 million will be reduced to zero immediately. The agreement also contains provisions which will require the elimination of nontariff barriers to trade between Israel and the United States. These provisions include commitments for Israel to eliminate all its export subsidies, define the GATT subsidies code, a commitment by Israel to liberalize its licensing practices, and to not take balance of payments measures which will disrupt the concessions exchange between our two Governments.

Under the agreement, the United States will retain all its rights provided under U.S. domestic law in the area of unfair trade practices. The U.S. antidumping and countervailing duty laws will remain unaffected by the agreement. Israel will gain access to the injury test on countervailing duty cases upon signature of the agreement and the GATT subsidies code. We believe, Mr. Chairman, that the agreement will offer benefits to both sides in the coming years. As you know, the Israeli Government has a preferential trading agreement with the European Community. This agreement will allow us to compete on equal footing with the Community, and it will be particularly important in the area of industrial equipment, high technology products, and consumer goods. We look forward to continuing our discussions with the committee, and Mr. Gingrich and I will welcome any questions. Thank you, Mr. Chairman.

[Ms. Cooper's prepared statement follows:]

STATEMENT OF
ASSISTANT USTR DORAL S. COOPER
BEFORE THE
SENATE FINANCE COMMITTEE

UNITED STATES-ISRAEL FREE TRADE AREA AGREEMENT

March 20, 1985

Mr. Chairman, thank you for the opportunity to discuss the results of our negotiations with Israel on the establishment of a free trade area between our two countries. A free trade area is a bilateral arrangement between two countries in which each country removes trade barriers with respect to the other. This Agreement, if approved by the Congress, will be the first of its kind that the United States has undertaken. It will eliminate non-tariff barriers and duties on all products traded between the United States and Israel by January 1, 1995.

President Reagan and former Israeli Prime Minister Shamir agreed on November 29, 1983 to begin discussions on the establishment of a two-way free trade area. Negotiations with Israel began formally in January, 1984 and were concluded this week. The Trade and Tariff Act of 1984 provided the President with the authority to conclude a trade agreement with Israel providing for the reduction or elimination of tariffs and nontariff barriers, and to submit such an agreement and its implementing legislation for "fast-track" Congressional review following the procedures of Sections 102 and 151 of the Trade Act of 1974.

From the outset of our negotiations we have endeavored to meet all the requirements set by the General Agreement on Tariffs and Trade (GATT) on the establishment of a free trade area. The GATT permits free trade areas as a deviation from Article I (Most Favored Nation Treatment) under Article XXIV, as long as the agreement meets certain criteria. Free trade areas approved under the GATT must be designed "to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories." Free trade areas must cover "substantially all the trade" between the parties and must be staged into effect within a "reasonable" length of time. We believe that the Agreement we have negotiated is fully consistent with these requirements. In addition, the Agreement goes beyond the GATT requirements to cover areas such as trade in services, intellectual property rights and trade-related performance requirements which have yet to be incorporated into the GATT. We believe that greater international discipline in these new areas of trade will be beneficial and that the U.S. should provide a general model for future activity by including liberalization of trade distorting practices in these areas in our bilateral agreement.

Description of the Agreement

The Agreement comprises a Preamble and twenty-three separate Articles, as well as four Annexes, which are integral parts of the Agreement. Annexes 1 and 2 provide the schedule of tariff

reductions for both nations. Many of the Articles and one of the Annexes (Annex 3 on Rules of Origin) address nontariff barriers to trade. Annex 4 is Israel's commitment on the reduction and elimination of export subsidies.

Trade Covered by the Agreement

All commercial trade between the United States and Israel will be covered by the Agreement. In 1982, the year used as a base for our negotiations, the United States exported $1.5 billion in products to Israel and imported $1.2 billion in good from Israel. Many products traded between the United States and Israel already receive duty free treatment as a result of concessions they have given to all GATT members. In 1982, 55 percent of the products we imported from Israel were duty free on this basis and 18 percent of the products we exported to Israel benefitted from the same treatment.

The negotiations thus centered on the remaining portion of the trade which is legally dutiable. For the United States, this includes items which are eligible for the U.S. Generalized System of Preferences (GSP) and which receive duty free treatment under this program on a temporary basis. For Israel, all products now entering Israel on a temporary, unbound duty free basis were included. Thus, for the United States, the value of trade to be liberalized under the Agreement (based upon 1982 trade) is $515 million. For Israel, the trade to be liberalized is

is valued at $1,278 million.

Duties will be eliminated by both the United States and Israel in four stages:

1) Elimination of some duties **immediately** upon entry into force of the Agreement;

2) Elimination of duties on some products in three different tariff cuts by **January 1, 1989.**

3) Elimination of duties in eight different cuts over ten years (by January 1, 1995).

4) **No duty reduction for five years,** with reexamination of the timetable for duty elimination following receipt of additional advice from the United States International Trade Commission (USITC).

As we have indicated to you throughout the negotiations, we have addressed the sensitivity of individual products through the staging of the Agreement. As a general rule, and there are exceptions to these rules, those products for which we received no advice indicating particular sensitivity in the context of our bilateral trade with Israel, including many items with duties which were less than ten percent and many products which are eligible for the U.S. Generalized System of Preferences, are

generally included in the immediate category. Those products for which there may be general sensitivity in the U.S., but which are not likely to be produced competitively in the short term in the Israeli economy are, in most cases in the second stage, with duties to be eliminated by January 1, 1989.
Products which are more sensitive in the context of our bilateral trade, but which were not identified by the U.S. International Trade Commission (USITC), such as certain textile and apparel products, certain horticultural products (artichokes, avocados) and certain bromine compounds are in the third stage, with duties to be eliminated in 10 years. Finally, those products which were specifically identified by the USITC are included in the fourth stage, the "freeze" category. These products include: processed tomato products, citrus fruit juices, dehydrated onion and garlic, cut roses, certain olives, certain bromine compounds and certain gold jewelry items. The exceptions to these general rules were the result of negotiations in which the United States obtained more rapid staging for products of key export interest to us in exchange for moving specific products of interest to Israel to earlier stages.

Summary of Trade in Each Stage of Duty Reductions

The following table outlines the value and percentage of trade to be liberalized in each stage of duty reductions for both the United States and Israel.

Stage	United States Imports from Israel			Israeli Imports from the U.S.	
	Value ($000)	Percent	% GSP	Value ($000)	Percent
1. Immediate	$414.7	(80.4%)	84.0	$670.8	(52.5%)
2. 1989	$ 27.8	(5.4%)	62.1	$402.8	(31.5%)
3. 1995	$ 4.7	(0.9%)	8.2	$ 39.5	(3.0%)
4. Freeze	$ 67.9	(13.6%)	64.8	$164.4	(12.8%)

Non-Tariff Barriers

The Agreement also contains provisions which require the elimination of non-tariff barriers to trade between Israel and the United States. These provisions include commitments for Israel to eliminate all export subsidies and sign the GATT Subsidies Code, a commitment by Israel to liberalize its licensing practices, which to date have been applied in a highly arbitrary manner, agreement disciplining each party's ability to take balance of measures which could affect the balance of concessions under the Agreement, a commitment by both parties to expand access to each other's government procurement markets beyond the levels negotiated under the GATT Government Procurement Code and provi-

sions on rules of origin which have the same test of content required under the rules of origin adopted for the Caribbean Basin Initiative.

Under the Agreement, the United States retains all rights provided under U.S. domestic law in the area of unfair trade practices. U.S. antidumping and countervailing duty laws will remain unaffected by the Agreement. Israel will gain access to the injury test on countervailing duty cases upon signature of the Agreement and the GATT Subsidies Code, as would any other signatory to the Subsidies Code. Section 201 and Section 301 of the Trade Act of 1974 also will not be affected by this Agreement.

The Agreement contains provisions for resolution of any disputes which may arise in the course of the Agreement. These provisions provide for consultation between the parties in a Joint Committee, chaired by the U.S. Trade Representative and the Israeli Minister of Industry and Trade, which will be established to administer the Agreement. Procedures are outlined in the Agreement for rapid settlement of disputes which cannot be resolved through initial consultations. If at any time either party believes that the dispute process has not resulted in a satisfactory solution to the dispute, they retain their right to retaliate by withdrawing concessions, or to terminate the Agreement.

We believe that this Agreement will offer benefits to both the

United States and Israel over the coming years. Under the Agreement, the United States will be able to compete on an equal footing with the European Community and Israeli producers in the Israeli market. This will be particularly important for us in the area of industrial equipment, high technology products and consumer goods. For its part, Israel will gain secure, long term access to the United States market and its industries will be able to expand their trade with the United States as the Agreement is staged into effect.

We look forward to continuing our consultations on the contents of the Agreement with this Committee, as well as with other Members of Congress and the private sector in the coming weeks. We also look forward to the official submission of the Agreement to the Congress for its formal review.

The CHAIRMAN. Ms. Cooper, you have a good background in this. Would you just for the moment state your credentials so that everyone understands you don't come at this as a novice?

Ms. COOPER. Yes, sir. I have been with the U.S. Trade Representative's Office for nearly 8 years. Before that I was on the Council of Economic Advisers as the International Economist with President Ford, and before that at the Federal Reserve Board.

The CHAIRMAN. I might add that you told me that at one time you came at this as a free trader, but you have learned that there are things involved in trade other than free trade, and it has been a good educational experience for you, being at the USTR.

Ms. COOPER. Yes, sir; it has.

The CHAIRMAN. Question: You have used the 1982 data because that was the most recent data you had for both imports and exports for both countries, right?

Ms. COOPER. Yes, sir.

The CHAIRMAN. Is there any chance that for bed and bath textile products, which apparently had an import surge in 1984, you would update the data before the agreement is ratified, or finally made?

Ms. COOPER. Yes, sir; we are aware of the product I think you are mentioning, and we are looking into it. There was indeed a surge in 1984 in the shipments of sheets and pillowcases, and we are taking that into account right now.

The CHAIRMAN. You are taking that into account?

Ms. COOPER. Yes, sir.

The CHAIRMAN. Thank you. I might ask that whoever is timing us to hold us to 5 minutes on our questions also.

How did you determine the relative import sensitivity of products within the same industry?

Ms. COOPER. What we did, sir, is have ITC hearings and TPSC hearings. The ITC disaggregated its advice on a product-by-product basis.

The CHAIRMAN. What do you mean by disaggregated? Separated?

Ms. COOPER. It is separated. Yes, sir; we have the advice on an individual product basis on an individual sector basis. We worked closely with our private sector advisers and also with industries directly to ensure that each product was treated individually.

The CHAIRMAN. Now, does that mean—when you treat it individually—you also know where the imports come from, country by country?

Ms. COOPER. Yes, sir; we do.

The CHAIRMAN. So that even though the argument might be made that leather or textiles are import sensitive, you had to consider further whether or not the imports from Israel were significant, or were likely to be significant, even if the industry itself was sensitive?

Ms. COOPER. That is correct, sir. Yes; and also, we looked into the Israeli capacity to produce each of these items on an individual basis.

The CHAIRMAN. Explain if you can why the Israel export subsidy program is not going to be eliminated for 6 years.

Mr. GINGRICH. Mr. Chairman, in discussing this subject with the Israelis, we identified through the interagency process and other international documents that were available four export subsidy

programs that were maintained by the Government of Israel. Two of those programs will be eliminated immediately. One will be eliminated in 3 years, and the fourth program will be eliminated at the end of the 6-year period. The two that are not eliminated immediately are subject to a freeze, that is a standstill. The programs can't be expanded in any sense, and the Government of Israel also agreed not to create any new programs. It is true that some programs will continue. Our calculations show that half will be eliminated immediately, two-thirds within 3 years and the remainder at the end of the 6-year period.

The CHAIRMAN. Thank you. Will the Berry Buy American amendment for footwear and textiles be affected?

Mr. GINGRICH. Not in any way, Mr. Chairman.

The CHAIRMAN. The 1984 Trade Act contained a provision, authored by Senator Wilson, that established a "fast track" provisional relief procedure for specified commodities, such as fruits, nuts, and vegetables. Yet, the proposed implementing legislation would amend those provisions to narrow the list of commodities to those contained in a similar provision in the Caribbean Basin Economic Recovery Act. Now, clearly the CBI Act was used as a model for the language in the Wilson amendment, but the latter was purposely expanded. Therefore, on what basis did you negotiate a much narrower fast-track provision and why?

Mr. GINGRICH. Mr. Chairman, we have not negotiated a fast-track provision with the Israelis. There is no such provision in the agreement. There is, however, in the implementing legislation a proposal to narrow the scope of the fast-track provision that was included in the 1984 act. We did so on the basis of our feeling that there was a misunderstanding about the scope of that provision when it was accepted in the conference. We went back through the legislative history and both sides seemed to be dealing with the notion that they were going to accept a provision that was like the CBI provision. The provision that prevailed in the 1984 act is tremendously broader and covers products which are not perishable in any sense—dehydrated products, frozen products, canned products, and otherwise preserved products. We just didn't think that the Congress and the administration, in the rush of the legislation, carefully scrutinized that provision, and we are simply trying to give it a second look to see if that is what we really all meant at that point.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Go ahead.

The CHAIRMAN. I will finish this one question. Will the normal U.S. rules of origin be employed to determine whether products are genuinely products of Israel?

Mr. GINGRICH. Yes, sir; the rule of origin will be the same as those in CBI. The other rules of origin you may be talking about, I think, are the sort of normal textile rules that have been put into effect. They will also apply.

The CHAIRMAN. Thank you. Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you. One of the subsidies that Israel will retain for up to 6 years is the export production fund. Now, my understanding is that while the actual subsidy element on a product-by-product basis will be frozen for 4 years, after

which time the subsidy element, product-by-product, will shrink. In spite of the fact that we are eliminating over a 2-year period all the other subsidies including two right away, that that export production fund—the local currency part of it—can expand horizontally and therefore be extended to all the products—or most of the products—that are benefiting from these other subsidy programs. Is that correct?

Mr. GINGRICH. Theoretically, it is possible that new products can be brought under the export production fund.

Senator HEINZ. Now, when you say products, what you mean is products that are being shipped now but are benefiting from some other subsidy program. These are not new inventions. These are products that are not now significantly supported or not at all supported by the local currency financing of the export production fund. Is that right?

Mr. GINGRICH. Yes.

Senator HEINZ. All right.

Mr. GINGRICH. It is possible. The export production fund offers short-term financing to a variety of exporters. What they do is set up a line of credit at the bank and then draw on it. New people can come and ask to be qualified under the program—new Israeli producers—and get benefits. Additional people can get benefits under that program. Yes.

Senator HEINZ. So, it is theoretically possible that all the benefits, or most of the benefits that would normally be eliminated in eliminating the export shipment fund, the export fund, and the median term capital goods export credit program, that in a sense those benefits could be derived through the export production fund. Is that accurate or not?

Mr. GINGRICH. Senator Heinz, we don't believe so because the programs are directed at such different activities. For instance, the median term export fund is directed at credits for 2 years or longer. It is sort of like our Exim Bank. The export production fund is very short term—90 days or less—so the people that needed longer term financing wouldn't have their needs met under the short-term program. The imports for export fund for instance is used to finance imports that are incorporated in exports. We just don't believe that it is possible to shift from one to the other in any large quantities. You are correct that new producers can come, new products can be covered. The thrust of the commitment by the Government of Israel and their desire, however, is to get rid of their export subsidies. These are costly programs. As you know, the Government of Israel has a tremendous gap between its revenues and its expenditures. They are desirous of getting rid of these programs. Obviously, the whole thing is subject to the consultation process. We just don't think that it is going to be a massive shift.

Senator HEINZ. Ms. Cooper and Mr. Gingrich, as you know, there has been a considerable amount of dissatisfaction with the commitments that we have received under the subsidies code in return for which we have granted or offered to grant the injury test. There are some countries that have made very questionable deals with us. There are others that have said, well, we are just not going to be able to live up to those deals. Senator Long and I have introduced legislation that relates to the keeping of these subsidy code com-

mitments. Would the administration have any objection to our including that subsidy code commitment to keeping legislation as part of the Israel free trade zone legislation?

Mr. GINGRICH. I believe we would, but this has not been the subject of interagency discussion yet. We are trying to keep this as an Israel-only bill and keep it a clean bill, if that is the right word.

Senator HEINZ. All this is, is enforcement legislation. It is generic, but I think perhaps it would be better for us to make it generic rather than just Israel free trade zone specifically. So, I would urge you to look at that.

Mr. GINGRICH. We are certainly looking at the legislation. We have talked with the various staffs about it, but I would be hard pressed to commit the administration to accepting it on——

Senator HEINZ. No, I am not asking you to commit to it today. I would just like you to look very carefully at that.

Mr. GINGRICH. We will. We are and we will.

Senator HEINZ. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. Ms. Cooper, I would like to explore some of the precedental value of this agreement. You know, historically, the United States has been engaged in multilateral agreements. That has sort of been the credo that this country and other countries have followed, but lately we seem to be diverging slightly from that mode of accomplishing objectives, and this agreement is one of those diversions. I am wondering if you could explore with us just briefly what effect you think this will have on other countries like Japan and the Common Market, that is, the degree to which the United States enters into and concludes free trade agreements with other countries. What effect is this going to have on the multilateral system? And second, what effect do you think it is going to have—what implications do you see with respect to Japan's and EEC's willingness to perhaps lower their barriers or not lower their barriers?

Ms. COOPER. We are hopeful, Senator, that this agreement will act to strengthen the multilateral system. Ambassador Brock has been trying to initiate a major round of multilateral trade negotiations and to inject some life into the multilateral trading system for the past three years. We have not had a great deal of success for a number of reasons. Basically, most of our trading partners were uninterested in moving the system forward. We did not want to sit back, however, and wait for the lowest common denominator to leave the multilateral system to trade liberalization. And so, Ambassador Brock was willing to entertain the notion of liberalizing trade on a bilateral basis. The agreement with Israel is the only one under active discussion at the moment, but we have found that since we began our discussions with the Government of Israel, the enthusiasm on the multilateral front for liberalizing trade has, in fact, increased. So, we are not in any way lessening our commitment to that multilateral and, in fact, this agreement we think should strengthen it.

Senator BAUCUS. And strengthen it because other countries want greater access to American markets. Is that the reason? Why is it strengthening the countries' willingness to liberalize?

Ms. COOPER. Because other countries are quite nervous about this supposed trend of bilateralism. They do not want the United States to liberalize its market on a bilateral basis, and therefore, they too will be willing to make concessions in the multilateral forum.

Senator BAUCUS. What is happening now with Canada? I know that the President and Prime Minister Moroni reached an agreement that within 6 months the two countries would potentially propose a free trade agreement. Could you tell me what prognosis you see for that?

Ms. COOPER. The discussions with Canada are not active at the moment. The Canadian Government is thinking about deciding what avenue it wants to pursue, and we are waiting for a response from them.

Senator BAUCUS. That, of course, is very important because even though the U.S. agreement with Israel is extremely important, it still accounts for about 1 percent of our trade whereas in Canada it is about 20 percent. Isn't that right?

Ms. COOPER. Yes, sir. That is correct.

Senator BAUCUS. Will you propose a fast track system with the proposed Canadian free trade agreement in much the same way as you have with——

Mr. GINGRICH. Senator Baucus, the fast track is available under the 1984 act, if we first come to the committees—Finance and Ways and Means—and ask for your approval to do a negotiation and you don't disapprove within 60 days. Otherwise, the fast track is not available.

Senator BAUCUS. Yes, I understand that. That is why I am asking the question. It would be your preference, though, to pursue that route, wouldn't it?

Mr. GINGRICH. It certainly would be our preference if we ever got to the point of proposing an agreement to go fast track. Yes.

Senator BAUCUS. The statute also provides that the agreement must cover substantially all the trade between the two countries. Isn't that correct? But it need not cover all trade, only substantially all trade.

Mr. GINGRICH. The GATT requirement is for substantially all trade. Yes, sir.

Senator BAUCUS. But the word is "substantially." It is not categorically all.

Mr. GINGRICH. It is not all. It is substantially. Yes, sir.

Senator BAUCUS. Whereas this agreement—Israel's—it is more than substantially all, isn't it?

Mr. GINGRICH. It is all.

Senator BAUCUS. Excuse me?

Mr. GINGRICH. It is all.

Senator BAUCUS. That is my point, to state it lightly. The point I am making is that the free trade agreement need not cover all trade. That is, if you begin to negotiate again with Canada, there could be certain exemptions for certain categories and certain products. Isn't that correct?

Mr. GINGRICH. Yes.

Senator BAUCUS. I hope, and I know you will do this, but when your negotiations go along a little further with Canada, that you take this agreement not as absolute precedential value, that is not

all free trade agreements have to cover absolutely all articles that are trade. There may be some areas with Canada that make more sense to exempt, and I hope that you will look at that very closely. Thank you.

The CHAIRMAN. Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman. I share some of the concerns about the bilateral approach, but under the multilateral approach we have seen an awful lot of nations going by and getting a free ride and really not caring at all about the terms in effect of the multilateral approach, taking advantage of the United States. In the past, the Europeans have been a lot better at this bilateral approach. I would agree with you—they don't want to see us go that way, but they have certainly been going that way. And I hope for the best in the approach we are making with Israel. I do have a question that has been propounded by Senator Cranston and I would like you to give me a written answer to it. That deals, of course, with the question of citrus. The question is: Under section 401(a) of the 1984 Trade Act, the administration was to take fully into account in reducing duties on Israel's exports the fact that a product was the subject of a challenge to a tariff preference scheme between Israel and a third country. And since this provision was patently drafted to take account of the pending citrus section 301 case, can you provide the committee with information on the extent to which our negotiators took into account the citrus section 301 case, how they concluded that the duty reductions provided for in the proposed agreement can be justified in light of those considerations? Why don't you give me a written response to that for Senator Cranston.

Ms. COOPER. We will.

Senator BENTSEN. Now, in reading your statement, I noted with satisfaction that you talk about action being taken to get away from the licensing practices in Israel, which you state were often applied in a rather arbitrary manner. Now, how is that enforced, and what kind of a time schedule—how do you measure the compliance with that kind of a statement?

Mr. GINGRICH. Senator Bentsen, the way the agreement is drafted, it requires both sides to publish within 60 days a list of licensing measures, and it also requires that automatic licenses be granted with respect to each of the exports from us to Israel. It is an automatic licensing system except as specified. And where it is specified, it must be justified. So, what we have done is gone from a vague system of licensing controls that we know nothing about to one of a published list that is required to be automatic unless justified. And then obviously, the whole justification is subject to the dispute settlement process that is set up by the agreement. We feel that the transparency that will now result from this licensing system, as well as the requirement for automatic licensing, will greatly enhance our ability to get around the licensing restrictions that were otherwise in place.

Senator BENTSEN. I think this agreement will be mutually beneficial to the two countries. I hope you can use it as an example for Mexico.

The CHAIRMAN. Senator Mitchell?

Senator MITCHELL. Thank you, Mr. Chairman. May I say, Ms. Cooper and Mr. Gingrich, at the outset I am pleased that the United States and Israel have been able to reach this agreement. I believe it will serve to strengthen our economic and political ties and over the long run provide important benefits to both nations. But I remain concerned about the impact this agreement will have on certain domestic industries, including textile, apparel, and leather-related products. Last fall, as you know, during Senate consideration of this legislation, I agreed not to offer an amendment providing for a multiyear phase-in of duty reductions on these products, after I received a letter from Mr. Brock assuring me in writing that duty reductions on these products would be phased in over a multiyear period and that Israel would phase out its export subsidy program in a relatively short period of time. In this letter which I have before me, Mr. Brock said, and I quote:

"Textiles, apparel, footwear, and other leather-related products are among the most import-sensitive of American industries." And Mr. Brock agreed to phase out duties on these products over a multiyear period and more gradually than in regard to other products. In the same letter, he said that a commitment by Israel to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by the administration as a precondition to the conclusion of the agreement. I know of no one else familiar with the English language who would interpret the phrase "over a multiyear period" to mean a lesser period of time than the phrase "a relatively short period of time." The export production subsidy is to be phased out by Israel over 6 years, and yet the duty reductions on the sensitive products on our side is to be phased out over 4 years in most cases and, of course, a shorter period of time in others. How can you possibly define a relatively short period of time to mean a longer period than over a multiyear period?

Mr. GINGRICH. Let me address the export subsidy issue, if I may, Senator Mitchell. Again, there were four programs we found—two of them accounting for half of the subsidies are going to be eliminated immediately. One, which would bring the total up to two-thirds, is going to be eliminated within 3 years. The last one, the Sheckle Financing Fund, is under the 4-year freeze and the 2-year phaseout. We approached the export subsidy issue with the Israelis in the same way Ms. Cooper approached the tariff issue. There were sensitivities on both sides that we tried to take into account. So, we had to separate the various programs. We couldn't arrive at an agreement with them under which all of the programs would have had to have been phased out in a uniform period of time. From our side, we felt it was better to get rid of half of them immediately, than, say, all of them in 3 years. We approached it on a program-by-program basis, and we worked with the Israelis and negotiated with the Israelis on the basis that we wanted to get as many of the programs eliminated as quickly as we could. We feel that the agreement that we reached with them was the very best that we could do and they could do. So, on the subsidy side, we broke it down. We tried to see where we had sensitivities, where they had sensitivities, and deal with it that way.

Senator MITCHELL. It may have been the best you could do, but it is clear that in so doing you did not honor the commitment made in the letter.

Mr. GINGRICH. We feel that the immediate phaseout of half of the programs is, obviously, we couldn't do anything better than that, except for retroactive application. We feel that the two-thirds within 3 years is a far better commitment than had been made prior to that date by any country, and obviously with respect to the other one, it was a situation in which there was bargaining back and forth, and we felt that, at the end of the day, that was the best we were going to do.

Senator MITCHELL. Nonetheless, the outcome is that the phrase "a relatively short period of time" means 6 years in the case of the export production subsidy, and the phrase "over a multiyear period" means 4 years, and I just think that that doesn't make any sense to anybody familiar with the English language. I mean, I understand what you are saying. That is the best you could do, but I think it is impossible to reach any conclusion other than agreement in these narrow respects fails to honor the written commitment of the U.S. Trade Representative.

Mr. GINGRICH. I understand, obviously, your position, I think, without Ambassador Brock here—I don't want to attempt to put words in his mouth—but obviously, we believe and our instructions from him were to attempt to faithfully carry out—not attempt—to faithfully carry out the promises he had made to you. He took those with great seriousness. We think we did.

The CHAIRMAN. Senator Symms?

Senator SYMMS. No questions, Mr. Chairman.

The CHAIRMAN. Ms. Cooper, will the outstanding countervailing and antidumping duty orders against Israeli products be affected by this agreement?

Ms. COOPER. They will not.

The CHAIRMAN. Thank you. Will the consultation procedures of the agreement interfere with the operation of U.S. import relief laws?

Ms. COOPER. They will not

The CHAIRMAN. Thank you. Now, let me ask a question that Senator Bentsen asked on behalf of Senator Cranston, but I want to ask it in more detail. Israel benefits from the European Community's preference scheme for citrus and other products. Israel has supported the EC's position in the GATT, including the blocking of a panel decision concerning the U.S. complaint about the EC's preference scheme. One, how were the EC policies in GATT cases taken fully into account, as required by the 1984 act before citrus products were included in the agreement? Two, what will the U.S. response be to continued EC disruption of the GATT dispute settlement process? Three, what will you do to ensure fair U.S. access to Israeli internal citrus markets?

Mr. GINGRICH. If I can respond to that, Mr. Chairman, with respect to the citrus case, it is not correct that Israel blocked adoption of the panel report or joined in the blocking of the adoption. It was considered at the last GATT council meeting. It is correct it was not adopted. The Israelis took a more or less neutral position with respect to the adoption or nonadoption of the report.

The CHAIRMAN. Did they take the more neutral position because they knew that others would further the case anyway, in terms of blocking it?

Mr. GINGRICH. Yes; the preference countries—the countries which benefit from the preference in the Mediterranean are pretty much united in opposition to the panel report. They benefit by the preference and they don't want to see the report adopted. That does not mean, however, that we have seen the end of the day on this issue. There are two routes here. One is the international route where we are seeking satisfaction from the Community—now, not from Israel, but from the Community—because of this GATT illegal preference scheme. It is also possible for the President to proceed under section 301. The way section 301 works is that it requires that at the end of the dispute settlement process, the President can decide to take an action or decide not to take an action. Within the Government, within the administration there are several options under consideration at this point as to what our response ought to be under 301, in addition to what our response ought to be at the GATT. So, the issue is not resolved. As to whether or now or how we are going to——

The CHAIRMAN. What ultimate enforcement powers do we have?

Mr. GINGRICH. The President could decide to impose quantitative restrictions on exports of Jaguars, or French wine, or Scotch whiskey or anything else, raise duties, impose—. The full scope of his 301 authority is available to him in this case now because the dispute settlement process is over. He is fully free to do what he wants, and obviously options will be proposed to him with respect to this issue. So, it is not an issue that is by any means where the action is completed. Obviously, we are as disturbed as the committee is about the failure of the GATT dispute settlement process to resolve these disputes. We think, however, that that issue is not one that should be dealt with in the context of the United States-Israeli free trade area. We took it into account. Obviously, we were concerned about it, but the issue is one between the United States and the European Community and not between the United States and Israel.

The CHAIRMAN. What are you going to do to ensure access to Israeli's internal citrus market for us?

Mr. GINGRICH. The agreement, obviously, fully applies to citrus products. Any benefit that anyone else derives from the agreement, the citrus people will derive from the agreement. If they are capable of selling there, they will be able to do so.

The CHAIRMAN. All right. Ms. Cooper, let me ask you this. It is a question I asked you before. Are you confident that, given fair competitive circumstances, that all American products of any kind can, by and large, compete throughout the world—not only throughout the world but in the U.S. market—that we can compete, for example, with Brazilian steel here or Italian leather or Mediterranean citrus? I mean on a fair basis. They are going to argue that we have certain subsidies and we are going to argue that they have certain subsidies, but given the premise of fair competition, will the fact of the extraordinary wage rate differentials be relatively insignificant and we can compete?

Ms. COOPER. I think we can, sir.

The CHAIRMAN. In leather?
Ms. COOPER. In leather.
The CHAIRMAN. In textiles?
Ms. COOPER. In textiles.
The CHAIRMAN. Roses?
Ms. COOPER. In roses.
The CHAIRMAN. No other questions. Senator Baucus? We are going around now on a second round.
Senator BAUCUS. I have just a quick question. You have been named Assistant U.S. Trade Representative for the Americas. Is that correct?
Ms. COOPER. Yes, sir; I have.
Senator BAUCUS. Two questions. Getting back to Canada, who is going to be talking with Canada? Will you be directly talking with Canadian counterparts?
Ms. COOPER. Yes, sir; I will.
Senator BAUCUS. Will others in your office be doing the same?
Ms. COOPER. Yes, sir; certainly Ambassador Brock will.
Senator BAUCUS. Will commerce or other executive branch officials also be talking with Canadians about this?
Ms. COOPER. Yes, sir; any conversations that we have with Canada, any policy initiatives that we take with Canada will go through the interagency process.
Senator BAUCUS. All right. Can you give me a firm assurance that you will be talking with this committee before the 60-day period begins?
Ms. COOPER. Yes, sir; I can.
Senator BAUCUS. How many days in advance would this specific information be utilized?
The CHAIRMAN. What would a multiday basis be?
Ms. COOPER. Two. [Laughter.]
The CHAIRMAN. Two?
Senator MITCHELL. And they agree to do it in a relatively short time at the outset. [Laughter.]
Ms. COOPER. Sir, as soon as I know, you will know.
Senator BAUCUS. As soon as you know what?
Ms. COOPER. As soon as I know how we are proceeding with Canada.
Senator BAUCUS. I strongly urge you to consult with this committee, as well as the Ways and Means Committee, well in advance of the proposed 60-day period. Thank you.
The CHAIRMAN. Senator Mitchell?
Senator MITCHELL. Thank you, Mr. Chairman. Ms. Cooper, I understand that these negotiations were conducted using 1982 trade figures, specifically with regard to bedsheets, pillowcases, and bath towels. There has been a significant growth in imports of these products from Israel over the last 2 years. Does the initial agreement take this into account, and if not, are you going to take another look at these product categories?
Ms. COOPER. Yes, sir. We did use 1982 data because, when we began our negotiations—as I pointed out to the chairman—those were the only data which both sides had in hand. We are fully aware of the import surge in sheets and pillowcases and are currently taking that into account.

Senator MITCHELL. You are reviewing that at this time?

Ms. COOPER. Yes, sir. We are.

Senator MITCHELL. Thank you, Ms. Cooper. Now, I understand that this agreement provides that the United States will immediately treat Israel as having signed the GATT Subsidies Code, even though as we discussed earlier, Israel will continue certain export subsidy programs for up to 6 years. This means, as I understand it—and correct me if I am wrong—that Israel will immediately gain the benefit of an injury test in countervailing duty cases even while it continues to provide export subsidies for up to 6 years. First, is my understanding of that correct? Second, in the past has the United States allowed any other nation the immediate benefit of the injury test or that nation continued export subsidy programs? And finally, have we ever reached a trade agreement with a nation which permitted that nation to continue export subsidies for up to 6 years?

Ms. COOPER. In answer to your first question, yes. The Government of Israel will receive the benefit of the injury test immediately. That has been our standard procedure in all our subsidy code commitments. Irrespective of the phaseout period, the injury test was provided immediately.

Senator MITCHELL. Now, in your testimony, you state that as a general rule, category 1, which is the category scheduled for immediate tariff elimination, includes products which do not indicate particular sensitivity in our trade with Israel, yet leather wearing apparel is included in that category even though it has been found in a section 201 case to be seriously injured by imports. Imports of leather wearing apparel from Israel were large enough to be a factor in that case. Leather handbags are also included as schedule 1, yet the domestic market has been penetrated by imports to the level of 85 percent. Your testimony indicates that the 4-year phaseout category includes import-sensitive products not likely to face competition from Israel. I am not certain I understand how these clearly import-sensitive products can be included in the category for immediate duty elimination. Are these exceptions to a general rule, and, if so, why was that done in this case?

Ms. COOPER. We looked at each product individually, sir, and gave great weight to the ITC advice which was provided to us on each product. We looked not only at the imports generally, but more specifically at imports from Israel and also looked at the Israeli capacity to produce more imports. In the case of leather handbags, the import-to-consumption ratio is about zero from Israel. Israel ships us just about $400,000 in leather handbags. In leather wearing apparel, the import-to-consumption ratio is 0.2 percent. And on footwear, Israel shipped just $200,000 in 1982 in footwear. So, although I agree with you that there is import sensitivity generally, the imports from Israel are exceedingly low.

Senator MITCHELL. Let me just say that as far as footwear is concerned, here you have an industry that has been penetrated by imports to an almost unprecedented degree. It is now 75 percent. Not a week goes by that a shoe factory in Maine or Missouri or North Carolina doesn't close. Hundreds of thousands of American workers have lost their jobs. I understand what you are saying, and I acknowledge that Israel has not been a major source of imports, but

if that is the case, and there are no plans for Israel to engage in large-scale production of these items, then what conceivable concern is there with putting this in the 10-year category which would at least provide some assurance that this beleaguered, this devastated industry, will not have to face a surge of imports from that category? Remember, this is an industry that is just barely alive in the United States. At one time, it employed several hundred thousand Americans. It is still the largest employer in my State, even though the number of employees has declined dramatically in the last 3 years. And so, I am asking you: Why is there any reluctance then to put it in the 10-year category, which would merely honor—honor—the written assurance that I got from Mr. Brock last fall?

Ms. COOPER. Two things, sir. First, as I pointed out earlier, Israel is not a major supplier of footwear nor does it intend to be one. This agreement is reciprocal. Israel is a very substantial net importer of footwear, and so what we give we expect to get, and we expect to make some inroads into the Israeli market in footwear, sir. They import many, many more shoes than they export.

Senator MITCHELL. But do they import American shoes?

Ms. COOPER. Yes, sir, they do.

Senator MITCHELL. Boy, I will tell you something. I have heard from dozens of representatives of the American shoe industry, and there is not one who has indicated to me they take the position that you take. Could you later identify for me—I don't want to embarrass anybody with names—the names of the Americans in the shoe industry who support the view that you have expressed?

Ms. COOPER. We will, sir.

Senator MITCHELL. That they are going to benefit from this. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dole.

Senator DOLE. I don't have any questions. I just have an interest in implementing this agreement, and I wanted to be here to indicate that.

The CHAIRMAN. Thank you. Senator Danforth.

Senator DANFORTH. No questions.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. No questions.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. No questions, sir.

The CHAIRMAN. I have no others. Any more?

Senator MITCHELL. I do, Mr. Chairman, but I know there are other witnesses, and I will submit the further questions in writing. I do look forward to meeting with you and the Ambassador next week.

Ms. COOPER. Yes, sir.

The CHAIRMAN. Thank you, and good luck in your new Inter-American duties.

Ms. COOPER. Thank you, sir.

The CHAIRMAN. Wait a minute.

Senator CHAFEE. I just want to ask one question, and maybe you will have to get this for the record. My question concerns gold jewelry. Ambassador Brock and I talked this over, and he did a good job on this in my judgment, but peculiarly, there is one item—tariff schedule item No. 740.14—which is described under jewelry

as "Other." Now, for some reason, you determined that this item was not sensitive—import-sensitive—and could be subject to immediate duty-free trade without doing harm to the domestic industry. Could you give me your rationale on that subject—if not now, later on, please?

Ms. COOPER. Yes, Senator, we will give it to you in writing.

Senator CHAFEE. That dealt with what appears to be jewelry products made almost wholly of gold, which includes pendants and also seems to include some rings, bracelets, cufflinks, and so forth. At the same time, I do want to acknowledge that Ambassador Brock did respond helpfully as far as the gold chain, and that is in the 10-year category, which I appreciate. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Has there been any progress in rethinking the status of ethoxaquin?

Ms. COOPER. Yes, sir. We have discussed it again with the Government of Israel, and they feel as strongly about that item as they did in our original discussions.

Senator DANFORTH. So do I, but where does that leave us?

Ms. COOPER. Sir, we have it in the first tranch now. We will continue our discussions with the Israeli Government, but the problem at this point—having initialed the agreement—is that if we move an item, they will move an item, and we are very nervous about setting that snowball effect in train.

Senator DANFORTH. But it is not a dead issue yet, anyhow?

Ms. COOPER. We are still talking to them, sir.

Senator DANFORTH. All right. I would hope you would do it with some real punch. It is, I am told, a significant issue, for at least one of my major constituents.

Ms. COOPER. Yes, sir.

Senator DANFORTH. Thank you.

Senator MITCHELL. Mr. Chairman, could I just add one comment?

The CHAIRMAN. Yes.

Senator MITCHELL. I merely want to associate myself with Senator Baucus' remarks on the Canada situation. That is of critical importance in my State and region of the country, and I hope very much that there will be a continuing and meaningful dialog with the committee as that progresses. We have a very serious situation in several of the border States that is becoming dramatically worse with time. It is not the most opportune time, frankly, to be discussing this kind of agreement which I generally favor, but I think there must be a meaningful dialog with the committee as these talks progress. I hope very much that you will fulfill your agreement in that regard.

Ms. COOPER. We will, sir.

Senator MITCHELL. Thank you, Ms. Cooper.

The CHAIRMAN. Thank you very much for coming today. We will now take a panel consisting of Mr. Thomas Dine, Mr. Jack Serber, and Mr. Albert Soffa. Gentlemen, your statements will be in the record in toto, and we have had them ahead of time and have had a chance to read them, so if you will limit yourself to 5 minutes, we would appreciate it. Tom, are you ready? Tom is the executive director of the American-Israel Public Affairs Committee.

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE, WASHINGTON, DC

Mr. DINE. Thank you, Mr. Chairman, and thank you for the opportunity to testify before this distinguished committee on the proposed United States-Israel Free Trade Area Agreement submitted to you and your colleagues earlier this month. AIPAC, the American Israel Public Affairs Committee, is the domestic American lobby concerned with U.S. foreign policy in the Middle East. In particular, we work with public policy officials in Washington to further the closeness and the strength of the United States-Israel relationship. AIPAC enthusiastically supports the free-trade area agreement which has been negotiated between the United States and Israel. This is an historic agreement, one with positive and profound implications for both countries' economic future. I commend the members of this committee for the support they gave to the concept of free trade last year when approving the authorizing legislation and for the skillful ways in which difficult issues were discussed and managed. I also commend the President and, in particular, Ambassador Bill Brock for their excellent work in negotiating a comprehensive free trade area agreement of which we can be proud and which should pave the way for an increased flow of trade and investment between the two nations. Removing trade barriers from Israeli imports, as Israel does the same for American goods and services, is an unusual move. It is the only comprehensive reciprocal free trade pact ever concluded by the United States with another country. Moreover, it is projected the accord will strengthen the economy of a country important to us as a strategic and stable ally in a volatile part of the world. At the same time, the agreement will enhance American commercial interests. It is a landmark step toward solidifying the unique relationship between these two democratic nations in a way to provide mutual economic benefits for both countries.

This agreement will benefit the United States in several ways, and Mr. Chairman, I would like to summarize my full testimony by making seven points. First, U.S. imports into Israel in 1983 came to about $1.7 billion, over $400 million plus in terms of the balance of civilian trade. Prospects are bright for raising our exports to Israel. Second, for the United States to stay competitive with Europe's Common Market, eliminating tariff and nontariff barriers is essential. Third, an increase in exports to a vibrant market such as Israel means an increase in American jobs from 40,000 perhaps to 80,000 if the U.S. market share increases from the present 20 percent to 40 percent. Fourth, market shares of certain American products like computers and other office machinery will surely increase. Fifth, the possibilities for international joint venture partnerships also increases by a factor of entrepreneurial vision and action. Sixth, the current Israeli Government is taking strong measures to cure its economic ills and restore the nation to sound economic health. A critical component of the Peres government planning is to encourage the growth of exports and thereby improve Israel's balance of payments while simultaneously fostering economic growth. Seventh, Israel's commitment to reduce and eliminate export subsidies as declared—and entering into an agree-

ment of this kind, the largest industrial country in the world is a statement, I believe, on the value of free enterprise, on democracy and capitalism going hand in hand—a critical adjustment by a tiny country to the risk involved in the movement of the global economy led by the United States.

Mr. Chairman, in summary, establishment of a free trade area is a step we can take to help Israel while helping ourselves. In taking this step, we will join our European allies in stating Israel is a part of the community of free nations. The agreement will be good for the United States, will strengthen a vital ally in the Middle East, and reaffirm the bonds between ourselves and a sister democracy. I urge the members of this committee to enact legislation implementing this historic agreement as soon as possible. And I certainly took note of the majority leader's earlier comment that he will expedite passage of this implementing legislation. Thank you very much.

The CHAIRMAN. Thank you very much, Tom. Mr. Serber, representing the Zionist Organization of America.

[Mr. Dine's prepared statement follows:]

THOMAS A. DINE

EXECUTIVE DIRECTOR

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE (AIPAC)

Thank you, Mr. Chairman for the opportunity to testify before this distinguished committee on the proposed Free Trade Area agreement between the United States and Israel. Appearing with me are Ms. Ester Kurz, AIPAC's deputy legislative director, and Peggy Blair, AIPAC'S senior trade analyst. I will summarize my testimony and ask that the full text be inserted in the hearing record.

AIPAC is a domestic American lobby concerned with U.S. foreign policy. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one-half million members throughout the United States.

We come here today to support enthusiastically the Free Trade Area agreement which has been negotiated between the United States and Israel. This is an historic agreement, one with profound implications for the future.

I commend the members of this Committee for the support they gave to this concept last year when approving the authorizing legislation and for the skillful ways in which difficult issues were discussed and managed. I also commend the President and in particular Ambassador Bill Brock for their excellent work in negotiating a comprehensive Free Trade Area agreeement of which we can be proud and which should pave the way for an increased flow of trade and

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investment between the two nations.

Removing trade barriers from Israeli imports, as Israel does the same for American goods and services, is a historic move for the United States, as it is the only comprehensive, reciprocal free trade pact ever concluded by the U.S. with another country. Moreover, it is a pact which will strengthen the economy of a country important to us as a strategic and stable ally in a volatile part of the world, while at the same time enhancing American commercial interests. It is a landmark step toward solidifying the unique relationship between these two democratic nations and a way to provide mutual economic benefits for both countries.

BENEFITS FOR THE U.S.

For U.S. companies which sell in Israel's approximately $8 billion import market, I expect the gains from a U.S.-Israel Free Trade Area to be substantial. In fact, at least in the near term, it is expected that the U.S. will benefit more from this agreement than Israel, since most Israeli exports presently enter the U.S. duty-free whereas close to half of U.S. products encounter tariffs in Israel. Israel is one of America's top three markets in the Middle East, so tariff elimination could have a major impact.

In 1983, Israel bought approximately $1.7 billion worth of American-made civilian goods while exporting to the U.S. about $1.3 billion worth of goods. But there is considerable

room for increasing that amount, as the United States currently accounts for only 20% of Israel's non-military imports, a market share only about half that enjoyed by the European Community. American-made products enjoy an excellent reputation in Israel and it is my expectation that the Israeli public will purchase more U.S. goods if they are priced competitively and readily available.

Conversely, without an FTA, American-made products will face new difficulties as Israel's tariff-reduction agreement with the European Common Market comes fully into effect. If the EC nations enjoy duty-free trade but U.S. products remain subject to tariffs, a substantial price differential will be created and U.S. exports could suffer accordingly. Israeli tariffs average about 10 percent and in some product categories they are substantially higher than that. Moreover, the ultimate price effect of tariff differences is still greater at the retail level because purchase taxes are added on the basis of the total cost of an item including the customs duty.

Under the FTA negotiated, American products will immediately be treated as favorably as EC products are regarding customs duties. This means that once again there will be a level playing field with Europe, and the U.S. will have a distinct competitive edge over other countries' exports to Israel.

So the stakes for the U.S. in the FTA issue are real. Using Department of Commerce export-related employment

estimates, 40-50,000 jobs in the United States are currently generated by exports to Israel. An increase in the U.S. market share to 40 percent would generate an additional 40,000 U.S. jobs, while a decline to 10 percent would mean a loss of 20,000. Action taken now on the FTA could have a decisive effect on which direction this trend moves for some time to come.

American goods imported by Israel run the gamut of almost everything produced in the U.S., from grains ($61 million in wheat, $51 million in corn, and $55 million in other cereals in 1983) and soybeans ($100 million) to $1 billion in machinery and transport equipment. Many U.S. exports face a competitive market sensitive to price changes and elimination of Israeli tariffs could have a decisive impact upon the U.S. market share. After some study of the Israeli market, AIPAC's research staff concludes that the Free Trade Area could be particularly promising for increasing U.S. exports of the following products: computers and office machinery, telecommunications equipment, electronics, wood and wood products, furniture, paper and paperboard products, motor vehicle and parts, many iron and steel products, tools of base metals, appliances, textiles and apparel, alcoholic beverages, medical equipment, cigarettes and pharmaceutical products, and polymers. Many of these products will enter Israel duty-free by January 1, 1989, thereby ensuring that they will be on an equal competitive footing with EC producers at that time.

To cite one example, Israel is a rapidly expanding market for computers and other office machinery, with imports reaching $213 million in 1982. In fact, Israel is second only to the United States in per capita use of computers, and a new cycle of computerization is now underway. In 1982, half of Israel's computers and office equipment came from the United States. But early in 1983, Israel's tariff on computers was reduced by 50 percent for products coming from EC as part of the Israel-EC free trade agreement, and U.S. firms are now in danger of losing their strong market presence in Israel. As the chairman of the Federation of Israeli Chambers of Commerce recently noted,

"In many cases the American products like office equipment are clearly superior. But we buy European because duties on American goods make the European imports cheaper. The `zone' deal would cause a gradual switch to American goods."

An FTA with Israel will also benefit American firms looking for international joint venture partners. Many U.S. companies, particularly those in the high technology area, are discovering the benefits of conducting research and development activities in cooperation with Israeli firms. Israel has one of the highest per capita ratios of scientists and engineers in the world and is striving to increase that number. So, although Israel is not a cheap labor enclave, the country does offer a diversified and technically skilled labor force well known for its innovation. In addition, as joint ventures develop, Israeli firms will increasingly

utilize American components and production machinery which will further stimulate U.S. exports.

BENEFITS FOR ISRAEL

Israel is currently facing a serious economic crisis. Much has been written about Israel's budgetary, fiscal, and monetary problems: a high rate of inflation, slowed economic growth, balance of payments and budget deficits, and growing foreign debt. These economic problems are rooted in a number of structural burdens, many of which are unique to Israel. The country carries one of the highest defense burdens per capita in the world (22% of gross domestic product, compared to 7% in the U.S. and 1% in Japan) and this has taken a heavy toll upon the economy. Israel is also extremely dependent upon the global economy, with almost half its Gross National Product exported and imports in civilian goods and services alone equivalent to about 60% of GNP. This makes Israel extremely vulnerable to changes in the world economy.

The current Israeli government is taking strong measures to cure these ills and restore the nation to sound economic health. A critical component of the government's plan is to encourage the growth of exports and thereby improve Israel's balance of payments while simultaneously fostering economic growth. The Free Trade Area, by assuring Israeli firms of

secure and unfettered access to the American market, will help the country achieve this goal.

Another key component of Israel's plan is to shift gradually resources and manpower out of the public sector and into the private sector, and out of inefficient, subsidized industries into internationally competitive productive ones. As the Government of Israel implements some $2 billion worth of budget cuts over the next year, it is likely that many public employees, perhaps as many as 15,000 will lose their jobs. It is hoped that Israel's highly productive private sector can absorb at least a portion of these people. With a Free Trade Area in place, those sectors in which Israel is most competitive in the international marketplace will flourish. This will help Israel in its restructuring process.

Since work began toward the establishment of an FTA, some concerns have been raised by particular industries about the effect of Israeli products coming in duty-free and competing with comparable products made in the U.S. These industries have been allowed ample opportunity to discuss their concern, both with the Administration and with members of Congress, through a series of public hearings and meetings.

Similar concerns have been raised by certain Israeli industries as well, perhaps with more justification considering the respective size of the two countries and therefore the difference in impact. It is worth noting that

while Israel accounts for only about 1% of American imports, the United States comprises 20% of the Israeli market

From what I have seen, I believe that U.S. and Israeli negotiators have reached a good and just compromise to deal with more sensitive sectors by phasing in tariff reductions gradually over a period of years for such products. This will allow for a gradual transition and avoid any abrupt shocks for either country. We understand that for those products that were determined by the U.S. International Trade Commission to be import-sensitive, duty rates will be frozen for five years after which time the ITC will advise on further reductions. Even for such products as textiles and apparel, which the ITC reportedly did not find to be sensitive to imports from Israel, a careful compromise was negotiated so that some items will not be duty-free until 1989, and others not until 1995.

On textiles, it is important to bear in mind that the discusssion is not about Hong Kong, China, or Korea, but Israel, a relatively high wage country of just a few million people, whose share of American textile imports is about two-tenths of one percent. Just this week, Israel's largest textile company laid off 420 employees and more are expected to be let go in the coming weeks.

Moreover, American textile exporters have much to gain in the Israeli market. Of the $227 million worth of dutiable textiles and apparel Israel imported in 1982, $35 million or

15.4 percent, came from the U.S. While this is a significant share of the import market, it could be much higher. Over half of Israel's textile imports came from four EC countries: West Germany, Italy, United Kingdom, and France. These EC members benefit from reduced textile and apparel tariffs as a result of the phasing in of the EC-Israel free trade agreement and by 1989 will enjoy full duty-free access to the Israeli market. But a U.S-Israel FTA would allow American producers to compete on the same terms as their EC counterparts and would provide an opportunity to increase the U.S. share of Israel's valuable import market. This is especially the case for synthetic fibers and materials -- an area in which the U.S. industry is most competitive and Israel's tariff is relatively high.

Several agricultural organizations and producers publicly testified for complete exclusion of certain specialty food crops from the agreement. AIPAC opposed this and other efforts to exclude particular items from the negotiating table on the grounds that this would undercut the very principles behind the agreement and would leave both countries vulnerable to charges of illegality under the rules of the General Agreement on Tariffs and Trade (GATT). The final agreement appears to deal fairly with the problem of specialty food crops by putting a five-year freeze on tariff reduction for those U.S. items the ITC found could in any way be affected by increased Israeli competition: processed tomatoes, dehydrated onions and garlic, citrus juices, roses, and olives. The tariff rates will be eliminated gradually between 1990 and 1995, as determined by the U.S. and Israel

after additional advice from the ITC. I believe this gives these producers ample time to adjust for any increased competition from Israel, especially considering the country's small size, its limited resources such as land and water, and its inability to greatly increase production capacity.

Moreover, since the EC-Israel FTA does not cover agriculture extensively, eliminating Israeli duties for U.S. agricultural products could give American producers a distinct competitive advantage. Dutiable U.S. agricultural exports to Israel which would be positively affected by an FTA include: tobacco and tobacco products, some alcoholic beverages, some processed fruit and vegetables, certain processed grain and mill products, coffee, other beverages, and jams and jellies. In addition, farm products presently coming into Israel at 0 duty such as certain grains and soybeans, will upon implementation of the FTA be bound at that rate, which means that Israel cannot unilaterally increase the duty on these items as presently is the case on these items. This is an advantage that Israel did not give to the European Community. Thus, U.S. agriculture as well as manufacturing industries will gain from an FTA.

We also are aware that three American firms which manufacture brominated products were concerned about increased competition from Israel. Here, too, a careful compromise was crafted, whereby those brominated products which were found by the ITC to be possibly affected by duty-free Israeli goods will have their present tariff rates

frozen until 1990. Then after further advice from the ITC the U.S. and Israel will decide upon a mutually acceptable pace for phasing in the elimination of duties on these products.

It is worth noting that Israel is making considerable sacrifice to achieve this agreement because of the long-term economic benefits it promises and the prospect of strengthening the already strong ties between the two nations. Over 90% of Israel's products already come into the U.S. duty-free, due to U.S. tariff concessions and the duty-free treatment enjoyed by Israel as part of the one-way generalized system of preferences (GSP) program. Under this FTA agreement, Israel is committing itself to a reciprocal, mutual elimination of trade barriers, and to opening itself to free competition in its own market with one of the world's industrial giants. At least in the short term, it is clear that the United States is not only exposing itself to fewer risks but also gaining greater advantages than Israel.

In addition, Israel has agreed to phase out about two-thirds of the value of its export subsidies programs within three years. Many subsidies will be eliminated immediately upon implementation of the agreement. This is a heavy obligation for Israel at a time when the country is under considerable economic pressures and is trying to do the utmost to improve its balance of payments. This is also a much stronger commitment than any other developing country has made to date in eliminating subsidies, especially considering that the GATT rules make special allowance for

such countries' development needs. But Israel, unlike many other countries in the world, recognizes that free trade must be a two-way street.

In summary, establishment of Free Trade Area is a step we can take to help Israel while helping ourselves. In taking this step, we will join our European allies in stating that Israel is a part of the family of free nations. The agreement will be good for the U.S. economy, will strengthen a vital ally in the Middle East, and will reaffirm the bonds between ourselves and a sister democracy.

I urge members of the Committee to enact legislation implementing this historic agreement as soon as possible.

Thank you for the opportunity to testify.

STATEMENT OF JACK A. SERBER, NATIONAL VICE PRESIDENT, ZIONIST ORGANIZATION OF AMERICA, BETHESDA, MD

Mr. SERBER. Thank you very much, Senator Packwood, for the opportunity of appearing before the committee. I am Jack A. Serber, National Vice President of the Zionist Organization of America and also a Director of Business Development for Heritage International Bank here in Bethesda, MD, incidentally, the only American bank with an office in Israel today. I am representing today the Zionist Organization of America, ZOA, which has strongly supported the United States-Israel free trade area concept since the idea was first put forward.

ZOA warmly welcomes the draft agreement recently released and now initialed by representatives of the United States and Israel. In broad terms, ZOA does so for five reasons.

First, the draft agreement achieves the objectives sought by the United States. By entering into the arrangement, we will avoid being disadvantaged in the Israeli market in comparison to the countries of the European Common Market, for which Israeli industrial tariffs will be zero across the board by 1989. We will gain this improved position without inflicting harm on our own industries since the phase-in timetable provides ample time for adjustments, and special provision is made for the most import-sensitive products. And we will enjoy lower cost access both to desirable Israeli produced consumer items and to the fruits of Israel's high technology research and production, especially in the medical, computer, and telecommunications fields.

Second, the draft agreement responds as well to Israeli objectives by providing long-term access to the U.S. market without the uncertainties involved in the GSP. Such access is particularly important to Israel in the light of the constraints on the normal development of its trade within its own geographic region.

Third, the draft agreement is the vehicle for a number of nontariff undertakings that will be beneficial to U.S. business and that set desirable standards for compliance by other U.S. trading partners.

Regarding subsidies, Israel would undertake to reduce and ultimately eliminate the export subsidy element in its various production incentive programs. In this regard, Israel would also accede to the GATT's subsidy code and adhere to the OECD concensus on export credits. By so doing, Israel would go well beyond the undertakings of other advanced developing countries and would be accepting obligations characteristic of developed countries. Regarding Government procurement, the United States and Israel would open new opportunities for each other in line with the principles of the GATT code on Government procurement, and in fact, would allow inclusion of even smaller transactions than those called for in the GATT code. Regarding services, there is in the draft agreement and in an accompanying declaration of principles a most important undertaking by both countries to maintain an open system of services exports with minimum restrictions on flows in each direction. These undertakings are consistent with efforts the United States is making in the broader GATT context toward inclusion of services as a major element in a new round of multilateral trade negotia-

tions. Further, the draft agreement itself, and the accompanying implementing legislation make it clear that U.S. producers will continue to be able to have recourse to the trade remedies embodied in U.S. law. No existing orders under countervailing or antidumping duty statutes will be altered by the initiation of the free trade area. Further, the origin rules of the draft agreement have been conformed exactly to those already established with the Caribbean Basin Initiative and thus do not create any new problems or precedents.

Finally, by addressing all goods traded by the two countries, the agreement retains its GATT compatible character. It is intended to promote the expansion of world trade, not its contraction, and it holds the promise of encouraging new investments to take place, new goods to be developed, new jobs to be created.

The United States-Israel free trade area is an innovation in U.S. trade policy. Based on 1982 trade data, the United States will reduce duties to zero on one-half billion of Israeli goods while Israel will reduce duties on $1.3 billion of U.S. goods. It is thus an innovation with clear and substantial benefits in both directions. It would make sense for the United States in purely economic terms, even if they did not exist, the close political and cultural relationship that the two participants have historically enjoyed. ZOA urges this committee to give favorable consideration to the agreement and legislation when it is formally submitted. And I thank you very much.

The CHAIRMAN. Thank you, Mr. Serber.

[Mr. Serber's prepared statement follows:]

SUMMARY

STATEMENT OF JACK A. SERBER

ON BEHALF OF ZIONIST ORGANIZATION OF AMERICA

BEFORE THE SENATE COMMITTEE ON FINANCE

CONCERNING FREE TRADE AREA AGREEMENT

WITH ISRAEL, March 20,1985

ZOA welcomes and supports the free trade area draft agreement because:

1. U.S. will have access to Israeli markets comparable to that afforded countries of the European Common Market, with ample time to effect adjustments for import-sensitive products.

2. Israel will be assured of long term access to U.S. markets.

3. The draft agreement is beneficial to U.S. business and sets standards for other U.S. trading partners:

* By reducing and eliminating the export subsidy element of various production incentive programs.
* By expanding opportunities for government procurement consistent with the GATT code.
* By establishing an open system of services exports.

4. U.S. producers will continue to enjoy recourse to the trade remedies embodied in U.S. Law.

5. By including all good traded by the two countries, the agreement retains its GATT-compatible character.

The agreement makes sense in purely economic terms and deserves the favorable consideration of the Committee.

STATEMENT OF JACK A. SERBER,

NATIONAL VICE PRESIDENT

ON BEHALF OF THE ZIONIST ORGANIZATION OF AMERICA

BEFORE THE SENATE COMMITTEE ON FINANCE

CONCERNING FREE TRADE AREA AGREEMENT

WITH ISRAEL, March 20,1985

I am Jack A. Serber, National Vice President of the Zionist Organization of America and Director of Business Development for Heritage International Bank, Bethesda, Maryland. I am representing today the Zionist Organization of America -- ZOA -- which has strongly supported the U.S.-Israel Free Trade Area concept since the idea was first put forward.

ZOA warmly welcomes the draft agreement, recently released and now initialed by representatives of the United States and Israel. In broad terms, ZOA does so for five reasons:

First, the draft agreement achieves the objectives sought by the United States. By entering into the arrangement, we will avoid being disadvantaged in the Israeli market in comparison to the countries of the European Common Market, for which Israeli industrial tariffs will be zero across the board by 1989. We will gain this improved position without inflicting harm on our own industries, since the phase-in timetable provides ample time for adjustments and special provision is made for the most import-sensitive

products. And we will enjoy lower cost access both to desirable Israeli-produced consumer items and to the fruits of Israel's high-technology research and production, especially in the medical, computer and telecommunications fields.

Second, the draft agreement responds as well to Israeli objectives, by providing long-term access to the U.S. market without the uncertainties involved in the GSP. Such access is particularly important to Israel in the light of the constraints on the normal development of its trade within its own geographic region.

Third, the draft agreement is the vehicle for a number of non-tariff undertakings that will be beneficial to U.S. business and that set desirable standards for compliance by other U.S. trading partners:

--Regarding subsidies, Israel would undertake to reduce and ultimately eliminate the export subsidy element in its various production incentive programs. In this regard, Israel would also accede to the GATT subsidy code and adhere to the OECD Consensus on export credits. By so doing, Israel would go well beyond the undertakings of other advanced developing countries and would be accepting obligations characteristic of

developed countries.

--Regarding government procurement, the U.S. and Israel would open new opportunities for each other in line with the principles of the GATT code on government procurement, and in fact would allow inclusion of even samller transactions than those called for in the GATT code.

--Regarding services, there is in the draft agreement and in an accompanying declaration of principles a most important undertaking by both countries to maintain an open system of services exports with minimum restrictions on flows in each direction. These undertakings are consistent with efforts the United States is making in the broader GATT context toward inclusion of services as a major element in a new round of multilateral trade negotiations.

Fourth, the draft agreement itself and the accompanying implementing legislation make it clear that U.S. producers will continue to be able to have recourse to the trade remedies embodied in U.S. law. No existing orders under countervailing or antidumping duty statutes will be altered by the initiation of the free trade area. Further, the origin rules of the draft agreement have been conformed exactly to those already

established for the Caribbean Basin Initiative (CBI), and thus do not create any new problems or precedents.

Finally, by addressing all goods traded by the two countries, the agreement retains its GATT-compatible character. It is intended to promote the expansion of world trade, not its contraction, and it holds the promise of encouraging new investments to take place, new goods to be developed, new jobs to be created.

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The U.S.-Israel free trade area is an innovation in U.S. trade policy. Based on 1982 trade data, the United States will reduce duties to zero on $0.5 billion of Israeli goods, while Israel will reduce duties on $1.3 billion of U.S. goods. It is thus an innovation with clear and substantial benefits in both directions. It would make sense for the United States in purely economic terms, even if there did not exist the close political and cultural relationship that the two participants have historically enjoyed. ZOA urges this Committee to give favorable consideration to the agreement and legislation when it is formally submitted.

Senator CHAFEE. Mr. Chairman?

The CHAIRMAN. Yes, Senator Chafee?

Senator CHAFEE. Just a procedural question The President of Argentina, as you know, is addressing the joint session at 11, and I have committed myself to attend that. What is your intention? Are you going to proceed with the hearing?

The CHAIRMAN. I just talked with the majority leader, and he said to go ahead and proceed right through with it because we have got three other panels, and if we don't, we will not finish.

Senator CHAFEE. I see. I have a witness in the last panel who I am interested in questioning.

The CHAIRMAN. What do you want to do, Senator?

Senator CHAFEE. I wonder if it would be possible for him to just make a brief statement now and take his 4 minutes now. Would that be possible?

The CHAIRMAN. Let me finish with Mr. Soffa on this panel, and then take him. Is that all right?

Senator CHAFEE. I am just not sure what time the majority leader plans to march over there. Oh, 10:45. Yes, that will be fine.

The CHAIRMAN. All right.

Senator CHAFEE. Yes; I would appreciate that.

The CHAIRMAN. Mr. Soffa, go right ahead.

STATEMENT OF ALBERT SOFFA, VICE CHAIRMAN OF THE BOARD, KULICKE & SOFFA INDUSTRIES, HORSHAM, PA

Mr. SOFFA. I am Albert Soffa, vice chairman of the board of directors, Kulicke & Soffa Industries of Horsham, PA. Our company develops, manufactures, and markets capital equipment used for the assembly of semiconductor devices. We have plants in Israel, the United States, England, and Hong Kong. In 1984, our sales were $120 million. We employ approximately 2,200 people at our facilities throughout the world. Our work force in the United States is about 1,230 people, and we employ about 650 people in Israel. Today, I am testifying in support of the proposed free trade area on behalf of my company. In addition, I am cochairman of the Investment Committee of the American-Israel Chamber of Commerce, Inc., and speak for that body as well. With me is Sidney M. Weiss, special counsel to the Chamber on trade matters. Both my company and the investment committee of the Chamber are deeply concerned with trade and investment between Israel and the United States. As such, we support the ratification of the free trade agreement. The elimination of trade barriers contemplated by this proposal will have a salutary effect on the expansion of bilateral trade between the United States and Israel. We believe that the Senate should give this proposal prompt and affirmative action. The American-Israel Chamber is a United States nonpolitical and nonsectarian trade association, comprising hundreds of U.S. corporations. Our membership consists of some of the most important exporters of U.S. products to Israel, importers from and investors in Israel. The Chamber is the recipient of the E award of the President of the United States. I shall refer to benefits for the United States in this agreement. First, as part of this agreement, the Israel Government has agreed to sign the GATT subsidies code and

to eliminate export subsidies. Second, each party has agreed that its investment legislation does not require export as a condition of establishing or maintaining investments by the other party on its territory. Third, the agreement contains guarantees by each party to ensure protection of the other's intellectual property rights—that is patents and so on. Fourth, the parties agree to a nonbinding declaration on trade and services which may serve as an example for future negotiations and agreements relating to services. The United States has worked hard to enter these first four into trade agreements with other foreign countries. The fifth benefit deals with the rules of origin. While the rules of origin in this agreement regarding value-added requirements appear to be symmetrical, they actually favor U.S. industry. That is because Israel has very limited raw materials to export, while the United States is a major supplier of raw materials to Israel. By way of example, an Israeli manufacturer may add—must add value in excess of 35 percent of the final appraised value of the product he is exporting. Under this agreement this 35 percent can be reduced to 20 percent if the difference then which is 15 percent comes to the United States. This would encourage Israeli manufacturers to buy the raw materials from the United States and, since the United States is a supplier of such materials, the United States would tend to be in a more favorable position than when the situation is reversed.

Sixth, the annual $8 billion import market into Israel, which includes military products, will gradually be opened to U.S. industrial exports on a basis free of trade barriers. Currently, U.S. products are subject to customs duties which, especially in the consumer field, are quite high. With the elimination of all tariffs on products originating in the European Economic Community by 1989, the United States will be at a clear disadvantage in the Israeli market without a free trade area. Seventh, the free trade area will give the United States easier terms of entry into the European Common Market. If both the European Economic Community and the United States have free trade areas with Israel, then the U.S. products shipped to Israel physically transformed and with added value will be granted duty-free entry into the European Economic Community by virtue of the Israel-European free trade area. Our conclusion is that a free trade area will expand business, initiative, create jobs, and lower prices for both the United States and Israel. This is eminently in the national interest of the United States. Accordingly, Congress, we believe, should act favorably on this agreement.

The CHAIRMAN. Mr. Soffa, thank you.

[Mr. Soffa's prepared statement follows:]

March 20, 1985

SUMMARY OF TESTIMONY

By Mr. Albert Soffa, Vice Chairman of the Board,
Kulicke & Soffa Industries, Inc.

On behalf of American-Israel Chamber of Commerce and Industry Inc.

Before The United States Senate Committee hearing on The United States-Israel Free Trade Area Agreement.

Honorable Chairman and Members of the Committee,

I am Albert Soffa, Vice-Chairman of the Board of Kulicke & Soffa Industries Inc. of Horsham, Pa. Our company develops, manufactures and markets capital equipment used for the assembly of semiconductor devices. We have plants in the U.S., Europe and Israel. In 1984, our sales were $120 million dollars. We employ approximately 2200 people at our facilities throughout the world. Our work force in the U.S. is 1228 people; and we employ 648 people in Israel.

I am testifying in support of the ratification of the Free Trade Area Agreement between the U.S. and Israel. My testimony is on behalf of my company and of the American-Israel Chamber of Commerce. I am a National Director of the Chamber and Co-Chairman of its Investors' Committee.

In our view, the elimination of trade barriers contemplated in this Agreement will have a salutary effect on the expansion of bilateral trade between the U.S. and Israel.

Among the advantages for the U.S. from this Agreement are the following:

1. The Israeli government has agreed to sign the GATT Subsidies Code;
2. The U.S. and Israel have agreed that their investment legislation does not require export as a condition of establishing and maintaining investments by the other party in the territory of each country;
3. Each party ensures protection of the other's intellectual property rights;
4. A non-binding declaration on trade in services was agreed upon;
5. Because the requirement of value-added for the products which qualify for the benefits of this Agreement includes a clause allowing part of the added value to be derived from the country of destination, U.S. industry will especially benefit. That is so due to the fact that the U.S. is a potential major supplier of raw materials and semi-manufactured products to Israel;
6. The Agreement will help the U.S. retain and increase its business with Israel vis a vis the EEC-Israel free trade Agreement.

In conclusion, this Agreement is in the national interest of the U.S.

TESTIMONY OF

KULICKE & SOFFA INDUSTRIES, INC.
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BY

ALBERT SOFFA
VICE-CHAIRMAN OF THE BOARD OF DIRECTORS
KULICKE & SOFFA INDUSTRIES, INC.

AND

CO-CHAIRMAN INVESTMENT COMMITTEE
AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.

BEFORE

THE UNITED STATES SENATE
FINANCE COMMITTEE
HEARING ON

THE UNITED STATES-ISRAEL FREE TRADE AREA AGREEMENT

MARCH 20, 1985

Introduction

I am Albert Soffa, Vice-Chairman of the Board of Directors of Kulicke and Soffa Industries, Inc. of Horsham, Pennsylvania. Kulicke and Soffa develops, manufactures and markets capital equipment, including wafer saws, die bonders and wire bonders, used for the assembly of semiconductor devices. Our equipment ranges in speed, complexity and price, from manually operated models costing approximately $4,000 each, to fully automatic,

computer-controlled units selling for approximately $100,000 each. In addition, the company manufactures and distributes a comprehensive line of expendable micro-tools and accessories used in its machines as well as those of its competitors. We have plants in the United States, Israel and Europe. We sell our products worldwide. In 1984 our sales were 119,641,000 dollars. We currently employ approximately 2200 people at our facilities throughout the world. Our workforce in the United States is 1228 people, and we employ 645 people in Israel.

Today, I am testifying in support of the proposed Free Trade Area on behalf of my company. In addition, I am Co-Chairman of the Investment Committee of the American-Israel Chamber of Commerce and Industry, Inc., and speak for that body as well. With me is Sidney N. Weiss, special counsel to the Chamber on trade matters.

Both my company and the Investment Committee of the Chamber are deeply concerned with trade and investment between Israel and the United States. As such, we support the ratification of the Free Trade Area Agreement.

In our view, the elimination of trade barriers contemplated by this proposal will have a salutary effect on the expansion of bilateral trade between the United States and Israel. We believe that Congress should give this proposal prompt and affirmative action.

BENEFITS OF THE FREE TRADE AREA TO THE UNITED STATES AND ISRAEL

The benefits of the Free Trade Area Agreement to each of the two member countries would be significant, although not identical.

A. Benefits to the United States

In this Agreement, the United States is receiving significant concessions in a trade negotiation and agreement with one of its trading partners. In fact, the concessions received by the United States at least match anything that Israel is receiving as part of this Agreement. This country's ability to obtain such a far reaching Agreement on favorable terms will be a forceful example to our other trading partners clearly indicating to them that if they desire to export to the world's largest market, they must open their own markets to our products and services on an equitable basis.

The FTA Agreement accomplishes this in the following manner:

First, as part of this Agreement, the Israeli government has agreed to sign the GATT Subsidies Code and to eliminate export subsidies.

Second, each party has agreed to ensure that its investment legislation and regulations do not require export as a condition of establishing, expanding or maintaining investments by the other party in its territory.

Third, the Agreement contains guarantees by each party to ensure the protection of the other's intellectual property rights.

Fourth, the parties agree to a non-binding declaration on trade in services which may serve as an example for future negotiations and agreements related to services.

These four factors have been of paramount concern to our country in trade negotiations with our trading partners worldwide.

Fifth, while the Rules of Origin in this Agreement regarding the value-added requirements appear at first reading to be symmetrical, they actually favor U.S. industry. That is because Israel has very limited raw materials to export while the United States is a major supplier of raw materials to Israel. By allowing 15 of the 35 percent (that is over 4/10ths) added value to be produced in the country of destination of the goods, the Agreement encourages manufacturers who export to buy raw materials from the country of intended marketing. Therefore, the U.S., being the supplier of such products will tend to be favored.

Sixth, the $8 billion yearly Israeli import market will gradually be open to United States industrial exports on a trade-barrier-free basis. Currently, United States products (and other countries' products) are subject to custom duties, which especially in the consumer field are quite high. In addition, in the Appendix to this testimony, we have set out a listing of the duties on products from the European Community and the United States, together with the percentage of the market held by United States imports. With the elimination of all tariffs on products originating in the European Community by 1989, the United States will be in a clear disadvantage in the Israeli market without a Free Trade Area.

We expect that elimination of Israeli customs duties will open the Israeli consumer goods' market to American products on the basis of quality and price, without distortions due to tariff and non-tariff barriers. The United States' success in selling American products in Israel in competition with European, local and other products will assume global significance. The successful sale of United States products in Israel on a free trade basis will be conclusive proof to other countries, with much larger markets, of the feasibility to eliminate barriers and disincentives to the importations of United States products.

Seventh, the Free Trade Area will give the United States easier terms of entry into the European Common Market. Fortuitously, both the European Economic Community and the United

States will have Free Trade Areas with Israel. Therefore United States products shipped to Israel, physically transformed and with added value, will be granted duty-free into the European Economic Community by virtue of the Israel-European Free Trade Area.

Of course, in certain respects, the same can be done even today if administrative steps are taken, involving drawbacks on customs duties paid in Israel for those raw materials from which exported goods are being manufactured. The Free Trade Area, however, will help get rid of burdensome paperwork and difficult-to-retrace pricing distortions.

Finally, the existence of the United States and European Free Trade Areas with Israel will encourage much closer economic cooperation between the United States and Israel. It will serve as an incentive to the establishment of joint ventures in Israel to help market the products of United States high technology on a duty-free basis throughout Europe.

B. Benefits to Israel

Israel's exports are disadvantaged in the world marketplace because of factors not related to the quality and efficiency of its products. These disadvantages would be reduced by the Free Trade Area. Israel currently has one of the highest per capita debts of any country. This is primarily the result of its

expenditures on defense. To service and retire its debt, Israel must export a great part of its production. Because of the political situation in the Middle East, Israel's trade with its neighbors is negligible. Thus, together with its extraordinary military burden, Israel has to transport its exports thousands of miles.

Moreover, much of the exports from the world's developing countries rely on low cost labor. Israel is an exception to this rule. The quality of the Israeli worker coupled with the fact that Israel is a deeply rooted democracy with highly organized labor movement, results in Israeli products being known for their technological advancement, sophistication and style, rather than low price. Consequently, Israeli products are often uncompetitive in countries imposing high or restrictive tariffs.

In recognition of these factors, and in accordance with its own interests, the European Economic Community has established a Free Trade Area with Israel. The European-Israel Free Trade Area provides that the zero tariff level will be reached by 1999 for almost all non-agricultural commodities and products.

At present, approximately 90% of Israeli exports to the United States are entered free of duty. Over one-third of those exports are entered under the Generalized System of Preferences (GSP). The GSP, while beneficial to Israel, contains certain problems for Israel, which would be eliminated by the

establishment of a Free Trade Area. In fact, the proposed Free Trade Area would have a number of advantages to Israel.

The first advantage for Israel of a Free Trade Area is increased certainty in regard to the status of its future exports to the United States. Under the present GSP system, a country, product, or "country-product pair" may be "graduated", that is eliminated from GSP benefits if certain limits are reached. In 1984, for example, if a country accounted for more than $63.8 million of the imports of an article to the United States or over 50% of the value of total imports of that article, then its GSP benefits for that product would be eliminated. In addition, for certain products, these limits may be reduced to 25% and $25 million. Under the Free Trade Area proposal, there would be no threat of elimination, once the qualifying products were identified. This would enable the market to make rational decisions on production, capacity and the like.

The second benefit for Israel of a Free Trade Area with the United States is expanded access to the United States market. Israeli articles will not be restricted to the GSP annual dollar limit. In addition, all products, whether presently dutiable, free of duty, or GSP, would be gradually free of duty under the Free Trade Area proposal.

The third advantage for Israel of a Free Trade Area with the United States is the fact that access to the United States

market would be on a free, open and reciprocal basis, unencumbered by extraneous constraints. The Free Trade Area will be a concrete expression of the benefits to be realized from free trade. Each country's products will compete freely in the marketplace of the other. As a result, considerations such as per-capita GNP and other criteria not directly related to the subject would not be the determinants of one country's products ability to be successfully sold in the market of the other. Efficiency, quality and price would be the only determinants of the competitive advantage for a product of one country in the market of the other country.

Conclusion

The advantage of a Free Trade Area are numerous. In addition to deepening an important commercial relationship, a Free Trade Area will tend to lower prices and create jobs and new opportunities in both the United States and Israel.

Accordingly, we request that Congress should act favorably on this Agreement.

APPENDIX

CUSTOMS DUTIES ON CERTAIN CONSUMER PRODUCTS

DESCRIPTION	RATE OF DUTY USA	EEC	USA AS PERCENTAGE OF TOTAL IMPORTS
TRACTORS	20	20	21
PASSENGER CARS UP TO 1800 CC	25	25	0
PASSENGER CARS OVER 1800 CC	32.5	32.5	20
LIGHT TRANSPORT VEHICLES	25	25	1
CLOCKS	20	14.8	3
T.V.S	22	20	0
PAPER PAPERBOARD	28	22.5	13
FABRICS OF SYNTHETIC FIBERS	14.9	10.6	18
FELT FABRICS	22.5	13.1	4
BONDED FIBER FABRICS	22.5	15.7	24
FOOTWEAR, OUTER SOLE - LEATHER	20	20	2
GLASSWARE FOR TABLE, KITCHEN, ETC.	20	20	6
BOLTS, NUTS, SCREWS OF IRON	30	30	67
CIGARS	24	15	27
TOBACCO	20	12.5	28

All Customs Duties on the above products will be lifted completely on products originating from the European Economic Community by 1987.

The CHAIRMAN. To accommodate Senator Chafee who is in the leadership, I am going to ask if Dr. Runci is in the audience.

[No response.]

The CHAIRMAN. No, John, I don't see him.

Senator CHAFEE. Thank you very much.

The CHAIRMAN. Thank you.

Senator CHAFEE. Thank you.

The CHAIRMAN. Normally, we don't switch witnesses even at the request of Senators because our hearings are set a long time ahead of time. Today, we have the President of Argentina speaking in a joint session, and Senator Dole has indicated we should finish this hearing, but as Senator Chafee is in our leadership, he has to be at the speech.

Gentlemen, do you expect any difficulty in Israel in ratifying this agreement? They have got to have some of the same problems we have in terms of internal business pressures.

Mr. DINE. It is my understanding, Mr. Chairman, that most of the groups that have been skeptical about the negotiations that went forward in putting this agreement together have either been satisfied or came to terms with it. I was listening to Senator Mitchell's comments earlier and thinking about when I was last in Israel, which was January, and the textile industry then there was up in arms over the agreement. In fact, I was asked by some of the businessmen to talk to some of the textile leaders and tell them that it is a good deal for all parties. I think there is also another change that is taking place, Mr. Chairman, in Israel, and that is a recognition that if the economy is going to recover, that the economic structure of the way they do business is going to come to terms by the end of the century. Then it has to be an export-led economy, and the free trade agreement with the Common Market and the free trade agreement with the United States then are the way to do it.

The CHAIRMAN. Mr. Serber, any further comments?

Mr. SERBER. I support Mr. Dine's comments. I would say that I think that in addition to the specific values of the agreement that it provides for the Israelis an incentive and a new focus from their concentration, I think, on the European Common Market to a closer relationship and exploitation of both American markets and American products coming into Israel.

The CHAIRMAN. Mr. Soffa?

Mr. SOFFA. When we first read the agreement, our people in Israel were somewhat unhappy, but they are coming to terms with the gradual reduction in some of the points that are taken off from some of the loans that are given to us for export. We are in a high-tech business, and we really survive by having a product that is better—better engineered and better serviced than that of our competitors, and the small gains we get from those benefits would not ensure us our marketplace in a world market, but we are ready to compete.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you very much. First, let me welcome Mr. Soffa, a constituent from Horsham, PA. We are delighted to have you here and thank you for being a part of this hearing. I earlier asked the Assistant USTR whether in the legisla-

tion that they will send us, which once it comes down is unamendable either by the committee or on the floor, whether they would consider including the generic enforcement legislation that would deal with commitments made under the subsidies code. Israel has made a number of commitments to us. We have every reason to believe that Israel will keep them, but there are many other countries that we are not quite as confident about, and indeed they have given us good reason by their statements to give us a lack of confidence. There is nothing particularly draconian about this generic legislation that Senator Long and I have introduced. It just says that a deal is a deal, and if you don't keep your part of the bargain, we don't have to keep our part of the bargain unless you shape up. How would you all feel about the inclusion of that legislation as part of the Israeli free trade zone package? Mr. Dine?

Mr. DINE. If it is generic, then certainly I would be supportive. Considering all of the good work all of you have been doing recently on behalf of U.S. trade relations with Japan, I think that anything that would help the U.S. position in the world economy and our trade competitiveness would be critical—would be absolutely critical. I share the worry expressed here earlier this morning by the Assistant Representative, Ms. Cooper from USTR, not to start picking at the agreement. Every time we pick the Israelis are going to have to pick, and then the accord will begin to unfold. And I do believe it has been a carefully structured agreement. But, I would be supportive.

Senator HEINZ. Mr. Serber?

Mr. SERBER. I don't think I have anything to add to that. Thank you.

Senator HEINZ. I'm sorry?

Mr. SERBER. I don't think I have anything to add to that, Mr. Heinz.

Senator HEINZ. You would be supportive, too?

Mr. SERBER. Yes.

Senator HEINZ. Mr. Soffa?

Mr. SOFFA. I really don't know these provisions, but I would support the bill—at least the things we agreed upon in the agreement.

Senator HEINZ. That is what we are basically talking about. If it were specific legislation, I would not ask you to endorse it. Indeed, I wouldn't ask that of any of the three of you—to endorse a specific bill because I don't think you probably would have had the opportunity to study it, but I think you understand the concept and the principle that we are driving at. I think the administration frankly was a little worried about complicating what they hoped to be a clean, simple bill. It would be my judgment that the inclusion of this would not be controversial, that it would indeed strengthen the legislation. I don't anticipate that the legislation is in great difficulty, but this could only help. Let me ask you, Mr. Soffa, one other question. Mr. Soffa, being a Pennsylvanian, you are aware of the fact that our largest employer in Pennsylvania isn't the steel industry. It is garments, textiles, apparel, shoes, leather—if you will, needle trades. Ironically, rather like the people in Israel, in the same industry, our people are very worried about this agreement. What can you tell us about their worries? Are their worries

realistic or not? Our American producers. I know you are in high-tech, but——

Mr. SOFFA. I know when we look at our labor rates in Israel, when we add the overheads and all the benefits, there is not a terribly big difference between what we look at as factory costs between the two countries. So, I don't think there is too much of an advantage, one way or the other, between the two countries.

Senator HEINZ. I see my time has just about expired. Thank you, Mr. Chairman. Thank you, gentlemen.

The CHAIRMAN. Senator Mitchell?

Senator MITCHELL. Thank you, Mr. Chairman. I commend the witnesses' testimony. I would just like to make a comment on Mr. Dine's statement in which he commented on Ms. Cooper's statement about not picking the agreement apart by making a change. Of course, the problem is that if you accept that premise to the ultimate, it means that this committee has nothing to do. That is, it totally negates the process by which we are supposed to participate in the development of these agreements. I recognize the desirability of not creating a chink that then leads to a wholesale change and renders the agreement unacceptable to one side or the other. But if we say that any suggested change we make cannot be considered because it might lead to that, then, of course, we have nothing to do, and the hearings are a pro forma action. I think all the members of this committee or certainly most, strongly support the agreement. I support the agreement. I spoke for it. I voted for it. It doesn't mean, though, that I abdicate my judgment, that I abdicate my responsibilities to my constituents. Two of the three largest employers in my State feel that they are affected by this agreement. It seems to me that I have an obligation, a duty in a representative democracy to express their concerns and to try to make changes where I believe those changes are appropriate and necessary and will not undermine the agreement. I hope it is not your view that merely because someone questions one part of the agreement that that represents an effort to undermine the whole agreement.

Mr. DINE. Senator Mitchell, in no way did I mean that. First of all, I tried very hard to understand your concerns last fall, and I thought frankly you did a very good job in representing your constituents. Second, as you well know, I am a creature of the legislative branch and, therefore, it is so important I believe that the Congress fulfill its rightful constitutional role in being a coequal partner in policymaking, domestic and foreign. Third, in my own experience, my own observation, of working when I was an employee of this institution, working with the Budget, Foreign Relations. Armed Services, and Appropriations Committees closely, this committee plays a greater role as events are unfolding, as negotiations are taking place than anything I observed in my decade as a Senate employee. So, I don't believe that this agreement just came here and now you have 60 days to bless it or not. I believe the Ways and Means Committee and the Finance Committee play a part that I never observed before in my own experience on Capitol Hill.

Senator MITCHELL. I have no further questions, Mr. Chairman. Thank you, gentlemen.

The CHAIRMAN. Gentlemen, I have no further questions. Thank you very much.

Mr. SERBER. Thank you, sir.

The CHAIRMAN. We will now take a panel consisting of Mr. Stanley Nehmer, Mr. Robert Eisen, and Mr. Scott Trott.

Senator MITCHELL. Mr. Chairman, as they are taking their seats, may I raise one point with you on this matter?

The CHAIRMAN. Yes.

Senator MITCHELL. As I understand it, the Trade Act requires the administration to provide this committee with a draft statement of administrative action, as well as a draft implementing bill and a draft agreement. We have not received any such draft statement of administrative action yet. It is supposed to tell us what the administration will issue for regulations in this area. And I would like to ask that we receive that before we mark up the bill so the law will be complied with and we will be able to see in full detail what is being proposed.

The CHAIRMAN. We will have it, and I think the administration understands that the members of this committee would be very displeased if we didn't have it before they submitted the agreement to us.

Senator MITCHELL. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Nehmer, do you want to go first?

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, INC., WASHINGTON, DC

Mr. NEHMER. Thank you very much, Mr. Chairman. For the record, I am Stanley Nehmer. I am here on behalf of the Leather Products Coalition. The members of the Leather Products Coalition are listed in the prepared statement, and I will only summarize some of the points in that statement. We appreciate the opportunity, Mr. Chairman and members of the committee, to be able to appear today to express our views to you. I would like to start off by saying to you that contrary to the position of the Israeli apparel, footwear, and leather products industry, the domestic industry in the United States, represented by the three of us here today, are not satisfied and we have not come to terms with this agreement. Indeed, we think the agreement with Israel could be an absolute disaster for the U.S. textile, apparel, footwear, and other leather-related industries, and we will tell you why in the course of our testimony.

I would like to make several points on behalf of the Leather Products Coalition, Mr. Chairman, on why we think this agreement is bad for these U.S. industries. First of all, on the question of Government procurement, you received an answer this morning from Mr. Gingrich that the Berry amendment would in no way be affected by the agreement with Israel. Yet, the draft implementing legislation has a provision on Government procurement which says:

> With respect to products originating in Israel, the President may waive in whole or in part with respect to any purchases subject to a trade agreement with Israel the application of any law, regulation, or practice regarding Government procurement.

I should say to you that doesn't limit this to the Government Procurement Code which does exclude the Berry amendment.

The CHAIRMAN. I think the administration has already agreed to narrow that significantly.

Mr. NEHMER. I see. That would be very, very helpful. That is a major concern on our part. We heard from Mr. Serber and Mr. Dine about the opportunities for expanding U.S. exports to Israel, particularly perhaps in the field of Government procurement. I have a story to tell this committee. There is an American producer of a product, a leather-fabric combination product, which he has been selling to the Israeli armed forces for several years. And for this year's negotiation, he was told that the fabric that he had been procuring in the past from a small Tennessee mill, which makes a very high-cost specialized fabric, that that fabric would now have to be procured in Israel from a mill in Israel to make this particular product. He demurred, he negotiated, but half of his fabric requirements are now going to be procured in Israel as a result of the Israeli Government's position. I would like to read to you from article 25 of an agreement that he was asked to sign by the Israeli Government procurement purchasing authorities in New York. "The seller hereby agrees that, within 3 years from the date of this contract, it will purchase industrial goods and services competitive in price, delivery, and quality for export from sources in Israel or with prior written approval of the Government of Israel, invest in Israeli-based industries in the aggregate amount of not less than 35 percent of the contract price." This isn't Mexico. This isn't Korea. This is Israel, which is adopting the same kind of performance requirement. The agreement with Israel allows the Israeli Government to maintain the offset practices insofar as defense procurement is concerned.

With regard to the subsidies aspect of this, the 6-year phaseout of subsidies is the longest period of time that the United States has allowed any government to maintain subsidies and grant that country an injury test. This compares to all of the other negotiations which have occurred, three of which have recently occurred. Six years is unprecedented and yet American industry, if it wants to bring a countervailing duty case against subsidized Israeli exports to the United States will have to go through the time and the expense—and believe me, it is time consuming, it is expensive to do so—yet Israel will be able to maintain its export subsidy.

With regard to the commitment made to Senator Mitchell on September 20, 1984, there is no question in our minds that that commitment has not been lived up to. Leather wearing apparel—and Ms. Cooper should know this because she was involved in the STR considerations of the escape clause case—leather wearing apparel from Israel was a major factor in that escape clause case. The import penetration is about 65 percent. In the case of leather handbags, the handbag industry has an import penetration of 85 percent. It seems to us that the commitment that was made to Senator Mitchell was not in terms of—I will just finish—import sensitive in terms of Israel. It was in terms of import-sensitive industries not being able to withstand the constant additional hammering from new suppliers. Thank you, Mr. Chairman.

The CHAIRMAN. So, what you are saying is that if you are import sensitive, then by and large restrictions or limitations should apply to any country, even if they might be just one-tenth of 1 percent of the import penetration.

Mr. NEHMER. Particularly if it is a labor-intensive product like these items, where Israel's labor costs are half of ours. By eliminating the duty as rapidly as they are planning on eliminating the duty, that gives them a tremendous competitive edge. One-tenth of 1 percent will not remain at that level, believe me.

[Mr. Nehmer's prepared statement follows:]

STATEMENT OF STANLEY NEHMER ON BEHALF OF
LEATHER PRODUCTS COALITION
TO THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

On

PROPOSED U.S.-ISRAEL FREE-TRADE AREA AGREEMENT

March 20, 1985

SUMMARY

The Leather Products Coalition*, a group of trade associations and labor unions in leather-related industries, is seriously concerned about several aspects of the proposed U.S.-Israel Free Trade Area Agreement:

(1) the inconsistency between the agreement and the commitment made on behalf of the Administration by the U.S. Trade Representative to Congress regarding the phasing of tariff reductions on footwear and other leather-related products as well as on textiles and apparel;

(2) the excessively long schedule for elimination of Israeli subsidies;

(3) apparent loopholes in the agreement which will allow Israel to reimpose duties, and even quotas, under certain circumstances; and

(4) significant modification in government procurement practices which could result from the agreement.

Given these very serious concerns, we urge the U.S. negotiators to address these issues and remedy the problems prior to reaching a final agreement with Israel.

* Amalgamated Clothing and Textile Workers Union, AFL-CIO
Footwear Industries of America, Inc.
International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO
Luggage and Leather Goods Manufacturers of America, Inc.
Work Glove Manufacturers Association

The products of concern to these organizations include nonrubber footwear, luggage, handbags, personal leather goods, work gloves and leather wearing apparel.

STATEMENT OF STANLEY NEHMER ON BEHALF OF
LEATHER PRODUCTS COALITION
TO THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

On

PROPOSED U.S.-ISRAEL FREE-TRADE AREA AGREEMENT

March 20, 1985

INTRODUCTION

This statement is presented by Stanley Nehmer on behalf of the following members of the Leather Products Coalition, a group of trade associations and labor unions in leather-related industries:

Amalgamated Clothing and Textile Workers Union, AFL-CIO
Footwear Industries of America, Inc.
International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO
Luggage and Leather Goods Manufacturers of America, Inc.
Work Glove Manufacturers Association

The products of concern to these organizations include nonrubber footwear, luggage, handbags, personal leather goods, work gloves and leather wearing apparel.1/

The Leather Products Coalition was on record during the 98th Congress in strong opposition to the free-trade arrangement with Israel because of its potential harmful impact on the leather-related products industries. The Coalition recommended that the products listed above be excluded from duty-free treatment as the 98th Congress saw fit to do in legislation on the Caribbean Basin Initiative

1/ We understand that the Footwear Division of the Rubber Manufacturers Association is submitting a separate statement to the Committee with respect to rubber footwear. We have been authorized, however, to state that they associate themselves with this statement.

and on the renewal of the Generalized System of Preferences. These import-sensitive industries are already staggering under unprecedented levels of imports, which have caused lost domestic production, market share and jobs.

Our purpose in appearing at this hearing is to voice our serious concern regarding several aspects of the proposed U.S.-Israel Free Trade Area Agreement: (1) the inconsistency between the agreement and the commitment made on behalf of the Administration by the U.S. Trade Representative to Congress regarding the phasing of tariff reductions on footwear and other leather-related products as well as on textiles and apparel; (2) the excessively long schedule for elimination of Israeli subsidies; (3) apparent loopholes in the agreement which will allow Israel to reimpose duties, and even quotas, under certain circumstances; and (4) significant modification in government procurement practices which could result from the agreement. Given these very serious concerns, we urge the U.S. negotiators to address these issues and remedy the problems prior to reaching a final agreement with Israel.

THE U.S. TRADE REPRESENTATIVE'S COMMITMENT TO SENATOR MITCHELL

When the Israel free-trade area legislation was being considered by Congress, these leather-related industries, because of their high import-sensitivity, sought exclusion from duty-free treatment as exists under the Caribbean Basin Initiative and the Generalized System of Preferences. Both

the Administration and the Israelis were adamant about not granting any exclusions under the free trade arrangement; however, Congressional concern about certain import-sensitive industries was very strong. Sentiment was so strong, in fact, that various members of both the House and Senate sought assurances from the U.S. Trade Representative that duty cuts on import-sensitive textile, apparel and leather-related products would be phased in over a multi-year period. Indeed, during Senate consideration of the U.S.-Israel free-trade area, Senator George Mitchell was prepared to offer an amendment which provided for a multi-year phase-in for U.S. duty cuts on these products so long as Israel agreed to terminate its subsidy programs on these products. If Israel failed to terminate its subsidies, duties on these products would snap back to regular MFN rates. Senator Mitchell agreed not to offer this amendment based on written assurances on September 20, 1984 from Ambassador Brock (copy attached) that --

> It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products [meaning textiles, apparel, footwear and other leather-related products] over a multi-year period and more gradually than in regard to other products.

On the floor of the House on October 3, 1984, Mr. Thomas of California engaged in a colloquy with Mr. Gibbons, the Chairman of the Ways and Means Subcommittee on Trade, as follows:

> Mr. THOMAS of California. I have also heard the Ambassador has indicated how he will identify import-sensitive products and that to do so he will rely on a recent International Trade Commission report to identify import-sensitive items.
>
> Further, I believe the Ambassador told the Committee on Ways and Means last week the he will consider information other than that supplied by the International Trade Commission in defining import-sensitive products. Is my understanding correct?
>
> Mr. GIBBONS. The gentleman's understanding is correct.
>
> Mr. THOMAS of California. I thank the gentleman very much.
>
> Finally, Mr. Chairman, I understand that in some cases outside the import-sensitive category, the Ambassador plans to phase in duty reductions over a number of years, depending upon negotiations. And that the bill, although silent, does not automatically result in elimination of U.S. duties as a result.
>
> Mr. GIBBONS. That is correct. That is my understanding as well.

On the basis of these assurances, many members of this body believed that the Administration would abide by such a commitment when negotiating duty reductions on these import-sensitive products.

That this commitment has not been lived up to is self-evident. The draft agreement provides that the duties on 78 percent of leather-related products (based on 1982 trade data) will become duty-free immediately upon the entry into force of the agreement. This is not over a "multi-year

period." The remaining 22 percent will be phased into duty-free treatment in three and a half years -- far too quickly for these import-sensitive products.

At least two leather products -- leather handbags (TSUS 706.06 and 706.09) and leather wearing apparel (TSUS 791.76) -- will have their duties cut to zero immediately, as will a number of luggage, flat goods, and other handbag articles. Unfortunately, the segment of the U.S. handbag industry producing leather handbags is the only relative bright spot for this industry. This is an industry overrun by imports with an import penetration rate of 85 percent. What justification is there for this item to have its duty cut to zero immediately when it will directly and negatively impact the only remaining segment of the U.S. industry which has much hope for survival?

In the case of leather wearing apparel, there is a special irony. Among all the leather-related products imported from Israel, leather wearing apparel ranks number one in terms of volume. In 1980, leather wearing apparel was the subject of a Section 201 ("escape clause") case before the International Trade Commission in which the ITC found unanimously that imports were causing serious harm to this industry. Imports of leather wearing apparel from Israel were large enough to be a factor in the case. Israel has been a strong international competitor in leather wearing apparel and is considered by some as a "world-leader" in the

leatherwear field. Moreover, Israel exports about 85 percent of its leather wearing apparel. Currently imports of leather wearing apparel have about two-thirds of our market, and immediate zero duty treatment on imports from Israel can only result in more imports and further loss of market share for U.S. producers and jobs lost to the workers in this industry.

The case of nonrubber footwear demonstrates particular insensitivity. This is an industry in such poor shape that this very Committee recently asked the ITC to reopen the industry's Section 201 ("escape clause") case. More than two-thirds of the footwear sold in the U.S. market today is imported. More than 13,000 jobs were lost to imports in this industry and 89 factories closed their doors in 1984 alone -- one every four days. Yet all footwear duties will be phased out by 1989, much sooner than the ten-year phase out for some other import-sensitive products. Imports of footwear from Israel increased by 86 percent in dollar terms between 1982 and 1984.

Furthermore, even those articles subject to four year (really three-and-a-half years) phase-out of duties will have an initial duty cut of either 20 percent or a reduction to the final staged cut negotiated in the Tokyo Round of Multilateral Trade Negotiations. Since nonrubber footwear was exempted from Tokyo Round cuts, it will face an immediate 20 percent cut upon the agreement entering into force. Here again, an immediate 20 percent cut for footwear is a

sharper cut-in duties than for many products whose duty cuts will merely be accelerated immediately to the 1987 MTN-negotiated tariff level. In many instances, the initial percentage on these other products will be far less than the immediate 20 percent cut in footwear tariffs. The very reason that nonrubber footwear was exempt from Tokyo Round MTN tariff cuts was because the industry was then under import relief. Now the industry will undergo a larger tariff cut than for many other industries at a time when it is least able to sustain such cuts and while its Section 201 ("escape clause") case is pending before the ITC and the Administration.

Among the other leather-related products subject to a phase-out of duties by 1989 are most luggage and flat goods items. Notably, U.S. imports of luggage from Israel increased almost one-hundred fold between 1982 and 1984, with virtually all of the trade occurring in items currently subject to a 20 percent duty. This duty will be cut immediately to 16 percent and then phased to zero by 1989.

The Leather Products Coalition requests that this Committee urge the U.S. Trade Representative to make good on the commitment with regard to the duty treatment of these import-sensitive leather products.

SUBSIDIZATION OF ISRAELI PRODUCTS

The proposed U.S. Israel free-trade area agreement allows Israel to maintain certain export subsidies for six

years. This is the longest period of time allowed by the U.S. in any negotiations with any country under the countervailing duty provisions of the 1979 Trade Agreements Act. When you consider that this Subsidies Code commitment was negotiated in the context of a "free-trade" agreement, the Israeli commitment on subsidies is particularly inadequate. In the meantime Israel will receive the benefit of an injury test before any countervailing duty can be imposed by the United States. This, too, represents a failure to live up to the understanding of this body and of American industry last fall when legislation authorizing the negotiation of a free trade area agreement with Israel was being considered by Congress.

The Chairman of the Ways and Means Subcommittee on Trade, Mr. Gibbons, said on the floor of the House on October 3, 1984:

> I share these concerns about subsidized and dumped exports to our market. But this agreement does not weaken existing rights under our antidumping and countervailing duty laws. In addition, the Committee on Ways and Means has received assurances from the U.S. Trade Representative that he will seek an Israeli commitment to phase out its subsidies as a precondition for entering into an agreement. This would increase-not diminish-our firms' protection against subsidized trade.

Clearly, American "firms' protection against subsidized trade" is diminished, not increased, when Israel is allowed

six years to maintain export subsidies while most U.S. import duties have gone to zero.

The intention of the U.S. Government in negotiating elimination of Israeli subsidies is correct; however, it has clearly not gone far enough. To grant Israel the benefit of an injury test in any countervailing duty case brought against Israeli exports while, at the same time, allowing Israel to maintain subsidies is simply unfair to any U.S. industry. And for those industries which face immediate duty-free treatment on their products or a phase down of the duties over four years while this subsidization is allowed to continue for up to six years, the situation is particularly untenable, to say the least.

Israel, despite being a member of GATT, has never subscribed to the GATT Subsidies Code, until now, to put itself under the international rule of law with respect to its all-pervasive subsidies regime. Other advanced developing countries have signed the Subsidies Code and are now granted an injury test with commitments to phase out subsidies. Yet Israel will benefit from an injury test during an excessively long period of time before its subsidies, illegal under U S. law, are eliminated completely. And, U.S. industry, which cannot compete with foreign government subsidies no matter how competitive it may be under free market conditions, will be forced to go through the time and expense of an injury proceeding while the U.S. Government

has actually agreed to allow these illegal subsidies to continue for a period of six years.

THE AGREEMENT CONTAINS CONVENIENT LOOPHOLES WHICH WILL ALLOW ISRAEL TO REIMPOSE TARIFFS ON U.S. PRODUCTS, AND EVEN QUOTAS

Another troublesome aspect of the proposed U.S.-Israel free-trade area agreement relates to what we believe are convenient loopholes which will allow Israel to reimpose tariffs, and even quotas, on U.S. products despite the agreed-upon zero duties.

Under the agreement, Israel may claim it has a balance-of-payments problem which forces it to reimpose duties on U.S. imports or even quotas. Israel may also claim it needs to protect "infant" industries through the reimposition of tariffs. Both of these clauses are potential loopholes in the agreement. Should Israel exercise its right to reimpose tariffs or quotas, the U.S.-Israel free-trade area agreement could become no more than a one-way duty-free arrangement: U.S. imports from Israel will be duty-free while U.S. exports to Israel will continue to be subject to duties. Should this occur, it is difficult to see how this agreement will be beneficial to the United States.

Another curious feature of this loophole with respect to the protection of "infant" industries relates to the types of industries which may be considered "infant." By protecting its so-called infant industries, Israel can build up the very industries which may export to the U.S. market to the detriment of U.S. import-sensitive industries.

The U.S.-Israel free-trade area agreement requires the United States to agree to these Israeli protective actions before tariffs are reimposed. However, should the United States disagree, we must proceed through a dispute settlements process, which is lengthy and uncertain in outcome. The ability to resolve this issue does not ease our minds concerning these loopholes.

SERIOUS MODIFICATION OF U.S. GOVERNMENT PROCUREMENT PRACTICES COULD RESULT FROM THE AGREEMENT

We are also seriously troubled by the provision (Section 6) of the draft Implementing Legislation which would allow the President to waive, with regard to Israel, any government procurement law, regulation or practice.

There has been on the statute books for over 30 years the so-called Berry Amendment which restricts Defense Department procurement of textiles, apparel, footwear, and most leather products to U.S. sources. Our fear that this statute will be set aside for Israel is real. If so, this would add to the terribly negative impact on those American industries and their workers that this agreement will have. If it is not the intention waive the Berry Amendment, than the language of the implementation legislation should be limited to those items subject to the government procurement code.

Zero duty treatment for imports from Israel, the maintenance of export subsidies by that country for six years, and possibly completely open U.S. government procurement for

Israel -- all add up to major problems for some of our most import-sensitive, heavily import-impacted American industries and their workers.

THE U.S. LEATHER-RELATED PRODUCTS INDUSTRIES REMAIN IMPORT-INJURED

No one seriously questions that the U.S. leather related industries are import-sensitive and import-injured. Statutory exemptions from duty-free treatment under the Generalized System of Preferences and the Caribbean Basin Initiative have been granted for footwear, luggage, handbags, personal leather goods, leather wearing apparel, and work gloves.

The nonrubber footwear industry has also received two unanimous affirmative findings by the International Trade Commission of serious injury from imports under the "escape clause" provisions of the Trade Act of 1974, and the Senate Finance Committee has requested the ITC to begin a new investigation on nonrubber footwear. This investigation is in process. Leather wearing apparel also received a unanimous affirmative injury determination from the ITC pursuant to its "escape clause" investigation in 1980. Imports from Israel were large enough to be an issue in that investigation.

Five of the six leather-related industries have received technical assistance grants from the U.S. Department of

Commerce designed to aid import-impacted industries. Firms and workers in all of the leather-related industries have received adjustment assistance.

In the past two years alone, some 18,000 jobs were lost in the leather products industries, and the 1984 unemployment rate in these industries was a staggering 14.6 percent, about double the national average. Import penetration in these industries continues to grow, with 1984 imports reaching record levels in each of the sectors. Table 1 attached to this statement provides selected economic indicators for these industries and shows the relentless hammering of these industries from imports. The latest import penetration rates are:

Nonrubber footwear	71%
Personal leather goods	35%
Luggage	56%
Leather Wearing Apparel	67%
Work Gloves (leather)	60%
Handbags	85%

These high levels of import penetration have been largely accomplished without benefit of preferential duty treatment for developing countries. Imports from Israel, which will begin receiving preferential duty treatment on some of these products as soon as the agreement enters into force after Congressional approval, will merely add to the overwhelming weight of the already large and growing volumes of imports of leather-related products.

CONCLUSION

The issue today is about Israel. But no one in the Congress should believe that free trade agreements will stop here. The pattern for future such agreements will be set in this one. If Congress allows this agreement to be concluded without rectifying the problems outlined in this statement, only greater gloom and more doom will be in store for import-sensitive American industries and their workers.

The Leather Products Coalition requests that the Finance Committee give full consideration to the concerns we have raised and urge the Administration through Ambassador Brock to rectify these problems in the U.S.-Israel Free-Trade Area Agreement before the agreement is finally concluded.

THE U.S. TRADE REPRESENTATIVE,
Washington, September 20, 1984.

Hon. GEORGE J. MITCHELL,
U.S. Senate, Washington, DC.

DEAR GEORGE: You have expressed concern about the effect of a United States Israel Free Trade Area upon the domestic industries producing textiles, apparel, footwear, and other leather related products. The Administration asked the International Trade Commission for economic advice on the effect of entering into such an agreement. Textiles, apparel, footwear, and other leather related products are among the most import sensitive American industries.

This sensitivity will be taken into account in the negotiations with the Government of Israel. It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products over a multi-year period and more gradually than in regard to other products.

You have also expressed concern regarding the existence of export and domestic subsidy programs in Israel, both as to their generally trade distortive effect and as they relate to the proposed United States Israel Free Trade Area. I want to assure you that the Administration shares this concern.

As a result, commitment by Israel to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by the Administration as a precondition to the conclusion of a Free Trade Area agreement between the United States and Israel. In addition, it is our expectation that such a commitment from Israel will serve as a basis for their acceding the subsidies code, in accordance with the previously stated intention of the Government of Israel to sign the code.

We also continue to be seriously concerned about the impact of domestic subsidy programs on U.S. industries and workers. I want to assure you that these programs are subject to U.S. countervailing duty law and the Administration will vigorously enforce this law with respect to any product of Israel benefitting from such domestic subsidy programs.

Very truly yours,

WILLIAM E. BROCK.

Table 1

SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER PRODUCTS (ISAC 8) INDUSTRIES

	Nonrubber Footwear (SIC 314)	Luggage (SIC 3161)	Personal Leather Goods (SIC 3172)	Handbags (SIC 3171)	Leather Apparel (SIC 2386)	Leather Work Gloves (SIC 3151)
Employment (number of employees)						
1967	230,600	21,000	32,600		5,100	6,300
1972	193,300	17,300	28,400		7,000	4,900
1977	156,900	17,300	33,100		6,700	5,500
1982	135,100	13,700	28,100		4,500	4,200
1983	127,400	12,400	27,000		3,800	3,400
1984 (P)	120,700	12,000	27,800		3,400	3,600
Production/ Shipments	(million prs.)	(million dollars)	(million dollars)	(million units)	(million dollars)	(thousand dz. prs.)
1967	600.0	294.8	164.7	97.0	N/A	N/A
1972	526.7	321.9	231.8	90.1	174.0	4,192
1977	418.4	585.0	369.0	55.8	211.0	3,710
1982	359.1	648.0	380.0	38.8	208.0	2,354
1983	344.3	707.0	396.0	N/A	211.0	2,200(E)
1984 (P)	302.0(E)	729.0	414.0	N/A	190.0	N/A
Imports	(million prs.)	(million dollars)	(million dollars)	(million dollars)	(million dollars)	(thousand dz. prs.)
1967	129.1	N/A	N/A	44.9	N/A	N/A
1972	296.7	41.0	18.3	86.9	91.8	1,253
1977	368.1	118.0	44.0	207.1	204.1	2,090
1982	479.5	334.8	87.5	409.6	252.0	3,114
1983	581.7	399.9	105.2	476.1	271.6	3,279
1984	725.7	549.2	133.6	576.6	381.3	4,883
Import Penetration* (percent)						
1967	18	N/A	N/A	29	N/A	N/A
1972	36	12	7	43	31	23
1977	47	18	11	63	50	37
1982	58	34	19	84	56	57
1983	63	50(E)*	35(E)*	85(E)	56	60
1984 (P)	71	56(E)*	35(E)*	85(E)	67	N/A

* For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, 1983 and 1984 import penetration has been estimated to reflect estimated penetrations in terms of units.

(E) -- Estimated.
(P) -- Preliminary.
N/A -- Not available, or not applicable.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce, International Trade Commission and Bureau of Labor Statistics data.

The CHAIRMAN. Mr. Eisen.

STATEMENT OF ROBERT F. EISEN, CHAIRMAN, GREENWOOD MILLS MARKETING CO., NEW YORK, ON BEHALF OF THE AMERICAN FIBER/TEXTILE/APPAREL COALITION [AFTAC]

Mr. EISEN. Good morning, Mr. Chairman and members of the committee. My name is Robert Eisen. I am chairman of the Marketing Division of Greenwood Mills, Inc., a textile manufacturer employing over 6,000 workers in South Carolina. My statement is on behalf of the American Fiber, Textile, and Apparel Coalition, a group of 21 associations and unions representing most of the U.S. complex of the fiber, textile, and apparel industry. These industries have been severely impacted by imports. We are, frankly, at the breaking point. Any further increase in imports is going to be directly translated into a loss of jobs here in America. We listened with a great deal of interest to Senator Mitchell's comments this morning, and we too are sincerely concerned at Ambassador Brock's office.

In his letter of September 20 to the Senator, he clearly stated that apparel and textiles were sensitive products and that the cut in the tariff would be phased in over a multiyear period. We believe that this commitment was clarified by Ambassador Brock as meaning over a 10-year period. Frankly, we are astounded that the proposed agreement grants Israel immediate Stage 1 duty-free cuts on 48 percent of the textile and apparel exports to the United States. We just don't understand how you can grant immediate cuts when that is supposed to be a multiyear period. We also brought up the question of their use of stale data. At the preliminary hearing, we got a very lukewarm response from Ambassador Brock's staff that they would take this into account. The question of subsidies, I think, likewise is extremely disturbing to us. The letter that Senator Mitchell received stated that they would phase them out in a relatively short period of time. Then the proposed agreement comes out, and one-third of the products there are going to be phased out in 6 years. And on top of that, Ambassador Brock is putting in an injury test. We think this really goes contrary to Congress' intent in the trade laws. Further, we listened with interest on the questions and answers on the rules of origin. There is more to it than has been brought out this morning. Israel has a trade agreement with the European Community. In the European Community, they have a double transformation requirement on textile and apparel products. If we ship cloth to Israel and it is made into a jacket or a garment, and that garment is shipped into the European Community, the rules of origin of the European Community govern. It would not be an Israeli garment and could not enter duty free. This proposed agreement should have a reciprocal arrangement in it so that textile products from the EC into Israel face the same requirements before becoming a product of Israel and gaining duty-free entry into the United States as our shipments to Israel face before entering the European Community. We think that is only fair. Likewise, I think we are concerned about the Berry amendment. We keep hearing these assurances. I would

say this is the third time we have heard it, but I guess we would like to see it in writing. That concludes my comments.

The CHAIRMAN. Thank you, sir, very much. Mr. Trott?

[Mr. Eisen's prepared statement follows:]

STATEMENT OF
ROBERT F. EISEN
on behalf of
AMERICAN FIBER, TEXTILE, APPAREL COALITION
to the
COMMITTEE ON FINANCE
UNITED STATES SENATE
on the
PROPOSED U.S. -ISRAEL FREE TRADE AREA AGREEMENT
March 20, 1985

My name is Robert F. Eisen. I reside in Garden City, New York. I am Chairman of the Marketing Division of Greenwood Mills, Inc., a textile manufacturer employing over 6,000 workers in its plants in South Carolina. My statement is on behalf of the American Fiber, Textile and Apparel Coalition, a group of 21 associations and unions representing most of the U.S. complex of the fiber, textile and apparel industry. Those organizations are listed at the last page of my statement. I would ask that this list be made part of the record.

The U.S. fiber, textile and apparel industries have been severely impacted by the sharp increase in imports in 1984 which reached an all-time record level of 9.8 billion square yard equivalent, up 32% from the 1983 previous record level of 7.4 billion square yard equivalent. The 1984 textile and apparel trade deficit also hit a record level of $16 billion, a 53% increase over 1983's previous record of $10.5 billion. The 1984 textile and apparel trade deficit is 13 percent of the nation's total merchandise trade deficit for the year.

The record level of 9.8 billion square yards of imports in 1984 is equivalent to one million American jobs. Each month more plants are closing or cutting back and more jobs are lost. If employed, these Americans would be contributing to the nation's economic growth and helping to reduce the budget deficit.

When the agreement with Israel was first proposed, because of their import sensitive nature, a request was made for textiles and apparel to be exempt as exists under the Caribbean Basin Initiative and the Generalized System of Preferences. The Administration and Israel insisted on no exclusions. To calm the fears of members of Congress, U.S. Trade Negotiator William Brock in his letter of September 20, 1984 to Senator Mitchell stated:

"The Administration asked the International Trade Commission for economic advice on the effect of entering into such an agreement. Textiles, apparel, footwear and other leather related products are among the most import sensitive American industries. This sensitivity will be taken into account in the negotiations with the Government of Israel. It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products over a multi-year period and more gradually than in regard to other products."

Verbally this commitment was clarified as meaning over a ten year period.

The proposed agreement grants Israel <u>immediate</u> duty free treatment on 48 percent of their textile and apparel exports to the United States. This is completely contrary to the written statement made to Senator Mitchell. Although we think there should be no duty reductions, to be consistent with Ambassador Brock's commitment to the Congress, any tariff reductions on textiles and apparel, because they are import sensitive, should be <u>staged over a ten year period</u>. This recognizes the import sensitivity of certain textile and apparel products and is consistent with exemptions from duty cuts granted during the Multilateral Trade Negotiations.

Moreover, we are astounded at some of the tariff cuts in the U.S. offer. For example, the U.S. has proposed immediate duty free treatment on bedsheets, pillowcases, bathing suits, underwear, and hosiery, which products are already impacted by imports.

The proposed agreement is also flawed in that the U.S. textile/apparel industry is disadvantaged with respect to rules of origin. In the EC's free trade arrangement with Israel, special rules of origin have been established which make it difficult, if not impossible, for U.S. companies to participate in that trade. The EC requires textile products to undergo a "double trarsformation" in Israel before those goods can enter the EC duty-free. This means that a U.S. textile mill cannot ship fabric to Israel to be made up into garments and gain entry to the EC as a product of Israel. We are required to ship yarns which must be woven into cloth and then cut and sewn into garments. This is a major non-tariff barrier to our exports, yet there is no reciprocal provision in the U.S. agreement with Israel.

Although export subsidies are illegal in international trade, Israel grants such subsidies. Under our trade laws if a country is not a signatory of the GATT subsidies code, and Israel is not, and if they are charged in a countervailing duty action with granting illegal subsidies, it is <u>not</u> necessary to prove injury or threat thereof. However, Ambassador Brock is proposing that Israel receive the benefit of an injury test before a countervailing duty could be imposed by the United States. We believe this is contrary to Congress's intent in writing the trade law.

With further reference to Israel's export subsidies, Ambassador Brock in his letter to Senator Mitchell stated:

"commitment to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by the Administration as a precondition to the conclusion of a Free Trade Area Agreement."

Notwithstanding this statement Ambassador Brock in the proposed agreement permits Israel to maintain certain export subsidies for six years. This is unacceptable. Illegal export subsidies should be eliminated immediately.

Finally, the agreement provides for a waiver of "Buy American" restrictions for goods covered by the GATT Government Procurement Code. Textiles and apparel are not subject to these code provisions because of a U.S. statute, The Berry Amendment, which limits participation by non-U.S. suppliers. However, Section 6 of the proposed agreement authorizes the President to waive the application of any law regarding government procurement that would result in less favorable treatment for Israel than for U.S. producers. We believe that this language exceeds the agreement's intent.

Greenwood Mills, Inc. is a privately owned company. In the period from 1981 through 1983 we spent over $160 million in modernizing and refurbishing our plants to protect our share of market and the jobs of our employees. Much to our discomfort within the past several weeks we were forced to terminate 400

employees because of the severe impact of imports. Most of them worked in plants equipped with "state of the art" machinery. It is difficult for management to explain to employees who are being terminated why our government can not control the tremendous surge of imports. If textile and apparel imports are permitted to enter immediately duty free from Israel, it will add to our industry's burden. Because of the enormous pressure from imports, any further erosion in our market will be directly translated into the loss of additional jobs of American citizens.

The American Fabric, Textile, Apparel Coalition requests the Committee on Finance to vigorously urge the Administration to modify the proposed agreement by:

1) staging any tariff reductions on textiles and apparel over a ten year period.

2) having Israel immediately eliminatc export subsidies.

3) only grant Israel the benefit of the injury test in a countervailing duty action after they become a signatory of the GATT subsidies code.

4) establishing a reciprocal arrangement so that textile products from the EC into Israel face the same requirements before becoming a product of Israel and gaining duty free entry into the U.S. as our shipments to Israel face before entering the EC.

MEMBERS OF AMERICAN FIBER/TEXTILE/APPAREL COALITION

Amalgamated Clothing & Textile Workers Union

American Apparel Manufacturers Association

American Textile Manufacturers Institute

American Yarn Spinners Association

Carpet and Rug Institute

Clothing Manufacturers Association of America

Industrial Fabrics Association International

International Ladies Garment Workers Union

Knitted Textile Association

Luggage and Leather Goods Manufacturers of America

Man-Made Fiber Producers Association

National Association of Hosiery Manufacturers

National Association of Uniform Manufacturers

National Cotton Council

National Knitwear Manufacturers Association

National Knitwear & Sportswear Association

National Wool Growers Association

Neckwear Association of America

Northern Textile Association

Textile Distributors Association

Work Glove Manufacturers Association

STATEMENT OF SABERT S. TROTT II, SENIOR VICE PRESIDENT, CANNON MILLS, KANNAPOLIS, NC, ON BEHALF OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC., WASHINGTON, DC

Mr. TROTT. Mr. Chairman, thank you for inviting me today. My name is Sabert S. Trott II, and I am senior vice president of Cannon Mills Co., the leading manufacturer of bed and bath products employing approximately 20,000 people in the Carolinas and Georgia. My areas of responsibility are market research, forecasting, and strategic planning. I will be briefly addressing the principal points previously outlined in the previously delivered written statements on behalf of Cannon Miils and the American Textile Manufacturers Institute. The first goal that we would like to see achieved is the complete elimination of textiles from the free trade agreement because of the severe impact on the domestic industry. Since 1981 approximately 175 plants have closed and about 30,000 jobs have been lost in the two Carolinas due to imports. Textiles were excluded under the Caribbean Basin Initiative and we see no reason why they shouldn't be excluded under the United States-Israel Free Trade Agreement. Domestic producers have recognized early on the threat of imports and have spent many millions of dollars on state-of-the-art equipment to lower costs and become more efficient in a basically overproduced industry. Domestic consumption of textile products is not growing, yet imports are pouring into the country over and above quotas and normal growth rates. This has displaced jobs and companies.

In the area of bed and bath products, sheet imports in 1984 amounted to approximately $60 million or about 5 percent of the total market. This also represented a 138-percent increase over the level in 1983. In bath products the imports amounted to about $170 million, or 14 percent of the total market, and amounted to a 46.5 percent increase over 1983. I hope you understand the problem and that you will support the legislation introduced yesterday by Senator Thurmond and Congressman Jenkins concerning control of imports. Realizing that this may not be totally possible, our secondary goal is to see if you can help include in the agreement some of the following modifications. One, a specific requirement that the ordinary U.S. rules of origin and the U.S. textile rules of origin will apply in determining appropriate products of Israel covered by the agreement. Also provide the Customs Department with the personnel and tools to enforce compliance. In addition, we would like to change all duty reduction periods to 10 years rather than some being zero and some being four years as they are now set up. Finally, the agreement calls for immediate reduction of duties to zero on nonornamented sheets and pillowcases. This is absurd because sheet imports from Israel have increased from zero in 1982 to $900,000 in 1983, and to $5.3 million in 1984, with projections of fivefold increases in the near future. With a duty-free status imports of $20 to $25 million in sheets alone would command about a 2 percent market share in an already overproduced market. We would like to see the current duties phased out over 10 years and not 4 years or zero years. Thank you for your attention.

[Mr. Trott's prepared statement follows:]

STATEMENT OF SABERT S. TROTT, II
ON BEHALF OF
CANNON MILLS COMPANY
AND
THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE
BEFORE THE U. S. SENATE FINANCE COMMITTEE
IN RE: U.S.-ISRAEL FREE TRADE AREA AGREEMENT
March 20, 1985

SUMMARY OF PRINCIPAL POINTS

- TEXTILE JOBS LOST AND PLANT CLOSINGS IN NORTH AND SOUTH CAROLINA DUE TO IMPORTS SINCE 1981 APPROXIMATE 175 PLANTS AND ABOUT 30,000 JOBS.

- DOMESTIC INDUSTRY HAS SPENT SIGNIFICANT DOLLARS TO IMPROVE EFFICIENCY AND PRODUCTIVITY OVER THE PAST SEVERAL YEARS.

- EXCLUDE TEXTILES FROM ISRAEL FREE TRADE AGREEMENT AS DONE IN THE CARIBBEAN BASIN INITIATIVE. RETAIN OR ESTABLISH REASONABLE DUTY RATES FOR TEXTILE PRODUCTS.

- COUNTRY OF ORIGIN COMPLIANCE AND MONITORING TO PREVENT ILLEGAL IMPORTATION OF TEXTILE PRODUCTS AT 0 OR REDUCED DUTY RATES APPLICABLE. NORMAL COUNTRY OF ORIGIN RULES AND SPECIFICALLY THE TEXTILES RULES OF ORIGIN SHOULD APPLY TO GOODS ENTERING THE U.S. UNDER THIS AGREEMENT.

- PARTICULAR EMPHASIS ON PROBLEM OF IMMEDIATE 0 DUTY FOR NON-ORNAMENTED SHEETS AND PILLOWCASES. SHOULD BE PHASED OUT OVER 4 OR 10 YEARS. SEE CHARTS ON IMPORT GROWTH. BEDDING AND BATH IMPORT GROWTH RATES ARE SEVERELY IMPACTING AN ALREADY OVERPRODUCED VERY EFFICIENT DOMESTIC INDUSTRY.

- IMPORT GROWTH TO $60 MILLION IN SHEETS AND PILLOWCASES OR A 138% INCREASE OVER 1983.

- IMPORT GROWTH OF BATH PRODUCTS TO $170 MILLION OR A 46% INCREASE OVER 1983.

47-668 O—85——4

GOOD MORNING. MY NAME IS SABERT S. TROTT, II, AND I AM A SENIOR VICE PRESIDENT OF CANNON MILLS COMPANY, A LEADING DOMESTIC MANUFACTURER OF BED AND BATH TEXTILE PRODUCTS. CANNON CURRENTLY EMPLOYS ABOUT 20,000 PEOPLE, ALTHOUGH IF THE FLOOD OF TEXTILE IMPORTS IS NOT ABATED SOON, THAT NUMBER MAY BE REDUCED SUBSTANTIALLY IN THE NEAR FUTURE. I AM ALSO APPEARING ON BEHALF OF THE AMERICAN TEXTILE MANUFACTURERS ASSOCIATION (ATMI), THE MAJOR TRADE ASSOCIATION OF DOMESTIC TEXTILE MANUFACTURERS, OF WHICH CANNON HAS BEEN A MEMBER FOR A NUMBER OF YEARS.

MY PRINCIPAL AREAS OF RESPONSIBILITY AT CANNON ARE MARKET RESEARCH, FORECASTING AND STRATEGIC PLANNING. MY JOB IS TO ATTEMPT TO ANTICIPATE MARKET DEVELOPMENTS AND TO ADVISE THE COMPANY ON APPROPRIATE ACTION TO ADDRESS EXPECTED MARKET CHANGES. THE JOB NECESSARILY INVOLVES KEEPING ABREAST OF GOVERNMENTAL ACTIONS WHICH MIGHT AFFECT CANNON'S BUSINESS AS WELL AS MONITORING THE EVER-INCREASING IMPORTS OF COMPETING PRODUCTS. THE PROPOSED FREE TRADE AGREEMENT WITH ISRAEL TOUCHES ON BOTH OF THESE CONCERNS, INVOLVING AS IT DOES, GOVERNMENTAL ACTION WHICH WILL SIGNIFICANTLY EXACERBATE THE PROBLEM OF IMPORTS OF TEXTILE PRODUCTS TO THE CLEAR AND IMMEDIATE DISADVANTAGE OF DOMESTIC PRODUCERS AND THEIR EMPLOYEES.

FRANKLY, WE DO NOT UNDERSTAND WHY THIS FREE TRADE AGREEMENT IS BEING ADOPTED ESPECIALLY IN THE FACE OF THE SERIOUS COMPETITIVE THREAT IMPORTS ALREADY POSE TO THE DOMESTIC TEXTILE INDUSTRY. IN THE CAROLINAS, WHERE CANNON IS BASED AND WHERE DOMESTIC TEXTILE PRODUCTION IS CENTERED, ARTICLES APPEAR DAILY DETAILING PLANT

CLOSINGS AND JOBS LOST DUE TO THE INCREASING VOLUMES OF IMPORTED GOODS WHICH ARE INUNDATING OUR MARKETS. SINCE 1981, APPROXIMATELY 30,000 JOBS HAVE BEEN LOST AND 175 PLANTS HAVE BEEN CLOSED IN NORTH AND SOUTH CAROLINA ALONE DUE PRIMARILY TO THE FLOOD OF IMPORTS. SIGNIFICANT EFFORTS TO IMPROVE EFFICIENCIES AND PRODUCTIVITY THROUGH CAPITAL INVESTMENT BY CANNON AND OTHER PRODUCERS HAVE NOT BEEN AND ARE NOT LIKELY TO BE ABLE TO OVERCOME THE ADVANTAGES ENJOYED BY THESE SUBSIDIZED IMPORTS FROM LOW-WAGE COUNTRIES.

THE INACTION OF THE FEDERAL GOVERNMENT IN ADDRESSING THE TEXTILE IMPORT PROBLEM IS DIFFICULT ENOUGH TO UNDERSTAND; WHAT WE FIND IMPOSSIBLE TO UNDERSTAND, HOWEVER, IS THE DIRECT AND CONSCIOUS PARTICIPATION BY THE GOVERNMENT IN ACTIONS, SUCH AS THE NEGOTIATION OF THE FTA WITH ISRAEL, WHICH WILL SIGNIFICANTLY INCREASE THE IMPORT PROBLEM. IF THE GOVERNMENT INSISTS ON REFUSING TO COME TO THE AID OF DOMESTIC TEXTILE PRODUCERS, THE LEAST WE SHOULD BE ABLE TO EXPECT IS THAT IT AVOID DIRECT ACTION WHICH ADDS TO THE PROBLEM.

BECAUSE THE FTA WITH ISRAEL HURTS RATHER THAN HELPS THE AMERICAN TEXTILE INDUSTRY, WE ARE STRONGLY OPPOSED TO THE INCLUSION OF TEXTILES WITHIN THE COVERAGE OF THE AGREEMENT. AS WE HAVE REPEATEDLY STATED, TEXTILE PRODUCTS ARE EXTREMELY IMPORT SENSITIVE AND, WE BELIEVE, SHOULD HAVE BEEN EXCLUDED FROM THE FTA WITH ISRAEL AS THEY WERE FROM THE CARIBBEAN BASIN INITIATIVE ("CBI"). AS WE WERE WITH THE CBI, WE ARE TROUBLED BY THE POSSIBLE TRANSHIPMENT PROBLEMS THE ISRAELI FTA RAISES. RECENT EFFORTS

TO REDUCE THE STRENGTH OF THE U.S. CUSTOMS SERVICE ONLY ADD TO THIS CONCERN. CLEARLY, BOTH THE U.S. AND ISRAEL HAVE INADEQUATE RESOURCES TO POLICE THE COUNTRY OF ORIGIN PROVISIONS OF THE AGREEMENT. THUS, WE CAN EXPECT THAT LARGE VOLUMES OF NON-ISRAELI TEXTILES WILL SLIP INTO THIS COUNTRY ILLEGALLY UNDER THE DUTY EXEMPTION PROVISION. DOMESTIC MANUFACTURERS MUST, THEREFORE, WORRY NOT ONLY ABOUT SUBSTANTIAL VOLUMES OF LEGITIMATE ISRAELI GOODS ENTERING THE U.S. UNDER THE AGREEMENT BUT ALSO ABOUT SIGNIFICANT VOLUMES OF TEXTILE PRODUCTS FROM OTHER LOW-WAGE AREAS WHICH WILL BE SHIPPED THROUGH ISRAEL, DENOMINATED AS ISRAELI GOODS, AND BROUGHT INTO THE U.S. DUTY FREE AND IN AVOIDANCE OF OTHERWISE APPLICABLE QUOTAS.

POTENTIAL TRANSSHIPMENT PROBLEMS ARE ALSO RAISED BY THE LACK OF CLARITY IN THE AGREEMENT AS TO THE RULES OF ORIGIN TO BE APPLIED IN DETERMINING WHAT CONSTITUTES A "PRODUCT OF ISRAEL. WE UNDERSTAND THAT BOTH ISRAEL AND THE U.S. INTEND FOR THE ORDINARY U.S. RULES OF ORIGIN, PARTICULARLY THE TEXTILE RULES OF ORIGIN, TO APPLY. HOWEVER, THE AGREEMENT DOES NOT SPECIFICALLY REQUIRE THESE RULES TO BE APPLIED. TO MINIMIZE THE NUMBER OF DISPUTES WHICH ARE SURE TO BE RAISED ABOUT THE PROPER ORIGIN OF PRODUCTS ENTERING UNDER THIS AGREEMENT, WE BELIEVE THAT THE AGREEMENT SHOULD CONTAIN A SPECIFIC REQUIREMENT THAT THE ORDINARY U.S. RULES OF ORIGIN AND THE U.S. TEXTILE RULES OF ORIGIN WILL APPLY IN DETERMINING APPROPRIATE "PRODUCTS OF ISRAEL" COVERED BY THE AGREEMENT.

ALTHOUGH WE WOULD CLEARLY PREFER THE AGREEMENT TO BE RENEGOTIATED TO EXCLUDE TEXTILES, WE ARE REALISTIC ENOUGH TO ACCEPT

THE FACT THAT, GIVEN THE POLITICAL CONTEXT, A SIGNIFICANT MODIFICATION SUCH AS THIS IS NOT POSSIBLE AT THIS STAGE. HOWEVER, RECOGNIZING THAT SUCH PROTECTION IS NOT POSSIBLE NOW, WE BELIEVE THAT, AT THE LEAST, DUTY EXEMPTIONS ON ALL TEXTILE GOODS SHOULD BE PHASED IN OVER A REASONABLE PERIOD OF TIME TO PERMIT DOMESTIC PRODUCERS SUFFICIENT TIME TO ADJUST AND PLAN FOR THE DRAMATIC MARKET CHANGES SUCH DUTY EXEMPTIONS WILL UNDOUBTEDLY CAUSE. WE ARE PARTICULARLY CONCERNED ABOUT THE PROVISIONS OF THE AGREEMENT CALLING FOR THE IMMEDIATE ELIMINATION OF DUTIES ON REGULAR, NON-ORNAMENTED SHEETS AND PILLOWCASES FROM ISRAEL.* WE STRONGLY URGE THAT DUTIES ON THESE ITEMS BE PHASED OUT OVER THE MAXIMUM PERIOD PERMITTED UNDER THE AGREEMENT.

THE U.S. MARKET FOR BED AND BATH PRODUCTS HAS BEEN SEVERELY IMPACTED BY IMPORTS. THE TOTAL VALUE OF IMPORTS OF SHEETS AND PILLOWCASES IN 1984 HAS BEEN ESTIMATED TO BE $60 MILLION, A 138% INCREASE OVER 1983 IMPORTS OF $25.2 MILLION. THE 1984 VALUE OF IMPORTS OF TOWELS AND WASHCLOTHS IS $170 MILLION, A 46.5% INCREASE OVER 1983 IMPORTS OF $116 MILLION. MORE RELEVANT TO OUR DISCUSSION TODAY, HOWEVER, IS THE FACT THAT THE VALUE OF SHEETS AND PILLOWCASES BEING IMPORTED FROM ISRAEL HAS INCREASED BY 488% SINCE 1983. IN FACT, BASED ON GOVERNMENT CENSUS DATA, ISRAELI IMPORTS INCREASED

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* TSUSA ITEM NUMBERS 3633010, 3633020, 3633030, 3633040, 3638515 AND 3638525.

FROM ZERO IN 1982 TO $5.3 MILLION IN 1984. ISRAELI IMPORTS OF TOWELS AND WASHCLOTHS HAVE ALSO SHOWN DRAMATIC INCREASES RECENTLY. IN 1982, ISRAEL IMPORTED APPROXIMATELY $600,000 WORTH OF THESE GOODS. BY 1984, THESE IMPORTS HAD INCREASED TO A VALUE OF $4.1 MILLION, REPRESENTING AN INCREASE OF 583%. WE ANTICIPATE NO REVERSAL OF THESE TRENDS; INDEED, TO THE CONTRARY, WE CAN ONLY EXPECT THE INCREASE IN VOLUME OF ISRAELI IMPORTS TO ESCALATE EVEN MORE DRAMATICALLY ONCE THE AGREEMENT IS IN PLACE. THE ISRAELIS HAVE BEEN QUOTED AS SAYING THAT THEIR EXPORTS TO THE U.S. WILL INCREASE FIVE FOLD UNDER THE AGREEMENT SINCE THEY ALREADY HAVE SIGNIFICANT MANUFACTURING CAPACITY AND PLAN TO ADD MORE. AN IMMEDIATE ELIMINATION OF DUTIES ON SHEETS AND PILLOWCASES CAN ONLY BE EXPECTED TO ENCOURAGE ISRAELI PRODUCERS TO FOCUS THEIR EXPORT EFFORTS ON THESE ITEMS SINCE IT WILL CLEARLY BE TO THEIR ADVANTAGE TO DO SO. THE ONLY BENEFICIARIES OF SUCH A PRECIPITOUS ELIMINATION OF DUTIES WOULD BE ISRAELI PRODUCERS AND EMPLOYEES AND THAT BENEFIT WILL CERTAINLY COME AT THE EXPENSE OF AMERICAN MANUFACTURERS AND WORKERS.

WE KNOW OF NO RATIONAL REASON WHY NON-ORNAMENTED SHEETS AND PILLOWCASES, CLEARLY IMPORT-SENSITIVE ITEMS, SHOULD BE TREATED ANY DIFFERENTLY THAN OTHER TEXTILE ITEMS OF CONCERN TO US ON WHICH DUTIES ARE TO BE PHASED OUT UNDER THE AGREEMENT. IT IS POSSIBLE THAT AMBASSADOR BROCK AND HIS STAFF HAVE ERRONEOUSLY CONCLUDED THAT NO HARM WOULD BE CAUSED BY THIS IMMEDIATE DUTY ELIMINATION BECAUSE, ACCORDING TO 1982 CENSUS DATA UPON WHICH THEY APPARENTLY RELIED, ISRAELI IMPORTS OF THESE PRODUCTS ARE INSIGNIFICANT.

THE MORE RECENT DATA I HAVE ALREADY CITED, HOWEVER, INDICATE THAT SHEETS AND PILLOWCASES ARE BEING IMPORTED FROM ISRAEL IN RAPIDLY ADVANCING VOLUMES, ALREADY POSING A SERIOUS THREAT TO DOMESTIC MANUFACTURERS AND WORKERS EVEN WITHOUT THE AGREEMENT.

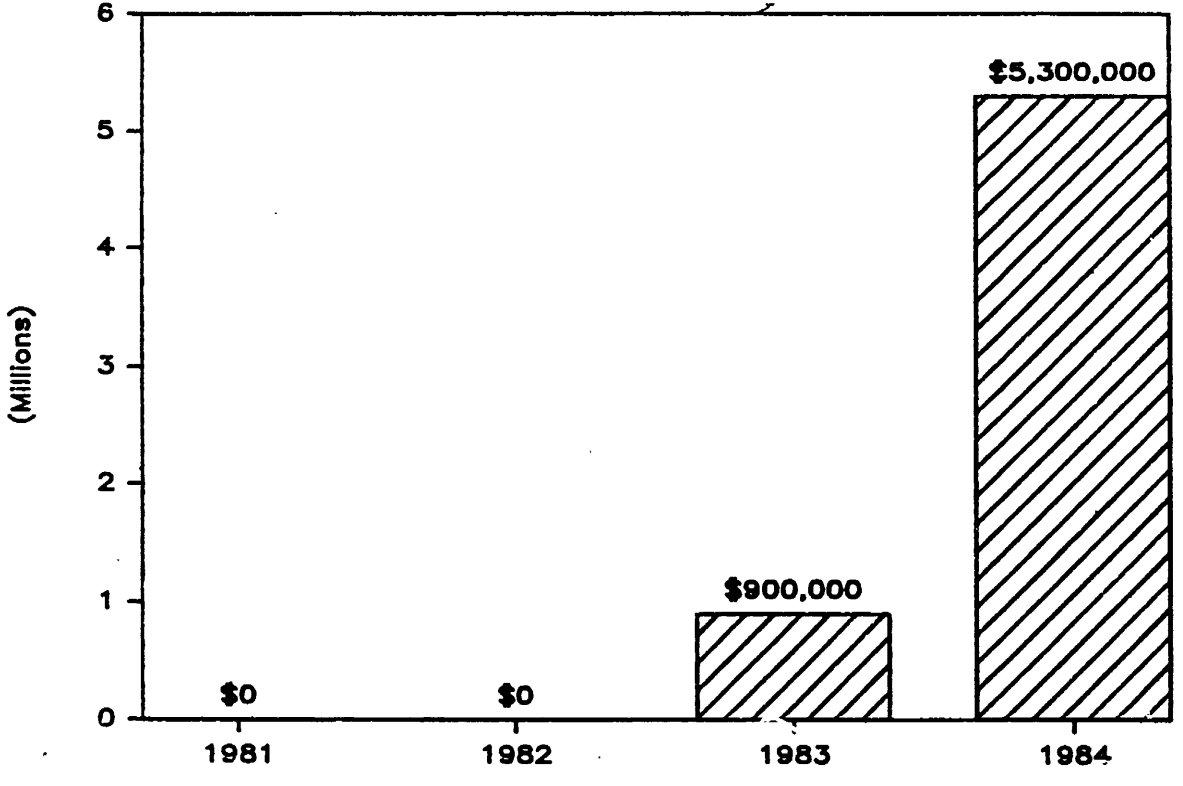
WE THEREFORE, RESPECTFULLY REQUEST THAT THE OFFICE OF THE U.S. TRADE REPRESENTATIVE BE DIRECTED BY THIS COMMITTEE TO RENEGOTIATE THE PROPOSED AGREEMENT TO REQUIRE THE PHASE-OUT OF DUTIES ON NON-ORNAMENTED SHEETS AND PILLOWCASES OVER THE MAXIMUM PERMITTED PERIOD. ONLY WITH SUCH A PHASED ELIMINATION OF DUTIES WILL DOMESTIC PRODUCERS HAVE ADEQUATE TIME TO ADJUST IN AN ORDERLY MANNER TO THE MARKET DISRUPTION WHICH THE ELIMINATION OF DUTIES WILL SURELY CAUSE. THE ADDITIONAL TIME WILL ALSO PERMIT ENFORCEMENT AUTHORITIES TO DEVELOP ADEQUATE POLICING MECHANISMS TO PREVENT EVASION OF COUNTRY OF ORIGIN RULES AND QUOTAS.

MOST IMPORTANTLY, THE DOMESTIC TEXTILE INDUSTRY IS ALREADY BEING SEVERELY BATTERED BY IMPORTS. PLANTS ARE BEING CLOSED, JOBS ARE BEING LOST AND GREAT NUMBERS OF PEOPLE ARE SUFFERING BECAUSE THERE ARE FEW READILY AVAILABLE ALTERNATIVE JOB OPPORTUNITIES. THERE IS NO NEED TO ADD INSULT TO INJURY BY ACTIVELY ENCOURAGING FURTHER IMPORTS WHILE, AT THE SAME TIME, PROVIDING INSUFFICIENT TIME FOR DOMESTIC PRODUCERS TO ADJUST TO CHANGING COMPETITIVE CONDITIONS. WE MUST, IN FAIRNESS, BE GIVEN THE OPPORTUNITY TO TAKE ACTION TO PROTECT OUR INVESTMENTS AND THE JOBS OF OUR EMPLOYEES. WE HOPE YOU WILL AGREE THAT THESE INVESTMENTS AND JOBS ARE WORTH PRESERVING.

THANK YOU FOR YOUR ATTENTION.

Israeli Sheet & Pillowcase Imports

1981 – 1984

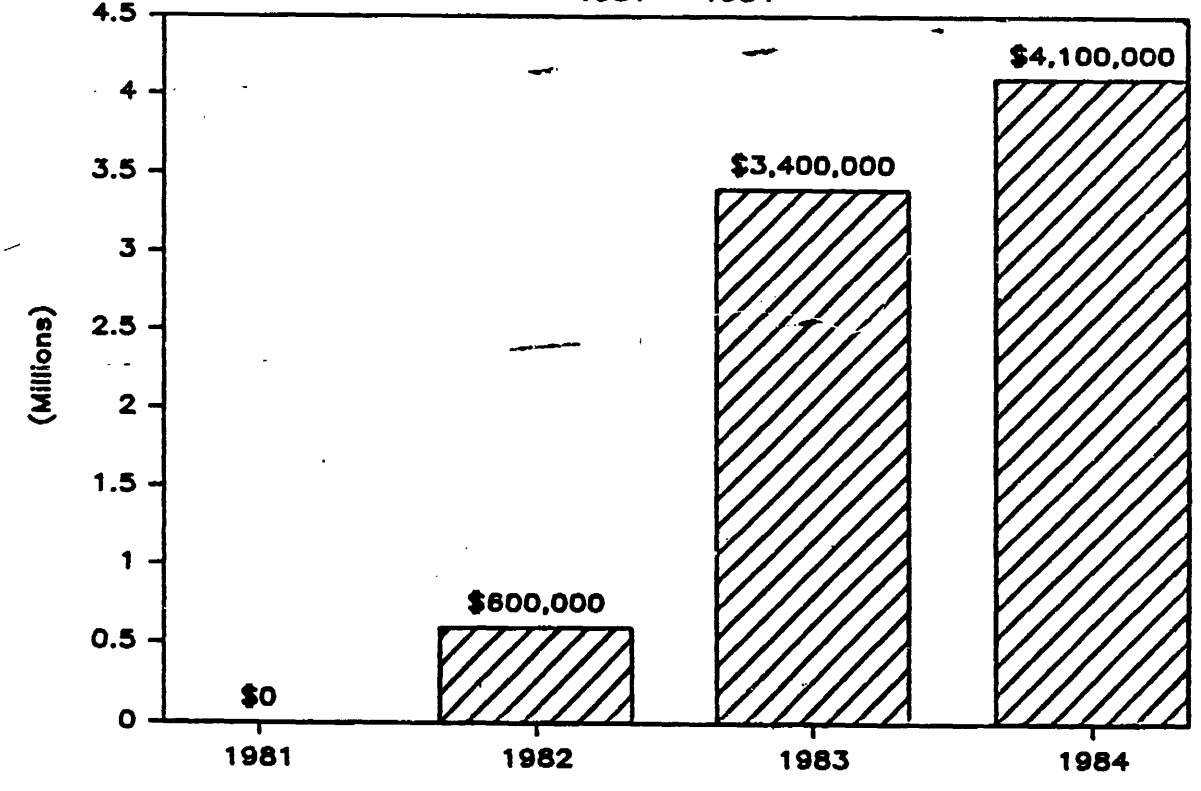


SOURCE: U.S. International Trade Commission, from U.S. Customs report.

Exhibit A
Statement of Sabert
S. Trott, II

Israeli Towel Imports

1981 – 1984



SOURCE: U.S. International Trade Commission, from U.S. Customs report.

Exhibit B
Statement of Sabert
S. Trott, II

The CHAIRMAN. Let me ask each of you a question. Are you all saying at the moment that whatever the penetration of Israeli products may be in your particular industries—and you, Mr. Trott, indicate they are somewhat higher than I might have realized—whether or not they are high now, they are going to be under this agreement. Is that a fair statement?

Mr. TROTT. Yes; they will be.

Mr. NEHMER. Mr. Chairman, the Israelis wanted the 6-percent duty on leather wearing apparel to go to zero. The 8- or 9-percent duty on leather handbags to go to zero. It would not appear to be a very large duty. That does make quite a difference, particularly in some of the higher priced products. In terms of what that gets translated to at retail, when that is added on, you could certainly expect increased exports.

The CHAIRMAN. Mr. Trott.

Mr. TROTT. Would you repeat the question?

The CHAIRMAN. Yes. Even though Israeli products are not an overwhelming part of the penetration of our market at the moment, whether it is textiles or otherwise, you are expecting that this agreement—if signed and if it goes into effect—that they will be a significantly increasing part of the penetration.

Mr. TROTT. That is correct, and as we mentioned, some people have stated that they feel it will amount to a fivefold increase. And as we have also mentioned, the U.S. industry right now consumes—the level of consumption has stayed stable over a number of years.

The CHAIRMAN. Would quotas under the Multifiber Arrangement be sufficient to control Israel textile and apparel imports?

Mr. TROTT. If they were enforced properly.

Mr. NEHMER. There are no quotas, sir. There is no agreement with Israel.

Mr. TROTT. That is right.

Mr. NEHMER. On textiles and apparel.

The CHAIRMAN. I understand that.

Mr. NEHMER. The possibility that this administration would negotiate is slim.

The CHAIRMAN. Mr. Trott, let me ask you the same question I asked Ms. Cooper. Can textiles compete—assuming a level playing field—can they compete in the United States market or worldwide on a free-trade basis, given a level playing field. I don't mean a level playing field that everybody pays the same wages.

Mr. TROTT. I think they could compete as long as they don't have to worry about subsidies and other matters like that, and restrictions.

The CHAIRMAN. So, you can compete—forgetting Israel for the moment, where the wages are slightly higher—you can compete against Hong Kong or Singapore in textiles so long as there is no government subsidy, despite the tremendous wage differential.

Mr. TROTT. We have been able to compete. Of course, the strong dollar recently has limited that.

The CHAIRMAN. But when I define level playing field, that is one of the things that makes it unlevel.

Mr. TROTT. Right.

The CHAIRMAN. That is not your fault—that is our fault, but I want to make sure that your plea is not for protection in the sense that we can't compete no matter that it is level, that your plea is that there are unfair subsidies, unfair government nurturing, and given that you cannot compete, but without that you can.

Mr. TROTT. That is correct.

The CHAIRMAN. In the United States, you can compete against foreign-produced goods in this market?

Mr. TROTT. That is right.

The CHAIRMAN. Can you compete in other markets around the world?

Mr. TROTT. Yes, particularly on higher fashion items and with the "Made in U.S.A." approach. Some countries would like to have goods made in the U.S.A.

The CHAIRMAN. Mr. Nehmer, what about you—same answer or not?

Mr. NEHMER. Yes, Mr. Chairman. Of course, it is a very theoretical question. We don't have that level playing field today, and I have to say the way policies seem to be developed, I don't foresee a level playing field, but if it were theoretically, yes. The footwear industry, for example, is investing with great difficulty in high technology applications that do lower the costs for production. Yes; I would say that these leather industries could compete, but theoretically now, because we don't have a level playing field—if there were a level playing field.

The CHAIRMAN. But in theory you are going to have that situation with Israel at the end of 6 years, or at the end of 1995 at the latest.

Mr. NEHMER. I am not from Missouri, but I remain to be convinced that Israel will not go back on its commitments as other governments have with regard to subsidies. So, they want to protect both the infant industries provision or the balance of payments provisions of this agreement, which gives them a very big loophole.

The CHAIRMAN. Mr. Eisen?

Mr. EISEN. The American textile industry, in my opinion, in almost all areas can successfully compete worldwide, and I think our efficiency is such that we can overcome wage differentials. I recognize that that is a big statement, but I firmly believe it. However, when you get over into the area of apparel, there it is a much more labor-intensive product, and we have only a few limited areas in the United States where I think the technology has been developed where you can produce garments in the United States at a cost level that is below the landed costs from the Orient.

The CHAIRMAN. You are saying in the textile industry you can compete even with the tremendous wage differential?

Mr. EISEN. Yes, sir.

The CHAIRMAN. Whereas with apparel, that is another matter and you are not sure you can?

Mr. EISEN. If the illegal subsidies were eliminated, I think we can stand on our feet in the textile industry.

The CHAIRMAN. But not apparel?

Mr. EISEN. No.

The CHAIRMAN. Senator Mitchell?

Senator MITCHELL. Thank you, Mr. Chairman. I would simply point out that the question—the first question was very pertinent about the increases in imports, and it should be noted that the dramatic increases that Mr. Trott identified in certain areas have occurred at a time when there are existing obstacles—tariffs, duties, which are the very subject of this agreement. And if there has been this very significant increase in certain product areas, I think common sense dictates that once those tariffs are removed, that increase will be even more substantial.

The CHAIRMAN. What I am just trying to lay the groundwork for, because this committee is going to have a fair number of hearings on the subject of trade this year, I have had a number of industries come to me and say we simply can no longer compete, even on a fair basis, we cannot compete. And apparently, as Mr. Eisen has indicated, maybe even on apparel, we have reached that place. Then that poses a fundamental question for this committee and this country. Are we going to say that there are certain industries that we must have in this country, and even though there is a level playing field, they cannot compete and therefore we are going to make the playing field unlevel in order to protect those industries? I don't know if we can protect all of the industries in this country against the desire of a particular country to compete in one industry. It is not like we have to face competition from Brazil in everything. We pick out three or four industries—forget the argument of subsidies for the moment—and say here are the ones we are going to concentrate on. Korea concentrates for one thing on shipbuilding, and they have taken almost all of it from Japan, let alone everybody else. I don't know if this country can have a policy that we will protect all industries against all competition, and if not, then which ones do you protect?

Senator MITCHELL. I think that is a very profound and fundamental question, and I am delighted that we are going to move to try to at least explore it. I think one point has to be emphasized, and I hope will be in the course of these hearings, that we can't base a national policy on the status at a particular time. All nations are in a continuum of development. Wage rates, which until very recently appeared to be inexorably increasing in the developing countries, now are not, and in fact are declining in some of the industries, some of the industries we are talking about right here at this very moment. I think what we must do is to attempt—as best we can with the limited ability that human beings have to predict future events—to try to determine whether or not there is in fact a reduction of the enormous gap in wage differentials that has existed. You just pointed out what Korea has done to Japan. In part, that is because of the wage level.

The CHAIRMAN. The wages, right.

Senator MITCHELL. The Japanese are experiencing the same thing that we have over the years—there has been a continuous rise in wage rates. Last week we had two members of the International Trade Commission come to Maine in connection with the 201 current investigation that is underway by that agency. And I stood there while they talked to several employees of the industry and person after person described how his or her wages had decreased over the past couple of years. A fellow with 27 years of experience,

a highly skilled person, used to make $9 an hour and now makes $5.50 an hour. That is not an isolated case in that particular industry. And I think what may be occurring—it is very difficult to tell this and I am certainly not an expert—is that what we always thought was an inexorable rise may in fact have reached some kind of a peak, particularly in view of the recession in this country and in other countries. But I am really pleased, Mr. Chairman, to hear you say that because this is an area of absolutely critical importance and of particular significance in those States in the East, and in my State in particular in which the industries are older, the facilities are older. The threat of imports is not just a threat, it is a reality, and we are suffering just devastating losses. I think, frankly, the consensus will be that we are not prepared to just protect every industry because we saw in the events leading to the great depression that it is a self-defeating effort. Nonetheless, we have to make a much more substantial effort in this country to provide some form of transition. We are the only industrialized country in the Western World that does not have a serious national policy in that area.

The CHAIRMAN. In some cases, it has got to be more than transition. You have got one of the best shipyards in the country, and yet if we didn't mandate that our military ships be built in this country, I am not sure even Bath could compete. We don't have any commercial ships of any consequence built in this country any more. And when you ask yourself the fundamental question: As a great country, do you have to have a shipbuilding and ship repair capacity? I hope the answer is yes, we must have.

Senator MITCHELL. I think we will inevitably conclude that there are certain industries so essential to national survival that, if for no other reason than purely a national security interest, we will have to do something to make certain that they survive, with the capacity to dramatically expand in time of crisis.

Mr. NEHMER. May I suggest that some of the industries that we are representing today fall into that category, Senator.

Senator MITCHELL. Could I ask you one question, Mr. Nehmer? I am not sure this is a factual dispute or simply a misunderstanding on my part. Ms. Cooper dismissed the leather-related products in terms of imports by citing the absolute dollar levels of imports. On the other hand, I understood——

Mr. NEHMER. Excuse me. She cited a 1982 figure and on footwear imports, Israel had more than doubled, I believe, in 1983 and 1984.

Senator MITCHELL. That is right, but I wanted to ask about leather wearing apparel, which I understood to be an area where the ITC found injury unanimously in 1980 and found that imports from Israel were large enough to be a factor in this case.

Mr. NEHMER. Yes, sir; that is correct. That is correct. Israel is not the No. 1 supplier. Korea, Hong Kong, I guess, are the leading suppliers. Israel ships leather wearing apparel that is more competitive in effect pricewise with American-made because it is a higher quality, higher fashion product, more so than in the case of Korea, I think.

Senator MITCHELL. I just wanted to say to you gentlemen the same thing I said to the previous panel so there is no misunderstanding. I support the agreement and the concept of improving

our relations with Israel and taking a step that strengthens our economic and political ties. Necessarily, when you get into these hearings, you focus on the few things that you disagree with, and I am going to try very hard to make changes in those areas with which I disagree but I don't want anybody to think that I am opposed to the concept of the agreement.

Mr. NEHMER. We appreciate that very, very much.

The CHAIRMAN. Mr. Nehmer, you indicated to some of the members of this panel how some of the members that you represent fit into that vital national security category.

Mr. NEHMER. The Quartermaster General found that textiles and shoes—textiles in the broad sense, apparel and so forth—and shoes were next to steel in terms of importance in World War II. Bob, do you want to elaborate on that?

Mr. EISEN. In April of last year, Ambassador Brock made a speech here in Washington before the Economists Club and he stated that every industry in the United States likes to be considered as essential, and he conceded that only textiles and apparel, in his opinion, was in that category.

Senator MITCHELL. An interesting bit of history, Mr. Chairman, is the shoe industry gained its impetus during the Civil War. The large-scale production of footwear for persons engaged in military combat was one of the most significant factors in the development of the footwear industry in this country.

The CHAIRMAN. I wonder if I might just ask a further question. Given leather, textiles, and apparel is vital, what would you think about roses?

Mr. NEHMER. Roses?

The CHAIRMAN. Roses.

Mr. NEHMER. I have no comment on roses.

The CHAIRMAN. Or avocadoes?

Mr. NEHMER. I don't eat any avocadoes, and I don't buy many roses. Sorry, sir. But I can feel for those industries and the jobs of the workers in those industries that would be hurt by this agreement. Jobs is what this whole thing is about, Senator, and you may talk about the Government choosing winners and losers and not protecting certain industries, but I think that unless alternative job opportunities can be found for 2.5 million workers directly employed in the industries that we are representing today, plus something over 1 million other workers who are completely dependent upon these industries, I don't think the Government can afford to adopt a policy that would eliminate or even phase down these particular industries. You can't have 3.5 million people without work in this country. These 2.5 million people represent the largest segment of manufacturing in the United States today. These are not considered sophisticated industries, although they use many, many high-tech applications within them, but manufacturing is the largest chunk of employment in the United States.

The CHAIRMAN. Now, when you say jobs and you expressed sympathy for those in the avocado and the rose industries, are you suggesting that we should protect all jobs against all competition? I mean, is that to be the sine qua non of the policy of this country—a jobs policy no matter what the cost of protection?

Mr. NEHMER. A job here is more important to the economy of this country, to the people of this country, than protecting a job in Hong Kong or in Japan or even in Israel. I am sorry, but that is my attitude.

The CHAIRMAN. In the last 10 years, whereas in the Common Market, employment has stayed steady. They have created no new net jobs in the last 10 years. We have created 19 million new net jobs in the last 10 years. If jobs is the policy, despite what we have been doing on exports or imports, jobs are increasing, and they are not increasing in the Common Market.

Mr. NEHMER. Sir, I think the Bureau of Labor Statistics did a study which showed the people who were laid off over the last several years in steel and textiles, apparel, and so forth, and tried to trace what jobs those who were reemployed went into. Many of the jobs created in the United States have been in service industries, have been in lower paying jobs than the people who have lost jobs in the United States as a result to a large extent of the imports. Job creation is very important. We have found, for example, in Pennsylvania working in footwear factories former steelworkers, now making $6 an hour or $5 and something an hour, as compared to $10 or $11 an hour. That is not helping their purchasing power.

The CHAIRMAN. What you are saying then is not just protected in jobs, but protected in jobs of equivalent pay.

Mr. NEHMER. If at all possible, yes, but certainly at the minimum a job.

The CHAIRMAN. But we created 19 million new jobs. This is net new jobs.

Mr. NEHMER. A person who works in a textile mill or in a shoe factory in a rural part of this country—in the Southeast part of the country—where the next town is 25 or 40 miles away has very limited job opportunities. The alternative job opportunities are quite limited.

The CHAIRMAN. All right. Let me ask you a further question because I think the job argument in terms of unemployment over the next decade is going to be relatively slight, but in the last 20 years—between 1965 and 1985—we have observed an extraordinary number of women enter the labor force who weren't in it before, and I mean coming in in later life, not starting out right out of high school. And we have observed all of the baby boom that was born from 1945 to 1965 when the baby boom stopped. We have had on the average an increase in the labor force between 2.5 and 3 percent. The projections for the next 10 years are an increase in the labor force of between 1.2 and 1.3 percent. So, there is no reason why, over the next decade, unemployment will not get down to as low in this country as economists will say it can get. They used to say 4 percent. I think they now say 6 percent. And people will be moving from job to job, and it will be a buyer's market, but we will still have a great deal of import competition. Given that situation, are you still saying that people in certain jobs should be protected in those jobs or equivalent even if there is a labor shortage in this country?

Mr. NEHMER. Sir, a couple of things. The unemployed shoe worker in Maine does not go to Seattle, WA, to assemble Boeing aircraft. The people in these industries that we are dealing with

are of lesser education perhaps. They may be secondary wage earners. They do not have the mobility to move to other job opportunities elsewhere in the United States, which the macrofigures which you have cited would indicate. Second, the unemployment rates in the textile industry, the apparel industry, footwear industry today are in double digits compared to the overall unemployment rate of 7.2 or 7.3 percent. It is fine in overall broad terms, but in terms of the individual communities and the jobs in these industries, there is real hardship, and it has been going on for some time and it is getting worse.

Senator MITCHELL. Let me just say, Mr. Nehmer. Mr. Chairman, if I might point out, I thought you made a very interesting statement, but it should be clear that we have absorbed them but we have had a dramatic increase in unemployment in this country. In the decade of the 1960's, unemployment in America averaged 4 percent. Full employment was defined as 2 percent. In the decade of the 1970's, unemployment averaged 6 percent. Full employment then became defined as 4 percent. In the decade of the 1980's, we will average probably 8 percent, and full employment as you point out has been defined as 6 percent. What is happening is that we have our economy which has been truly the marvel of the world in absorbing the enormous numbers of persons you have suggested, but it has not been without some cost. I am not certain any alternative policy would have been better, but what has happened is we simply, as human beings, adapt to adverse circumstances by calling them something better than what we used to call them. I don't happen to agree with Mr. Nehmer about protection at all costs because I think the point that you are driving at—and I think it is a valid point—is that if we did that we would lose many millions of jobs in the export-producing areas. They don't have to exist now where they are declining because of the strong dollar, but we hope that that is a temporary circumstance. But I do think that a rational national policy that recognizes that there are some domestic industries essential to our survival and that we must take steps to provide at least some limited form of protection is essential. And second, what we are talking about here is absolutely consistent with what has occurred—what we anticipated would occur when GATT was negotiated. We led the way in trying to develop a new international trading system which would move us toward free trade because we recognized it was partly inevitable in any event with the advances in technology, communications, and transportation, and second, it was better for us. But what has happened is that over the last 25 years, the trading nations of the Western World have moved to that in largely single file, with the United States leading the way. I think we should turn that line around, that we all ought to be moving toward it abreast, and then I think we will be in a much better circumstance of moving toward the goal that we have. While Mr. Nehmer and I are friends, and we agree on a lot of things, I think what he is proposing is an unrealistic suggestion that really will not serve our interests overall. And I don't mean that personally at all.

Mr. NEHMER. Senator, let me say just one word. Japan is the most heavily protected country in the world—it protects its economy. The unemployment rate in Japan is among the lowest in the

world, and people who refer to protectionism as hurting jobs, hurting economic growth ought to look at the Japanese situation. No. 1 protectionist. No. 1 mercantilist in the world today. Low unemployment rate. Pretty good growth rate.

Senator MITCHELL. But I don't think you can just take those two facts and draw general conclusions. That is like my saying I drank two glasses of milk this morning, and the Sun is shining, so by God, I am going to drink two glasses of milk every morning and maybe the Sun will shine every morning. There are a lot of other factors.

Mr. NEHMER. Of course.

Senator MITCHELL. Social, historical, and cultural in the Japanese experience. Mr. Chairman, I apologize. I have to go to another meeting. I have contributed to making this go on.

The CHAIRMAN. We both have.

Senator MITCHELL. I apologize to the other witnesses, but we will review their testimony. Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, thank you very much.

Mr. NEHMER. Thank you very much.

Mr. TROTT. Thank you.

The CHAIRMAN. Now, we will have a panel of Mr. Eugene Stewart, on behalf of Roses Inc., Mr. Ralph Pinkerton, President of the California Avocado Commission, and Mr. William Quarles, the president of the California-Arizona Citrus League. Mr. Stewart, will you start, please?

STATEMENT OF EUGENE L. STEWART, ESQ., STEWART & STEWART, WASHINGTON, DC, ON BEHALF OF ROSES, INC.

Mr. STEWART. Mr. Chairman, I am privileged to appear here on behalf of the domestic rose-growing industry. I have noted with interest that you have had roses on your mind to some extent, and therefore I am especially pleased to be here directly to present the position of the industry.

The CHAIRMAN. I might add that my wife and I attempt to grow roses without overwhelming success. We must drink, between us and our kids, at least a can—a large can—of frozen orange juice every day, and I eat a grapefruit every day. So, I am indeed appreciative—and I like avocadoes as a matter of fact.

Mr. STEWART. Mr. Chairman, our testimony may appear to you to be unusual this morning in the following respects. The domestic rose growers, which are small business organizations, 179 are located in 32 States, have been seriously affected by unfair import competition, and we have systematically used the domestic law remedies concerned to eliminate dumping and Government subsidization. In the case of roses from Israel, we succeeded in securing an affirmative decision, and there is a countervailing duty order in place. Annually, the Department of Commerce determines the net value of the subsidies, and its most recent determination, Mr. Chairman, is 27 percent. That is to say, 27 percent times the export value is required to offset the Government subsidies conferred upon the rose growers in Israel and the exporters. Mr. Chairman, we are here to compliment this committee and to inform you that the procedures that you established in connection with this trade

agreement, or the consideration of the position of sensitive industries, in our case have worked. We testified before this committee last year, before the committee in the other House, and then before Ms. Cooper's trade policy staff committee, and then the International Trade Commission. We presented our case in depth. As a result, the Commission found that roses are so import-sensitive that they ought not to be subject to the elimination of import duties, and we are happy to say that we have been put on list C where there will be no reduction in duty for 5 years, and then there will be further negotiations between the two Governments. We thank this committee and the administration for the consideration that we were given. Second, because we took the trouble to investigate and prove the existence of 14 different classes of subsidies conferred upon rose growers and exporters in Israel and secured an affirmative countervailing duty order, the only one that is in effect to our knowledge, we ask that the trade agreement not impair the operation of our unfair competition laws and specifically that it not impair the status of that order. In the legislation in 1984, your committee and the Congress so specified, and I am pleased to note that the administration respected both our request and the congressional direction, and the trade agreement explicitly provides that there will be no impairment or interference with the operation of our unfair competition law. We come before you first to acknowledge with appreciation the consideration that we were given and to offer the consideration given roses as a clear-cut illustration of the fact that the procedures you established can work and have worked in our case. There are just a few points that we wish to call to your attention based upon our long involvement in these procedures that you may have overlooked. The provision in the agreement calling for the phasing out of subsidies is expressly limited to export subsidies. Of the ten subsidies that are countervailed in the case of roses, nine are domestic subsidies—not export subsidies—where the greenhouse industry and the facilities for packing and exporting roses were targeted for domestic subsidies. A major part of the subsidies conferred upon agricultural industries in Israel are not export subsidies. They are domestic subsidies, and there is no commitment in the trade agreement that they be phased out. It is clearly designated in the 1984 act as an industry producing perishable commodity entitled to the fast track escape clause procedure. We will not need to resort to that because, fortunately for us, our duties have not been reduced. If I may finish in a word, the provisions of the agreement will delay the President granting relief under the escape clause and under the fast track escape clause provided in the 1984 act until consultations take place, and the consultation provisions of the agreement call for three successive levels of consultation, each involving distinct periods of time. I heard the question——

The CHAIRMAN. I am going to have to ask you to stop, because I am going to keep the witnesses to 5 minutes or we won't finish the hearing. Mr. Pinkerton?

[Mr. Stewart's prepared statement follows:]

Summary of Testimony on Behalf of Roses Incorporated, before the Committee on Finance, United States Senate on the Proposed U.S.-Israel Free Trade Area Agreement, March 20, 1985.

I. Roses Inc. is grateful to Congress for having assured at section 406 of the Trade Act of 1984 that following any agreement negotiated with Israel U.S. trade laws would remain applicable to Israeli imports, and for having expressly recognized the import sensitive and perishable character of fresh cut roses at section 404(e)(5) of the 1984 Act.

II. Roses Inc. is pleased that the administration and its negotiating team respected many of our concerns and is particularly reassured to see that the negotiations resulted in cut roses from Israel being included on List C (duty rate frozen until January 1, 1990, subsequent duty rate to be determined after consultations between the Governments).

III. It is heartening to see the USTR's express assurance that the agreement, in accordance with section 406 of the Trade and Tariff Act of 1984, does not alter the existing administration of antidumping and countervailing duty procedures. (Only outstanding countervailing duty order against products from Israel concerns fresh cut roses.)

IV & V. We are also pleased that the Government of Israel intends to accede to the Subsidies Code of the GATT. We would like it to be specified, however, that the injury test--which, with Israel's accession to the GATT subsidies code, will be applied in future proceedings where the imposition of countervailing duties is requested--will be applied in a prospective manner only and not affect the outstanding countervailing duty order against roses from Israel, the only countervailing duty order presently in force against imports from Israel.

VI. While Roses Inc. is pleased that the agreement recognizes that specific duties and charges imposed by the United States or Israel, and expressed in their national currencies, may be eroded by the decline in the value of those currencies, it is concerned that provision is not made for indexing to inflation rates which, in practice would offer a considerable, and presumably unintended, advantage to Israel.

VII. Roses Inc. is, moreover, concerned that Article 5 and the lengthy procedures at Article 17, 18 and 19 of the Agreement would have the effect of modifying the operation of Section 201 et seq. of the Trade Act of 1974 and, hence, would be in contravention of Article 403 and 406 of the Trade and Tariff Act of 1984, by unduly delaying relief under U.S. trade laws.

VIII. In addition, Article 5, paragraph 3, which by allowing imports from Israel to be singled out for exclusion from any remedy granted under section 201 et seq. of the Trade Act of 1974, also has the effect of diluting the application of remedies under section 201 of the Trade Act of 1974, and thus violates section 403 and 406 of the Trade and Tariff Act of 1984.

IX. Roses Incorporated has concerns with respect to the "direct importation" requirements for obtaining duty treatment under the agreement set forth at paragraph 1.(b), and defined at paragraph 8, of Annex 3 of the draft Agreement which stem from Israel's present practice of permitting Israeli roses to be transshipped to the United States through the Netherlands.

Testimony on Behalf of Roses Incorporated before the Committee on Finance United States Senate on the Proposed U.S.-Israel Free Trade Area Agreement March 20, 1985

Testimony on behalf of Roses Incorporated presented by Eugene L. Stewart, Esq., Law Offices of Stewart and Stewart, Special Counsel for Roses Incorporated.

Mr. Chairman and members of the Committee:

This testimony is presented on behalf of Roses Incorporated, the trade association representing the domestic rose growers. Roses Incorporated has 179 members, predominantly family-owned, small businesses, located in 32 States. They represent a capital investment of about $67 million and employ a work force of about 3,500 persons.

I.

We begin by expressing our gratitude to Congress for having assured at section 406 of the Trade Act of 1984 that following any agreement negotiated with Israel, U.S. trade laws would remain applicable to Israeli imports. We also thank Congress for having expressly recognized the import sensitive and perishable character of fresh cut roses at section 404(e)(5) of the 1984 Act. These were two of matters on which we expressed concern in our testimony before this Committee on February 6, 1984, when there existed simply a proposal for a Free Trade Area with Israel.

II.

Regarding the draft U.S.-Israel Free Trade Area Agreement with which we are concerned today, we are pleased to see that the administration and its negotiating team have respected many of the concerns we expressed in our February 6, 1984, testimony before your Subcommittee on International Trade, in our June 13, 1984, testimony before the Subcommittee on Trade of the House Ways and Means Committee, and in our April 13, 1984, testimony before the Trade Policy Staff Committee of the USTR. We are particularly reassured to see that the administration, on the recommendation of the International Trade Commission, has recognized the highly import sensitive character of the domestic industry producing cut roses and that, therefore, fresh cut roses from Israel are included on List C, meaning that the duty rate will be frozen until January 1, 1990, and that the rates of duty to be applied on and after January 1, 1990, shall be determined after consultations between the Governments of Israel and the United States. Draft Agreement, Annex 1, Paragraph 4.

III.

It is heartening to see in the USTR summary of the draft agreement the express assurance that the agreement, in accordance with section 406 of the Trade and Tariff Act of 1984, does not alter the existing administration of antidumping and countervailing duty procedures. USTR Summary at 2.

Inasmuch as the International Trade Administration of the Department of Commerce has found that the Israeli rose industry receives countervailable subsidies under 10 programs--a total which the U.S. Court of International Trade has recently expanded to 14 programs (Agrexco v. United States, 9 CIT ___, Slip Op. 85-13 (February 1, 1983))--it is essential to the domestic industry that the countervailing duty order remain in place.

IV.

We also note with pleasure that the Government of Israel intends to accede to the Agreement on the Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade (GATT) no later than the effective date of the agreement. Draft Agreement, Annex 4. Israel's acceding to the principles of GATT is, of course, fully consistent with, and an important step toward assuring that, as required at section 406 of the 1984 Act, the Free Trade Area Agreement will not impair the applicability of this nation's trade laws to imports from Israel.

V.

We would like it to be specified, however, that the injury test--which, with Israel's accession to the GATT subsidies code, will be applied by the International Trade Commission in future proceedings where the imposition of

countervailing duties is requested--will be applied in a prospective manner only and will in no way affect the outstanding countervailing duty order against roses from Israel, the only countervailing duty order presently in force against imports from israel.

The concerns of Roses Incorporated in this regard were raised in hearings on the proposed Free-Trade Agreement before the Subcommittee on Trade of the House Ways and Means Committee and in a colloquy with a representative of Roses Incorportated Congressman Frenzel of Minnesota expressed his and the Subcommittee staff's understanding that the injury test would have only prospective application and would not permit an injury test to be applied to reviews of existing orders undertaken pursuant to section 751 of the Tariff Act of 1930.

As already noted, the investigations of the International Trade Administration have clearly shown that the Israeli rose industry is heavily subsidized. And the most recent 27.94% assessment of countervailing duties was established prior to the Court's ordering the ITA to investigate subsidization under four additional programs. Given the Israeli refusal in the past to accede to the Subsidies Code, given the extent to which the Israeli rose industry continues to be subsidized, and given the extent to which, through this subsidization, Israeli roses have established their presence in the U.S. marketplace, it would manifestly unjust to make the outstanding countervailing duty

order subject to the injury test.

VI.

Roses Inc. would like to express its satisfaction with the recognition in the agreement of the principle that specific duties and charges imposed by the United States or Israel, and expressed in their national currencies, may be eroded by the decline in the value of those currencies. Article 20 of the Agreement specifically provides that duties imposed by the United States may be increased to maintain the value of the duty in accordance with Annex 1 if the value of the currency of the United States, as measured in Special Drawing Rights of the International Monetary Fund, decreases by more than 20%. Similarly, in paragraph 2 of Article 20, it is provided that Israel may increase its duties if the value of the Israeli currency, as measured against the dollar, decreases by more than 20%. Roses Inc. is concerned, however, that provision is not made for indexing to inflation rates. This would, in terms of effect, create an unfair advantage for the Israelis in that Israel has maintained a policy of linking its exchange rate to its inflation rate and has repeatedly devalued its currency to counteract the effects of this high inflation rate.

The table following illustrates this point by comparing Israeli inflation with the declining value of the Israeli Shekel. Between January and June of 1984 consumer prices in Israel doubled. Compensating for this, however, is a

devaluation of the shekel from 116 to 215 shekels per dollar. The next month, the value of the shekel declined to 254 shekels per dollar. Thus, with a slight lag, the devaluation of the shekel completely offsets the impact of inflation. The value of the dollar, on the contrary, has not been linked to the U.S. inflation rate. Thus, the agreement, as it now stands, has the effect of allowing the Israelis to link their import duties to their inflation rate without allowing the United States to do so. While at first blush the provisions of the agreement appear evenhanded, in practice they would offer a considerable, and presumably unintended, advantage to Israel.

TABLE
Inflation Rate in Israel-Value
of the Israeli National Currency in 1984

	Consumer Prices in Israel (1970=100)	Israeli Shekels per U.S. Dollar
January	83,264	116.7
February	100,744	130.2
March	111,464	146.4
April	122,223	168.7
May	142,560	191.5
June	160,478	215
July		253

Sources: Prices in Israel: Bulletin of Labour Statistics, International Labour Office, 1984-4, at 130. Exchange rates: Federal Reserve Bulletin, July 1984, at A64.

VII.

Roses Inc. is, moreover, concerned that Article 5 of the Agreement would have the effect of modifying the operation

of Section 201 et seq. of the Trade Act of 1974 (Chapter 1 of Title II), and will inhibit the granting of effective and prompt relief thereunder to domestic industries injured by import competition. This is in contravention of Article 406 of the Trade and Tariff Act of 1984 which states specifically that any trade agreement entered into with Israel may not affect in any manner the application to any Israeli articles of Chapter 1 of Title II of the Trade Act of 1974 or any other provision of law under which relief from injury caused by import competition or by unfair import trade practices may be sought. It also violates Article 403 of the Trade and Tariff Act of 1984. Article 403, dealing with the application of section 201 in the context of a trade agreement with Israel, does not permit the procedures envisioned in the agreement. Article 5 of the Agreement requires consultations in accordance with Article 18 before any action is taken with respect to injury caused by import competition. The procedures described in Article 18 are lengthy and will substantially reduce the chances for timely and meaningful relief under Section 201. First, the party claiming injury must notify the other party, including a description of the circumstances leading to the proposed action. Article 18, paragraph 1. Then, if the other party so requests, consultations must be held. Article 18, paragraph 2. If these consultations do not result in the resolution of the conflict, either party has the opportunity to refer the matter to the Joint Committee. Article 17 and Article 19(c).

If within a period of sixty days after the dispute was referred, or within such longer period as the Committee agreed upon, the matter is still not resolved, either party may refer the matter to a conciliation panel. If this still does not end the dispute, the panel will, within three months, make a non-binding report. Article 19(e). Only after this report has been presented is the party affected entitled to take measures to provide relief to the injured industry. Article 19, paragraph 2. Roses Inc. submits to this Committee that this procedure violates Section 406 and 403 of the Trade and Tariff Act of 1984 because it will substantially delay any relief under Section 201 of the Trade Act of 1974.

VIII.

In addition, Article 5, paragraph 3, which by its terms would allow U.S. imports from Israel to be singled out for exclusion from any remedy granted under section 201 et seq. of the Trade Act of 1974 when it can be shown that Israeli exports are not a significant cause of serious injury or threat thereof, also has the effect of diluting the application of remedies under section 201 of the Trade Act of 1974, and thus violates section 403 and 406 of the Trade and Tariff Act of 1984.

IX.

Roses Incorporated has concerns with respect to the

"direct importation" requirements for obtaining duty treatment under the agreement set forth at paragraph 1.(b), and defined at paragraph 8, of Annex 3 of the draft Agreement. These concerns stem from Israel's present practice of permitting Israeli roses to be transshipped to the United States through the Netherlands which arrive in the United States bearing Dutch country of origin markings, thereby avoiding payment of the countervailing duties applicable to Israeli roses. While it cannot yet be assumed that this practice will be reversed and roses of other countries transshipped to the United States through Israel to take advantage of the provisions of the Free Trade Area Agreement [since, at least until January 1, 1990, the regular tariff assessments on Israeli roses are not to be reduced, and since the countervailing duties required to be deposited on roses from Israel presently stand at 22.56% (see 49 Fed. Reg. 924)] the possibility of such a practice occurring in duty-free product categories is very real.

STATEMENT OF RALPH M. PINKERTON, PRESIDENT, CALIFORNIA AVOCADO COMMISSION, IRVINE, CA

Mr. PINKERTON. Good morning, Mr. Chairman and members of the subcommittee, I have paraphrased mine, too, Senator, so I can get this through, but I would like the whole document to be put into the record.

The CHAIRMAN. All of the documents will be in the record.

Mr. PINKERTON. Thank you. The public record indicates that our industry had compelling economic arguments to support the exemption of avocadoes from duty reductions that would be mandated by this agreement. We focused our efforts on making a case before the ITC. It was the recommendation of this body that would determine which products were eligible for special treatment under the agreement. We were never given the opportunity to review the ITC's findings. Today, 9 months after the conclusion of the ITC investigation, we find that the avocado industry is faced with the prospect of having a large portion of our duties removed immediately, with the remainder phased out during the next several years. We understand that this treatment takes the form of a decelerated duty reduction scheme over 10 years, that is 40 percent of the duty is eliminated by January 1, 1987. In order to understand the devastating impact that any removal of the duties will have upon the avocado producers, a review of the present state of the industry is appropriate. No other segment of California agriculture has suffered any more than the avocado growers have during the last 4 years. Production increases have been dramatic over this time period; 492 million pounds of avocadoes were harvested in 1983-84, compared to 148 million pounds in 1979-80. We project 524 million pounds will be harvested in the 1984-85 crop year. The productivity of our growers has had the effect of depressing prices paid by retailers. We now only get 25 percent of the price the consumer pays, and we need 30 percent of the consumer price to make a slight profit. Our industry is making every effort to pull itself out of the current crisis. Plantings of new avocado trees have virtually been stopped. Additional self-help efforts have been focused on vigorous promotion of U.S. avocadoes, and the Commission invested $5 to $6 million annually to build the market. A depressed industry such as ours can ill afford to open its U.S. markets to foreign imports from any source. Domestic sales are already suffering from the influx of duty-free avocadoes from the Caribbean Basin. These imports have increased from less than 1.5 million pounds to 3.5 million pounds in 1984, with much more to come. The Israeli avocado industry, encouraged by a vigorous Government subsidy program, has always been an aggressive exporter of avocadoes. They export from 84 to 88 percent of their crop right now. With the help of subsidized production credits from the Israeli Government, Israel has experienced massive plantings of new avocado groves. They have increased their acreage at an average of 3,300 acres per year, allowing for huge production increases. Their current crop of approximately 52,000 tons is expected to be increased to 90,000 metric tons by the end of the decade. Therefore, if the U.S. duty on avocadoes, which is currently 6.5 cents per pound, is reduced for Israeli exports, Israeli avocadoes are certain to place an added strain on

the already depressed U.S. market at a time when our own markets are severely depressed. A reduction of this duty would be both economically devastating and inappropriate as a matter of policy. To preserve this recovery and prevent further losses to our growers, we urge you to support a freeze of the current duty on Israeli avocado exports for at least the first 5 years. The California avocado industry needs at least 5 years without disruption from the loss of duties for its self-help program to restore financial stability to this seriously depressed industry. To do otherwise is to consciously add avocadoes to a list of commodities that need and are seeking direct Government assistance. We understand that the Israelis have placed most, if not all, of their agricultural products in a category with a 5-year freeze to be followed by a gradual 5-year phaseout of duty. The United States has a similar category, but it has relied solely upon the advice of the ITC for selection of those commodities to be placed in this most sensitive category. We urge that Congress exercise its own judgment on this issue. We respectfully request that this committee, which has oversight on this trade agreement, place fresh avocadoes in the most sensitive category. We do not believe as some suggest that the intention of the Congress was merely to rubber-stamp this agreement. Neither the ITC nor the trade negotiators have addressed our concerns, so the avocado growers must rely upon this committee to provide the sensitive duty treatment that the avocado industry requires in order to complete our economic recovery. Your assistance will demonstrate that Congress does involve itself when an industry has not received this full consideration that it deserves. It also will demonstrate that it is not acceptable to reduce the duties on most U.S. horticultural products faster than Israel is doing. Clearly, Congress will insist upon fair and equal treatment for U.S. citizens and their interests. The 8,500 U.S. avocado producers thank you, sir, for your attention.

The CHAIRMAN. Thank you, sir. Mr. Quarles?

[Mr. Pinkerton's prepared statement follows:]

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

TESTIMONY BEFORE THE
SENATE FINANCE COMMITTEE

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March 20, 1985

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

TESTIMONY BEFORE THE
SENATE FINANCE COMMITTEE

Good morning Mr. Chairman and Members of the Subcommittee. I am Ralph M. Pinkerton, President Emeritus, of the California Avocado Commission. I appreciate this opportunity to discuss with you how the proposed U.S.-Israeli Free Trade Area Agreement will adversely affect the depressed California avocado industry.

The California Avocado Commission is organized under the laws of the state of California and represents all 8,500 California avocado growers, who employ approximately 20,000 primarily minority workers. Last year the Commission, representing the views of those growers, submitted testimony to Congress and the International Trade Commission (ITC) setting forth its objections to the granting of duty-free treatment to Israeli avocado exports under the proposed U.S.-Israeli agreement.

The public record indicates that our industry had compelling economic arguments to support the exemption of avocados from the duty reductions that were to be mandated by this agreement. We focused our efforts on making a case before

the ITC. It was the recommendation of this body that would determine which products were eligible for special treatment under the agreement.

We were never given the opportunity to review the ITC's findings. Today, nine months after the conclusion of the ITC investigation, we find that the avocado industry is faced with the prospect of having a large portion of our duties removed immediately with the remainder phased out during the next several years. We understand that this treatment takes the form of a decelerated duty reduction scheme over ten years with 40% of the duties eliminated by January 1, 1987. The proposed treatment, however, while providing a measure of protection, does not mitigate the current problems of the industry and, in fact, may accelerate those problems. We cannot comprehend how the ITC could have reached a conclusion regarding our industry that produced such results from our negotiations with Israel. It is our belief that the ITC must not have examined the issue directly.

In order to understand the devastating impact that any removal of duties will have upon the avocado producers, a review of the present state of the industry is appropriate. No other segment of California agriculture has suffered any more than the avocado growers have during the last four years. Production increases have been dramatic over this time period: 492 million pounds of avocados were harvested in the 1983-84

crop year as compared with 148 million pounds in the 1979-1980 crop year. We project that 524 million pounds will be harvested in the 1984-1985 crop year.

The productivity of our growers has had the effect of depressing prices paid by retailers. As a result, California avocado growers have not seen a profit since 1980. Returns to California growers have fallen to 25% of the consumer price; 30% of the consumer price is needed simply to break even. Although the grower requires 35¢ per pound for harvested fruit, he is now averaging only 18¢ per pound and in some cases just 6¢ per pound. These are operating losses that few growers can afford to sustain, and bankruptcies are at an all-time high.

Our industry is making every effort to pull itself out of the current crisis. Plantings of new avocado trees have virtually been stopped. Additional self-help efforts have focussed on the vigorous promotion of U.S. avocados. The California Avocado Commission invests $5-6 million annually from assessments on growers to stimulate demand in the United States. The Commission's Ripe Fruit Program strives to educate retailers as to the benefits of selling ripe avocados to consumers. This program is based on studies which show that consumers are far more likely to buy the product if it can be consumed immediately. The program has successfully increased avocado sales among its participating retailers.

We expect that the remedial actions taken by the industry will begin to produce favorable economic results for our growers within the next five years. These five years, then, are critical to the future livelihood of the industry. The efforts being made to revitalize the industry, however, will be in vain if the industry is faced during these years with increased competition from Israel. A depressed industry such as ours can ill-afford to open its U.S. markets to foreign imports from any source. Domestic sales are already suffering from the influx of duty-free avocados from the Caribbean Basin. These imports have increased from less than 1.5 million pounds in 1982, prior to the Caribbean Basin Initiative, to 3.5 million pounds in 1984, with more to come. Even greater adverse effects are expected if reduced duties are granted to Israel, where avocado production and exports are booming.

The Israeli avocado industry, encouraged by a vigorous government subsidy program, has always been an aggressive exporter of avocados, with virtually all of its production destined for the export market. From 1980 to 1983, between 84 and 88 percent of Israeli avocado production was actually exported. As Israeli production increases, these substantial export shipments will considerably undermine the U.S. industry.

With the help of subsidized production credits from the Israeli government, Israel has experienced massive plantings of new avocado groves in recent years. Plantings

have increased an average of 3,300 acres per year, allowing for huge production increases. In the 1982/83 crop year, Israeli production increased 40% over the previous crop year to 52,000 metric tons. Production is expected to increase to over 90 thousand metric tons by the end of the decade.

As a result of these unfair trade practices, Israeli avocados have severely limited U.S. avocado sales in the European Economic Community. Nor would these unfair practices necessarily be limited by the proposed agreement with the United States: we understand that Israel has agreed to eliminate its export subsidies only with regard to processed agricultural products.

Although Israel now supplies most of its avocados to the European Economic Community, the maturing of the Spanish avocado industry and the growth of production in South Africa will force the Israeli industry to rely more heavily on alternative export outlets such as the United States. Therefore, if the U.S. duty on avocados, which is currently 6.5¢ per pound, is reduced for Israeli exports, Israeli avocados are certain to place an added strain on the already depressed U.S. market. At a time when our home markets

are severely depressed a reduction of this duty would be both economically devastating and inappropriate as a matter of policy.

Our government acknowledged that our industry needed support when it placed avocados in the ten-year phase down category. This treatment, however, is neither adequate nor fair, because since the initial duty cut upon implementation of the Agreement is 20%. Mr. Chairman, avocados are certainly as import sensitive as orange juice and other products in the category that receives no duty reduction during the first five years. Our industry must be placed in this category to safeguard the fragile recovery that it is attempting to initiate. To preserve this recovery and prevent further losses to our growers, we urge you to support a freeze of the current duty on Israeli avocado exports for at least five years. The California Avocado industry needs at least five years without disruption from the loss of duties for its self-help program to restore financial stability to this seriously depressed industry. To do otherwise is to consciously add avocados to the list of commodities that need and are seeking direct government assistance.

We understand that the Israelis have placed most, if not all, of their horticultural products in a category with a five-year freeze to be followed by a gradual five-year phase out of the duties. The U.S. has a similar category; but it has relied solely upon the advice from the ITC for selection of

those commodities to be placed in this "most-sensitive" category. We urge that Congress exercise its own judgment on this issue.

We believe that our situation is compelling and state that no other domestic horticultural industry has been forced to deal with any more adverse economic circumstances during the past five years. This is true in spite of the apparent conclusions of an International Trade Commission report, which we were never given the opportunity to address.

We respectfully request that this Committee which has oversight over this trade agreement, place fresh avocados in the "most-sensitive" category. We do not believe, as some suggest, that the intention of Congress was merely to "rubber stamp" this Agreement. Neither the ITC nor our trade negotiators have addressed our concerns, so the avocado growers must rely upon this Committee to provide the sensitive duty treatment that the avocado industry requires in order to complete our economic recovery.

Your assistance will demonstrate that the Congress <u>does</u> involve itself when an industry has not received the full consideration that it deserves. It also will demonstrate that it is <u>not</u> acceptable to reduce the duties on most U.S. horticultural products faster than Israel is doing. Clearly, Congress will insist upon fair and equal treatment for U.S. citizens and their interests. The 8,500 U.S. avocado producers thank you for your attention to their urgent situation.

STATEMENT OF WILLIAM K. QUARLES, JR., PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE, VAN NUYS, CA

Mr. QUARLES. Thank you, Mr. Chairman. I am William K. Quarles, president of the California-Arizona Citrus League. The league is a voluntary, nonprofit trade association composed of marketers of California and Arizona citrus. In hearing last year before Congress, the International Trade Commission, and the Trade Policy Staff Committee, the league outlined its opposition to legislation authorizing our Government to negotiate a free trade area agreement with Israel. It was stated at the time and it remains our position that Israel should not derive the benefit of reduced or zero duty treatment of its citrus exports to the United States while it has usurped U.S. markets abroad by taking advantage of similar concessions offered by the European Economic Community, concessions that our Government has challenged as incompatible with the general agreement on tariffs and trade.

Congress agreed with our position during its consideration of legislation authorizing our Government to negotiate this agreement with Israel and, consequently, adopted the following amendment for that legislation.

> The negotiation shall take fully into account any product that benefits from a discriminatory preferential tariff arrangement between Israel and a third country if the tariff preference on such product has been the subject of a challenge by the United States Government under the authority of section 301 of the Trade Act of 1974 and the General Agreement on Tariffs and Trade.

The legislative history accompanying this amendment demonstrates that the Congress specifically intended to safeguard the interests of the citrus industry until the resolution of the section 301 case. The following statement by Senator Cranston on the Senate floor clearly makes this point:

> To now grant duty-free status to Israeli citrus which benefits from discriminatory preferential trading agreements would undercut the ongoing U.S. efforts in the pending GATT case. Such action would grant a trade benefit in our domestic market to a citrus industry which has caused economic losses to our own citrus industry.

To our great disappointment, Israeli exports to the United States of most varieties of fresh lemons, oranges, and limes will enjoy zero duty status by January 1, 1989, under the draft agreement. Duties on important citrus products such as lemon oil, flavorings, extracts, and pectins will be eliminated immediately. Given the economic and policy considerations noted above, which the Congress considered so important that it enunciated specific directives in the legislation authorizing the negotiation of the agreement, we find this result unacceptable as a direct reversal of clear legislative intent. As this committee knows, the U.S. citrus industry petitioned our Government to challenge the European Community's extension in 1969 of tariff preferences to Mediterranean countries, most significantly Israel, on a wide range of imports including citrus and citrus products. Since the implementation of these preferences, the European Community imports of fresh oranges from the United States have dropped by over 30 percent. By contrast, U.S. orange exports to non-EEC destinations have increased by over 70 percent. The European Community imports of lemons from the United States have dropped by over a third during this same period. The

U.S. Government accepted our industry's petition and has been pursuing the case for more than 14 years under the dispute settlement provisions of the GATT. Since the Congress had its say on the proposed free trade area, a GATT panel issued a decision favorable to the U.S. citrus industry. Accordingly, the European Community was directed to take steps toward mitigating the adverse effects of the preferences. The European Community, however, refused to take such steps and instead undertook vigorous efforts to block the adoption by the GATT Council of the panel decision at the Council meeting on March 12. These efforts by the European Community, contrary to the directives of the GATT panel, were supported during the Council meeting by the countries that benefit from the tariff preferences including Israel. These efforts were successful in that the European Community succeeded in postponing the Council's decision on the panel report until the Council's next meeting which is likely to be in May. If pressure from the European Community and the beneficiary countries continue, the Council may never adopt the panel report. By granting the same type of preferences to Israel by the United States at this juncture will send misleading and damaging signals to the European Community, Israel, and the Council. Both our Government and the U.S. citrus industry have devoted too much time and expense to this case to allow U.S. actions to negatively affect its outcome.

The CHAIRMAN. Mr. Quarles, I am going to stop you, but the rest of your statement will be put in the record because I had a chance to read it this morning.

Mr. QUARLES. Very good.

[Mr. Quarles' prepared statement follows:]

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

BEFORE THE
SENATE FINANCE COMMITTEE

STATEMENT OF THE CALIFORNIA-ARIZONA CITRUS LEAGUE

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March 20, 1985

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

BEFORE THE
SENATE FINANCE COMMITTEE

STATEMENT OF THE CALIFORNIA-ARIZONA
CITRUS LEAGUE

Good morning Mr. Chairman and members of the Committee. I am William K. Quarles, President of the California-Arizona Citrus League. The League is a voluntary, non-profit trade association composed of marketers of California and Arizona citrus. It speaks on behalf of the California-Arizona citrus industry on matters of general concern, including legislation, foreign trade, and related topics. We welcome this opportunity to present our views.

In hearings last year before Congress, the International Trade Commission (ITC) and the Trade Policy Staff Committee, the League outlined its opposition to the legislation authorizing our government to negotiate a free trade area agreement with Israel. It was stated at the time and it remains our position that Israel should not derive the benefit of reduced or zero duty treatment of its citrus exports to the United States while it has usurped U.S. markets abroad

by taking advantage of similar concessions offered by the European Economic Community (EEC), concessions that our government has challenged under the General Agreement on Tariffs and Trade (GATT). Congress agreed with our position during its consideration of the legislation authorizing our government to negotiate this agreement with Israel and, consequently, adopted the following amendment for that legislation:

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lemon oil, flavorings, extracts and pectins will be eliminated immediately. Given the economic and policy considerations noted above, which the Congress considered so important that it enunciated specific directives in the legislation authorizing the negotiation of the agreement, we find this result unacceptable as a direct reversal of clear legislative intent.

As this Committee knows, the U.S. citrus industry petitioned our government to challenge the EEC's extension in 1969 of tariff preferences to Mediterranean countries, most significantly Israel, on a wide range of imports, including citrus and citrus products. Since the implementation of these preferences, EEC imports of fresh oranges from the United States have dropped by over 30%. By contrast, U.S. orange exports to non-EEC destinations have increased by over 70%. EEC imports of lemons from the United States have dropped by over 1/3 during this period.

The U.S. government accepted our industry's petition, and has been pursuing the case for more than fourteen years under the dispute settlement provisions of the GATT. Since the Congress had its say on the proposed free trade area, a GATT panel issued a decision favorable to the U.S. citrus industry. Accordingly, the EEC was directed to take steps toward mitigating the adverse effects of the preferences. The EEC, however, refused to take such steps and instead, undertook vigorous efforts to block the adoption by the GATT council of

the panel decision at the Council meeting on March 12. These efforts by the EEC, contrary to the directives of the GATT panel, were supported during the council meeting by the countries that benefit from the tariff preferences, including Israel. These efforts were successful in that the EEC succeeded in postponing the Counsel's decision on the panel report until the Council's next meeting, which is likely to be in May. If pressure from the EEC and the beneficiary countries continues, the Counsel may never adopt the panel report.

The granting of the same type of preferences to Israel by the United States at this juncture will send misleading and damaging signals to the EEC, Israel, and the Council. Both our government and the U.S. citrus industry have devoted too much time and expense to this case to allow U.S. actions to negatively affect its outcome.

Given Israel's complicity in an illegal trading arrangement that has caused extreme hardship to our industry, it is wrong as a matter of policy to reward Israel with duty-free access to the U.S. market for citrus and citrus products. Such duty-free access will jeopardize the U.S. industry's home markets. Although Israel now supplies most of its agricultural products to the EEC, once Spain acceeds to the Community, Israel will rely more heavily on its second largest export outlet, the United States. An increase of Israeli citrus imports into the U.S. east coast can be expected if tariff preferences are extended to Israel.

There is no doubt that Israel's total production and export of citrus products will affect the domestic sales of the California industry. For example, during the 1982-83 season, the California-Arizona industry shipped approximately 70,000 cars of fresh oranges to the domestic market. Israel's production of fresh oranges that season amounted to approximately 50,000 cars, and its level of exports in the previous season amounted to approximately 28,000 cars. Since Israel does not import citrus, U.S. market losses would not be offset by trade liberalization in Israel.

As noted before, our government's arguments have prevailed in the GATT dispute settlement process. To institute any duty reduction on citrus or citrus products now would "snatch defeat from the jaws of victory" in the case. We believe that the policy and economic issues that we have raised today present compelling reasons for maintaining the current duty on citrus and citrus products from Israel. We urge the Committee to enforce the will of Congress, which has not been observed by our trade negotiators, by supporting a change in the treatment of citrus and citrus products under the proposed U.S.-Israeli agreement that would freeze duties at current levels.

The CHAIRMAN. Let me ask a question of Mr. Pinkerton. Give me those figures again on avocado production in this country—1978 and then now.

Mr. PINKERTON. In 1978-79, Senator, we produced 148 million tons of avocadoes.

The CHAIRMAN. And in 1985, it was 524?

Mr. PINKERTON. Last year it was 492 million, and we are estimating 524 million this year.

The CHAIRMAN. 1984-85?

Mr. PINKERTON. Yes, sir.

The CHAIRMAN. Now, you had a figure about Israeli imports—you said 90,000 metric tons?

Mr. PINKERTON. They are currently producing approximately 52,000 metric tons, and they are scheduled at the rate that they are planting new trees to be at 90,000 metric tons—which is 180 million pounds or over—by comparison before this decade is over.

The CHAIRMAN. Now, before the decade is over, they will be producing about 180 metric tons?

Mr. PINKERTON. Producing 92 million metric tons.

The CHAIRMAN. And that is about how many? Put it into the figures that you gave me in the millions.

Mr. PINKERTON. OK. That is somewhat over 200 million pounds, Senator.

The CHAIRMAN. So, by the end of the decade, 200 million pounds?

Mr. PINKERTON. Yes, sir.

The CHAIRMAN. And we are producing 524 million this year?

Mr. PINKERTON. Yes, sir.

The CHAIRMAN. How many avocadoes from Israel do we bring into the country now? Put it in terms of millions of tons.

Mr. PINKERTON. We don't bring any in now. The tariff of 6.5 cents a pound is effective in holding down imports. The imports from the Caribbean, of course, are exempted from that tariff, and they do come in. But to show you what Israel will do with that kind of production, Senator, they are exporting to Canada now, and they would export to this country if the tariff is reduced down to zero, which of course it is going to be over the next 10 years—and I am not arguing that. I think if we had import sensitivity and a 5-year time period, we can develop enough markets overseas that we could, I think, justify fruit coming into this country, but it would take us some time.

The CHAIRMAN. What I am curious about is what would you expect that they might export? 30 or 40 million pounds? 20 million pounds?

Mr. PINKERTON. I think your figure is quite accurate; 30 or 40 million pounds would come in here.

The CHAIRMAN. What I am intrigued with is it seems to me your problem may be this extraordinary increase in domestic production that you have had. That has depressed your industry and caused your bankruptcies more than anything Israel has done to date or anything that Israel is likely to do in the next decade.

Mr. PINKERTON. I think that is true, Senator, but we do not have any new trees being planted now, and we are going to work ourselves out of this. I think within a 5-year period you will see the avocado industry recover, but it is going to take us some time in

order to develop markets wide enough even in this country to consume 524 million pounds of fruit.

The CHAIRMAN. Let me ask this. I eat about one avocado a week. Is that about average? Or is that more or less average, or do you know?

Mr. PINKERTON. If I just had your average, sir, I wouldn't need any. [Laughter.]

The CHAIRMAN. Then, let me ask you a devil's advocate question. What difference would it make to America's security if all of the avocadoes were imported and we did not have a domestic avocado industry?

Mr. PINKERTON. OK. I would like to respond to that question because I have been interested in your conversations back and forth with Senator Mitchell, and I am impressed with them. What do we do about these jobs? We have 8,500 growers of avocadoes. Now, these are not numbers like the textile industry, but we are employing 20,000 mostly minority workers. The workers in avocado fields are Mexican-Americans, and I don't know what you would do if you dislocate those people where you would get them jobs because they are skilled at what they do, and I don't know where they would be skilled in any other industry. I think the same is applying to all of U.S. agriculture. You know full well—you come from an agricultural State, and agriculture is in trouble nationwide. And I think the Government is going to have to look at those kinds of jobs and see where they would fit these people if they were dislocated. The whole agriculture industry—it is a sensitive job issue.

The CHAIRMAN. I have somewhat a similar problem to yours in the lumber industry which is depressed and is in double digit inflation, and actually Oregon has lost population in the last 4 years. And most of the outflow has been unemployed lumber workers who have gone someplace we don't know where they go. They have left the State. Whether they are finding jobs where they go, I don't know. We also know this though, that we are going to see a net change in terms of the reapportionment of the Congress of another 19 Members of Congress to the south and to the west and away from the northeast and the industrial States, and they must be going there for something. And most of them, obviously, when they go, or the population change, they are working when they go and maybe in a different industry. My hunch is that they go to a different industry than what they left. So, somehow the process goes on, and people are being absorbed into the labor force.

Mr. PINKERTON. I guess, Senator, the only way I can respond is that we are not opposed to the free trade agreement. I don't want to give the opinion that we are. We are only asking that you give us an adjustment period to develop our own markets and keep our own people employed, which I say we can do. I would not be opposed to eliminating our duties even faster after the 5-year period if I could have that much time to develop the markets that I need.

The CHAIRMAN. Let me ask all of you this, and I am familiar with Mr. Stewart's evidence that you presented. That is the kind of evidence I would have loved to have had an investigator give to me when I was a trial lawyer because you really—in terms of the domestic subsidies that are not export subsidies—you presented your case very well, although other countries, of course, accuse us of

having domestic subsidies in agriculture, and indeed they are right. We do have domestic subsidies. But I want to ask each of you the same question I have asked the others. Given a level playing field, can you compete both against imports in the United States and could you compete for export markets in other countries? And I will start with you, Mr. Pinkerton.

Mr. PINKERTON. I will have to respond regarding areas. We can certainly compete in the Far East, and I think that is very promising for us. We cannot compete in Europe because they are not playing on a fair ground.

The CHAIRMAN. No, if you had a level playing field.

Mr. PINKERTON. If we had a fair ground in Europe, yes, we could compete, and I think we can compete worldwide with any of the exporting countries and, particularly, I want to emphasize, in the Far East.

The CHAIRMAN. Now, why is that? Let us assume that avocadoes are a reasonably labor-intensive product.

Mr. PINKERTON. Yes, they are a labor-intensive product because it is all hand labor.

The CHAIRMAN. And you can still compete against much lower wage countries in both competition in the United States and, given a fair phase-in period, and in international competition?

Mr. PINKERTON. Yes, I think we can, sir.

The CHAIRMAN. Just on what—superior productivity?

Mr. PINKERTON. I think on superior salesmanship, if I may say so.

The CHAIRMAN. That is a good answer. There is much to be said for that, and people on occasion will pay more for a product if it is well serviced and well sold.

Mr. PINKERTON. We are doing that right now on a small scale in Europe. Israel is putting out a very good product. There is no argument about that, but we are putting a lot of strong sales effort into Europe even to sell fruit when Israel is in production.

The CHAIRMAN. Mr. Stewart? Can you compete against countries on roses with a level playing field?

Mr. STEWART. Yes, Mr. Chairman. Our effort has been to eliminate unfair practices. I would remind you that the U.S. Government itself by virtue of its policies, which have caused the strong increase in the value of the dollar, have subsidized most exports to the United States to the extent of about 40 percent. Moreover, in your fascinating colloquy with Senator Mitchell, it occurred to me that it would be useful to remind you of the following fact. When we entered into GATT in 1947, we concurrently entered into the Bretton Woods Agreement for the International Monetary Fund, which specified the specific exchange relationships which were pegged to the dollar and the dollar was pegged—And the tariff concessions that were entered into under the auspices of the GATT were in connection with a stable currency and stable currency values. When the United States in 1971 withdrew from the International Monetary Fund pegged arrangement, and the dollar began to float, and particularly in the last 3 years. That relationship of the exchange value to our tariff levels has become so distorted that the benefits intended for U.S. industry, both in the export and import side, have been destroyed, and our foreign trading partners

have been given an enormous competitive advantage, apart from their various practices.

The CHAIRMAN. That is a very valid answer. Mr. Quarles?

Mr. QUARLES. Yes, Senator, we can compete in most areas of the world where we have a level playing field. The citrus industry in the west has planted to export approximately a third of the crop, and we do. What we are really looking for, and that is the problem that we are having here, is equal and fair treatment not only at home but in our major foreign markets.

The CHAIRMAN. Does Mexico have a large citrus industry?

Mr. QUARLES. Mexico does have a large citrus industry.

The CHAIRMAN. And you can compete with them in this country?

Mr. QUARLES. And Mexico is an exporter to the United States. The problem that we are having here with the Israeli agreement is that Israel is complicit in what the United States has challenged as an illegal trading arrangement in the European Community. And now, for the United States, while they are prosecuting that case against the European Community, for the United States to set up a similar arrangement here and benefit Israel simply is inconsistent and will undoubtedly be damaging to our case. So, what we are asking for—pursuant to Mr. Dine's comments that this Committee is involved in this overall process—is during the markup session that this flaw in the proposed agreement be corrected and that the citrus duties be frozen at the current levels until there is a satisfactory resolution of our effort to gain the market access that we deserve and are entitled to——

The CHAIRMAN. I know your point on this. I want to come back to Mexico.

Mr. QUARLES. Yes, sir.

The CHAIRMAN. Is there a duty on imported Mexican citrus?

Mr. QUARLES. Yes, sir, there is at various levels. Lemons, 1¼ cents per pound. Oranges, 1 cent per pound. Grapefruit—it ranges from eight-tenths of a cent to 1¼ cents per pound depending upon the time of year.

The CHAIRMAN. Could you compete with Mexican citrus without those duties?

Mr. QUARLES. Sir, I think that we can compete anywhere around the world in any market so long as we get the benefit of a level playing field there as well. Now, Mexico, for example, prohibits U.S. citrus going into Mexico, yet Mexico is a good potential market for the United States. Now, if we make a level playing field and that playing field extending from the United States and into Mexico, I would say yes.

The CHAIRMAN. And you would have no fear about the wage differential? And yours is also a labor-intensive industry, I presume.

Mr. QUARLES. It is an extremely labor-intensive——

The CHAIRMAN. But the differential in wages would not be such a deterrent that you could not compete?

Mr. QUARLES. What we sell, Senator, and you put your finger on it, is quality and service, and we do, in the European Community, as an example, we have to shoot for the high-price, high-quality market, and there is a market there. But when, due to discriminatory tariff preferences and the like, when that price gets too high and there is too big a differential, why, we are simply squeezed out

of the market. Now, we are just simply looking for equal treatment around the world, and we will compete anywhere.

The CHAIRMAN. Now, let me ask you a question somewhat related to what I asked about avocadoes. I eat some place between four and five grapefruits a week. Does that put me way above the average also? You could do fine on that average?

Mr. QUARLES. Yes. It would put you considerably above average, and we appreciate it. [Laughter.]

We would like very much for everybody to eat that many grapefruit.

The CHAIRMAN. Gentlemen, thank you. You have been a most informative panel. I appreciate it.

Mr. PINKERTON. Thank you, Senator.

The CHAIRMAN. Now, we will conclude with Ms. Maria McCrea Segal, Mr. Max Turnipseed, Mr. R.M. Cooperman, and Dr. Matthew A. Runci. Ms. Segal, go right ahead.

STATEMENT OF MARIA McCREA SEGAL, COORDINATOR FOR CORPORATE AFFAIRS, NATIONAL ASSOCIATION OF ARAB AMERICANS, WASHINGTON, DC

Ms. SEGAL. Thank you very much, Mr. Chairman. The National Association of Arab Americans welcomes the opportunity to present testimony to this committee on the agreement to establish a free-trade area with Israel. As representatives of the more than 3 million Americans of Arab descent across the country, NAAA is deeply concerned that U.S. trade and economic policy in the Middle East promote U.S. national interests in the region and contribute to the well-being of both the United States and the countries of the Middle East. What I would like to do because of time constraints is just basically to paraphrase the text of our testimony.

The CHAIRMAN. Let me say that all of your statements—fortunately, I had them all in this morning, and I have read them—and all of them will be in the record in full. So, if you could abbreviate them within the 5 minutes, we would appreciate it.

Ms. SEGAL. Thank you. I do want to make it clear that we wholeheartedly support the principle of free trade under conditions which are fair and equitable, but there are a number of concerns that we have with this particular agreement that I would now like to address. We believe that the proposed agreement has several problems which need to be looked at, including U.S. tariff reductions and Israeli export subsidies, the issue of Israeli nonexport subsidies, the impact of the free-trade area on our high tech and defense industries, Israel's offshore use of American aid, and what we perceive to be the need for balance in our trade policies toward Israel and the Arab world. Mr. Chairman, we believe that U.S. tariff reductions should not precede the elimination of Israeli export subsidies. While Israel has committed to eliminate export subsidies no later than 6 years after the agreement is signed, an imbalance continues to exist in that the reduction of subsidies does not correspond with the proposed reduction of tariffs for numerous key industries, as Senator Mitchell mentioned earlier. Under the staging arrangement, for example, 98.5 percent of Israeli exports in electronics and instrumentation would be duty free immediately al-

though they would presumably still benefit from export subsidies. We believe this will place a difficult burden on domestic industries because of competition from subsidized foreign industries before the President takes steps to rectify the matter by imposing countervailing tariffs. We urge that the reduction in tariffs be staged to directly reflect reductions in Israeli exports industries. Moreover, the issue of Israeli nonexport subsidies is not even addressed in the FTA agreement, as was mentioned during the previous panel. This is significant because subsidies are pervasive at this time. The Central Bank of Israel reports overall levels of subsidies approaching 20 to 25 percent. These subsidies are both industry specific and structural as in the case of capital embedded in the water projects from which agricultural exports benefit, or the low effective tax rate which lowers industrial costs. NAAA is particularly concerned that the United States-Israeli FTA agreement may undermine our domestic high-tech industry and the jobs that it generates at home. Israel has made clear its intentions to dramatically increase its exports of high technology, particularly defense related products to the United States. In 1981, high tech exports amounted to $1.2 billion or 33 percent of total Israeli industrial exports. By 1991 the Ministry of Trade hopes to increase the level of high tech exports to $6.8 billion or 62 percent of total industrial exports. Israeli export subsidies might not be eliminated until 1991, and Israeli nonexport subsidies in that industry, which amount to 50 percent of new high tech product development, will continue. Our domestic high tech industry would then face unfair competition. We therefore urge that Israeli high tech industries be excluded from tariff reductions until export subsidies are eliminated, and that additional protection be provided to U.S. manufacturers against nonexport subsidies. Mr. Chairman, we strongly believe that U.S. exports to Israel will improve significantly by merely requiring that American aid be spent on American products. While the United States at the present time registers a trade surplus with Israel, our exports do not even reflect the total amount of U.S. aid which Israel receives. The level of U.S. exports to Israel should be at least equal to the amount of U.S. aid in each year. We urge that all U.S. aid be tied to purchases of U.S. goods in order to bolster the domestic benefits of our foreign aid program and to protect American workers. And finally, we urge this committee to take steps to also pursue trade agreements with interested Arab countries. We believe that there are a number of Arab countries willing to provide the market for American products, that are seeking to promote their export industries, and would welcome the opportunity to explore new trade possibilities with the United States. We urge the administration and this committee to actively pursue such negotiations, and we would greatly welcome the opportunity to work with you in this regard. And at this time, I would like to mention that a high ranking Saudi trade delegation will be visiting Washington next month. We are confident that they would appreciate the opportunity to meet with members from this committee, and we would welcome the opportunity to help facilitate such meetings, if there is a need. Thank you.

The CHAIRMAN. Thank you. Mr. Turnipseed?

[Ms. Segal's prepared statement follows:]

WRITTEN TESTIMONY OF MARIA MCCREA SEGAL, COORDINATOR
FOR CORPORATE AFFAIRS OF THE NATIONAL ASSOCIATION OF ARAB AMERICANS,
BEFORE THE SENATE FINANCE COMMITTEE MARCH 20, 1985

The National Association of Arab Americans welcomes the opportunity to present testimony to this committee on the agreement to establish a free trade area with Israel. As representatives of the more than three million Americans of Arab descent across the United States, the National Association of Arab Americans is deeply concerned that US trade and economic policy in the Middle East promote US national interests in the region and contribute to the well-being of both the United States and the countries of the Middle East.

Trade is an important component of our nation's foreign policy. It can help to strengthen our partnership with countries that share our concern for peace, stability, and mutual economic growth. We support the principle of free trade under conditions which are fair and equitable. Yet the United States must take steps to ensure that this agreement does not endanger vital domestic industries, nor harm our relations with key trading partners in the Arab world.

In this regard we believe the proposed agreement inadequately addresses the following issues:

I. US Tariff Reductions Precede by Years the Elimination of Israeli Export Subsidies

II. Israeli Non-Export Subsidies Are Not Addressed

III. The Impact of the Free Trade Area on Vulnerable US High-Tech and Defense Industries

IV. Israeli Purchase of Goods from Third Countries Using US Aid

V. The Need for Balance in US Trade Policy Toward Israel and the Arab World

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I. US Tariff Reductions Precede by Years the Elimination of Israeli Export Subsidies

Under the FTA agreement, Israel will accede to the international subsidies code of the General Agreement on Tariffs and Trade (GATT). Further, Israel commits to eliminate export subsidies no later than six years after the agreement is signed. We believe this is essential to an equitable agreement. However, an imbalance exists in that the reduction of subsidies does not correspond with the proposed reduction of tariffs for numerous key industries. Under the staging arrangement, for example, 98.5 percent of Israeli exports in electronics and instrumentation (which accounted for over $117 million in Israeli exports to the US in 1982) would be duty free immediately, although they would presumably still benefit from export subsidies. This will place a difficult burden on domestic industries to prove significant "injury" due to competition from subsidized foreign industries before the President will take steps to rectify the matter by reimposing tariffs. We urge that the reduction in tariffs be staged to directly reflect reductions in Israeli export subsidies.

II. Israeli Non-Export Subsidies Are Not Addressed

The Israeli government plays a role in economic affairs considerably larger than the role the government of any industrialized Western country plays. It affects pricing by means of subsidies and the capital market by supporting interest rates and directing credit. At present there is easy Israeli government access to emerging American technology. Unlike the US, however, Israeli goverment agencies subsidize 50 percent of the cost of high-tech new product development. The free trade agreement as proposed, does nothing to protect high-tech American manufacturers from onerous Israeli government non-export subsidies.

III. The Impact of the Free Trade Area on US High-Tech and Defense Industries

NAAA is concerned that the US-Israel FTA agreement may undermine our domestic high-tech industry -- and the jobs that it generates. Israel seeks to dramaticaly increase its exports of high technology, particularly defense

related products to the United States. In 1981, high-tech exports amounted to $1.2 billion, or 33 percent of total Israeli industrial exports. By 1991, the Ministry of Trade hopes to increase the level of high-tech exports to $6.8 billion, or 62 percent of total industrial exports. Since Israeli export subsidies might not be eliminated until 1991 and Israeli non-export subsidies will continue, our domestic high-tech industry would face onerous and unfair competition. We urge that Israeli high-tech industries be excluded from tariff reductions until export subsidies are eliminated, and that additional protection be provided to US manufacturers against non-export subsidies.

Although the agreement stipulates that Israel will relax its offset requirements on purchases by Israeli government agencies, the Ministry of Defense is exempted. We believe it should be included. Under normal offset arrangements, the foreign purchaser pays cash (not FMS credits) to the American contractor and negotiates some percentage of offsetting business from the American firm. Our offset arrangement with Israel is abnormal; Israeli defense purchases are made with US FMS grants. Public law requires that FMS monies be spent in the US. No country should use FMS credits to negotiate offsets. Offsets should therefore not be allowed on Israel's FMS supported purchases.

IV. Permits Israel to Continue Purchasing Goods from Third Countries Using US Aid

Mr. Chairman, while the US at present registers a trade surplus with Israel, our exports do not reflect the total amount of US aid which Israel receives. In 1983, for example, Israel received $2.485 billion in US aid, but imported only $2.3 billion from the United States. The level of US exports to Israel should at least be equal to the amount of US aid in each year. We urge that all US aid be tied to purchases of US goods in order to maximize the domestic benefits of our foreign aid program and protect American workers.

V. The Need for Balance in US Trade Policy Toward Israel and the Arab World

Mr. Chairman, we urge this Committee to take steps to ensure that this agreement does not further perpetuate the fundamental imbalance in US policy toward Israel and the Arab world. Our trade policy will be imbalanced if our efforts to reach such agreements with countries in the region begin and end with Israel. We hope that Congress takes an active interest in negotiating agreements and improving trade relations with Arab countries.

In 1984, the United States enjoyed a $3.7 billion trade surplus with the Arab world. The potential for US exports to Arab markets is substantial -- in 1982 the Arab world collectively imported well over $70 billion. In light of these figures, we question why Israel was selected for initial negotiations on a free trade agreement instead of a country with greater export potential for American goods and services. We believe there are a number of Arab countries, which have long provided a market for American products, that are seeking to promote their export industries and would welcome the opportunity to explore new trade possibilities with the United States. We urge the Administration, and this committee, to actively pursue such negotiations.

STATEMENT OF MAX TURNIPSEED, MANAGER, INTERNATIONAL TRADE AFFAIRS, ETHYL CORP., WASHINGTON, DC, ON BEHALF OF THE U.S. BROMINE ALLIANCE, WASHINGTON, DC

Mr. TURNIPSEED. Thank you, Mr. Chairman. My name is Max Turnipseed, manager of international trade affairs for the Ethyl Corp. Accompanying me this morning is Mr. Roger Taylor, with Busby, Rehm and Leonard, a law firm in Washington. I am here today to present our statement on behalf of the U.S. Bromine Alliance. The Alliance is comprised of three chemical companies—Ethyl Corp., Dow Chemical USA, and Great Lakes Chemical Corp. We essentially comprise the domestic bromine industry in the United States, and Israel on the other hand is the only other major bromine chemical producing country in the world. They serve about 60 percent of the worldwide bromine market outside the United States. We are here today to first talk about a special concern we have in the tariff area, and second to talk about some of the nontariff measures that are included in the agreement that we think should be addressed more specifically than they are in the language of the text. There are 28 TSUS items covered under this agreement as far as bromine chemicals are concerned. Of those 28 items, 20 have received some form of staged duty reduction. Eight have gone to zero or will go to zero immediately upon entry into force. Twenty of these items have, in our opinion, received very good treatment, just as Ambassador Brock did indicate he would recognize as he went into this negotiation, and as the U.S. ITC may find these to be import sensitive items. Therefore, we do think that the treatment afforded these 20 items under the FTA is fair, and we are generally pleased with that. However, on a separate issue but related, 10 of these 20 items are also eligible for GSP benefits from Israel. Therefore, whereas we are getting some delayed duty reductions under the FTA, we are in effect losing 10 of those 20 items because they are also eligible for GSP. So, we would hope these items would be taken into consideration. Some of these 10 items have been deemed to be import sensitive by the U.S. ITC, or by Ambassador Brock on his own volition, and therefore we submit that any item that is import sensitive should not be receiving GSP treatment and the staged reductions indicated in this FTA should prevail. On the nontariff measures, we have itemized about 10 areas that we think have serious language and interpretational problems engrained in them. These are escape clause, infant industry, balance of payments, intellectual property, joint committee, dispute settlements, specific duties, nomenclature changes, and finally, the commitment Israel has made on export subsidies. All of these, of course, we have covered in our statement for the record. I will just elaborate on a couple of points this morning. You have heard many people express their concerns this morning about the 6 years that Israel will be allowed to phase out their export subsidies and, during that 6-year period, the United States will give them a benefit of the injury test. Without going into any further details, you have already heard the complaints. We just echo those concerns, and I would like to point out there are two possible alternatives that have not been suggested here. One would be—I have not seen the text of the bill that Senator Heinz mentioned that he

and Senator Long have introduced—that bill may be a possible help here. But second, we could ask that the two parties agree that any product that has been determined, in the course of an investigation by the Department of Commerce to have export subsidies during the course of investigation, be excluded and therefore not allowed the injury test. This would be an agreement within the FTA and yet, overall, they could go on with the agreement in place. This is a suggestion that could overcome all the expressed problems on the injury test. Of course, second, there could be a stiffer time period inflicted whereby Israel would not be allowed the injury test until their subsidies are eliminated. I understand also, Mr. Chairman, that over in the Ways and Means Committee this morning there was an amendment passed that would allow, in effect, the President to have the authority to waive the tariff treatment between years 5 and 10 that are proposed in this agreement. I hope this committee, when that matter is considered here, would not agree with their colleagues on the House side. Thank you for this time.

The CHAIRMAN. Thank you, sir, very much. Mr. Cooperman.

[Mr. Turnipseed's prepared statement follows:]

U.S. BROMINE ALLIANCE

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1155 15TH STREET, N.W.
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S T A T E M E N T

OF

MAX TURNIPSEED

MANAGER, INTERNATIONAL TRADE AFFAIRS
ETHYL CORPORATION

ON

BEHALF OF

U.S. BROMINE ALLIANCE

CONCERNING U.S.-ISRAEL FREE TRADE AGREEMENT

SUBMITTED

TO

UNITED STATES SENATE
COMMITTEE ON FINANCE
219 DIRKSEN SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510

MARCH 20, 1985

SUBMITTED TO
COMMITTEE ON FINANCE
UNITED STATES SENATE

STATEMENT TO EXPRESS GENERAL SUPPORT OF U.S. TARIFF TREATMENT PROPOSED IN FTA FOR BROMINE CHEMICALS, AND TO COMMENT ABOUT CONCERNS FOR CERTAIN NON-TARIFF MEASURES THAT ARE INADEQUATE.

Statement submitted by the U.S. Bromine Alliance. This Alliance is comprised of three U.S. companies that produce essentially all the elemental bromine manufactured in the U.S. The three companies forming the U.S. Bromine Alliance are:

ETHYL CORPORATION
330 South Fourth Street
Richmond, Virginia 23217

GREAT LAKES CHEMICAL CORPORATION
Highway 52 Northwest
West Lafayette, Indiana 47906

DOW CHEMICAL, U.S.A.
2020 Dow Center
Midland, Michigan 48640

Contact Representatives for these companies are:

ETHYL CORPORATION

Mr. Max Turnipseed
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GREAT LAKES CHEMICAL CORPORATION

Ms. Hedi Kinnard
Manager, International Trade Affairs

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DOW CHEMICAL, U.S.A.

Mr. Thomas I. Betts
Director of Government and Public Affairs

Telephone - (517) 636-9273

March 20, 1985

STATEMENT OF MAX TURNIPSEED ON BEHALF OF
U.S. BROMINE ALLIANCE
TO THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ON
U.S. - ISRAEL FREE TRADE AGREEMENT
March 20, 1985

SUMMARY OF PRINCIPAL POINTS INCLUDED IN STATEMENT

The U.S. Bromine Alliance*, three domestic companies that produce essentially all the elemental bromine in the U.S., and some 60 other chemical derivatives made from bromine, generally supports the Administration's proposed U.S. tariff treatment in the FTA for most of the bromine chemicals sector. The exceptions we take are highlighted. We also have serious concerns about certain aspects of proposed non-tariff measures incorporated in the text of the proposed FTA with Israel. The issues we urge the U.S. negotiators to examine very closely, and to take some corrective measures prior to reaching any final agreement with Israel, are to:

(1) insure that any products that have been designated import sensitive by the USITC or USTR, and given staged U.S. duty reductions in the FTA, are not allowed to have continuing benefits of GSP duty-free treatment;

(2) clarify that Article 19 does not prevent either party from taking escape-clause action under Article 5, and that Article 19 is invocable only after an escape-clause action is taken or imposed;

(3) include adequate definitional language for "infant industries";

(4) further limit the trade measures and their effective time applicability under the provisions for balance of payment purposes;

(5) more directly address the treatment afforded intellectual property rights;

(6) provide for participation or oversight by the private sector in the workings of the Joint Committee defined in the FTA;

(7) specify the amount of time allowed under each of the provisions of Article 19 for dispute settlements, as well as an overall time limit;

(8) adjust specific duty rates to current equivalent ad valorem rates, rather than allowing Israel to have an unfair basis for adjustments;

(9) address how tariff rates will be treated under the new harmonized system;

(10) not require that U.S. industries must meet the injury test when seeking remedies under current U.S. trade law a full six years before Israel is committed to eliminate all export subsidies.

The Alliance requests that the proposed tariff treatment in the FTA for bromine chemicals not be changed in any way to reduce the time U.S. tariffs are scheduled to remain in effect, and that each of the non-tariff measures we have identified be acted upon in such a way as to strengthen the FTA to the benefit of U.S. industry.

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* Ethyl Corporation
Dow Chemical, U.S.A.
Great Lakes Chemical Corporation

STATEMENT OF MAX TURNIPSEED ON BEHALF OF
U.S. BROMINE ALLIANCE
TO THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ON
U.S.-ISRAEL FREE TRADE AGREEMENT

March 20, 1985

I. INTRODUCTION

This statement is presented on behalf of the U.S. Bromine Alliance (Alliance), a group of three U.S. companies which comprise a significant portion of the U.S. bromine industry. The companies are:

Ethyl Corporation, Richmond, Virginia;
Dow Chemical, U.S.A., Midland, Michigan; and
Great Lakes Chemical Corporation, West Lafayette, Indiana

The products of specific concern to the Alliance, within the context of the U.S.-Israel Free Trade Agreement (FTA), are some 60 chemical derivatives made from elemental bromine. These bromine chemicals are categorized in 28 different tariff item numbers within Schedule 4 of the Tariff Schedules of the United States (TSUS). This group of bromine chemicals essentially comprise the domestic bromine industry and include most of the commercially-produced bromine derivatives comprising the worldwide bromine industry. An Israeli company, and its subsidiaries (Dead Sea Bromine Group), represent the only other major full line bromine chemicals producer in the world.

The Alliance is on the record of the 98th Congress, the U.S. Trade Representative (USTR) and the U.S. International Trade Commission (USITC) as being opposed to any FTA with Israel that would reduce the current U.S. duty rates on bromine chemicals or provide any additional duty-free access for bromine chemical imports from Israel. This position was first presented to the Finance Committee during your February 1984 hearings concerning the proposed FTA with Israel. The record will reflect that the Alliance had hoped for, and requested that, bromine chemical products be excluded from the FTA because Israel's bromine industry already has duty-free access to all other major world markets for bromine chemicals (Europe, Japan and Canada), and also receives GSP benefits on many products they import into the U.S. While exclusions were not granted, the duty treatment proposed in the FTA for most bromine chemicals seems fairly consistent with the staging USTR has previously indicated would result, with the exception of products eligible for GSP. Although the GSP benefits that Israel currently receives are not the subject of this hearing, it should be recognized, however, that duty treatments negotiated in the FTA that delay U.S. duty reductions for some time period will not override or supersede any current GSP eligibility that Israeli products may have, and therefore they will continue to receive duty-free GSP benefits irrespective of the FTA.

Given that both the U.S. and Israel agreed that no outright product exceptions would be granted, that all products would be duty-free in ten years, and assuming that USTR did not intend to necessarily propose immediate duty-free rates for those specific products in the FTA that are now duty-free under GSP eligibility, the Alliance is generally pleased with the overall duty treatments proposed in the FTA for bromine chemicals. Our comments concerning specific tariff treatments and concerns are amplified further in Section II. We also have other specific concerns about certain non-tariff measures in the FTA that could affect the domestic bromine industry, will certainly affect other U.S. industries, and are not the most appropriately worded provisions to adequately address these issues, should this agreement become the precedent or model for other bilateral agreements. Our concerns about the non-tariff measures are addressed in Section III.

II. TARIFF TREATMENT ON BROMINE CHEMICALS

The immediate and staged U.S. tariff rate reductions for the bromine chemicals included in the 28 applicable TSUS(A) item numbers are in all four categories of the proposed U.S. tariff treatments under the FTA. Ten TSUS item numbers were designated import sensitive by the USITC and none of these items are currently eligible for GSP except TSUS 420.82, sodium bromide. U.S. duty rates on each of these items

except sodium bromide will be frozen until 1990, but the GSP eligibility for sodium bromide will override the FTA and continue duty-free, even though sodium bromide has been designated import sensitive by the USITC. Two TSUS items, not eligible for GSP, and six other TSUS items that are eligible for GSP are scheduled to have duty-rate reductions to zero when the FTA enters into force. Two additional TSUS item numbers not eligible for GSP, and another one that is GSP-eligible are to receive 10-year staged duty reductions, except for the GSP item. The remaining seven TSUS(A) item numbers, also eligible for GSP benefits, are to receive staged U.S. duty reductions that will bring each duty rate to zero by 1989, again subject to the overriding GSP benefits.

It is recognized that GSP considerations may have to be kept separate from this FTA proposal, but the Alliance submits that it seems somewhat inconsistent for the USITC and USTR to have determined that certain items are "import sensitive" and provide for staged U.S. duty reductions while allowing GSP benefits to continue. If an item is import sensitive and is scheduled to receive a staged U.S. duty reduction, it seems that FTA duty-treatment actions should govern and GSP eligibility should be withdrawn. Following that logic, the Alliance petitioned USTR (May 1984) to withdraw GSP benefits for Israel on most bromine chemicals currently eligible for GSP. While we will not know the President's decision on our petition until the end of March, we are hopeful these GSP

considerations can at least be addressed by USTR with respect to the proposed duty-treatment in the FTA. Otherwise, the proposed overall staged reductions of U.S. duty rates on certain bromine chemicals will be somewhat less favorable than the Alliance would like, should GSP eligibility continue on these items. The TSUS(A) item numbers affected by this overriding GSP consideration that are of specific concern to the Alliance are 416.4540, 418.32, 420.82, 422.78, 425.24, 429.4830, 429.4860, 429.9590 and 432.25.

III. NON-TARIFF MEASURES

The Alliance has specific concerns about certain non-tariff measures (NTM's) in the FTA that could directly affect the U.S. bromine industry, and will certainly affect other U.S. industries. In addition to the impact these items could have on U.S. industry with respect to this FTA with Israel, we are equally concerned about the possible precedent-setting nature of this FTA as a model for future bilateral trade agreements. The NTM's that present the most concern to us in the FTA are part of the Articles numbered 5, 10, 11, 14, 17, 19, 20, 21 and Annex 4. If we had to point to any one concern that is of most importance to the Alliance, it would be the export subsidies area that is primarily addressed in Annex 4. Each of our concerns, listed in FTA Article number sequence, are summarized in paragraphs A. through I.

A. Article 5 - Relief from Injury Caused by Import

In Article 5, paragraph 1, Article 19, the dispute settlement procedure, should not prevent either party from taking any of the escape-clause actions provided under Article 5. Article 19 should be invocable only after the escape-clause action is taken.

Article 5, paragraph 3, is contrary to U.S. foreign trade policy and to Article XIX of the GATT, to allow the discriminatory application of an escape-clause action. This paragraph would permit Israeli products to be excluded from an escape-clause action, thus creating a serious risk of politicizing escape-clause actions and antagonizing other trading countries affected by the escape-clause actions.

The use of the words substantial cause (paragraph 1.) and significant cause (paragraph 3.) present possible interpretational differences. These terms should be the same for proper and consistent application.

B. Article 10 - Infant Industry

A clearer definition of "new processing industries not already existing in Israel" should be provided or some guideline criteria or intent should be given to serve

as an example as to what type infant industry might qualify to benefit from these provisions. In Article 10, paragraph 2, the term "new processing industries" is a novel term without any established meaning. The word "processing" should be construed to mean something other than either assembly or manufacture, and to cover the transformation of a product into another product, but without change in chemical composition. Moreover, a "new" processing industry should be one that engages in an activity that is different from existing processing industries and not merely a variation of an existing processing industry.

A list of what is not an "infant industry" in Israel now, and a list of any industries that Israel can identify that may be viewed now as new processing industries they might expect to meet the definition in the future would be helpful. Some intent statement, for guideline purposes, should include the concept that a major new industry, and not just an expansion of an existing industry, is the intended applicability. In other words, new is not based on chronology only. If Israel is not making a specific brominated chemical now, but starts producing one after the FTA becomes effective, the new item should not be considered as a new processing industry because Israel is already a world-class bromine chemicals producer, supplying more than 60 percent of the world bromine chemicals market outside the U.S.

In Article 10, paragraph 1, the phrase "total value of Israel's imports" should be understood to refer only to commercial imports (excluding all government-to-government transactions) as valued by Israel in accordance with its normal method of valuing imports.

C. Article 11 - Balance of Payments

In paragraph 1, before either party may apply temporary trade measures for balance-of-payment reasons, it should obtain the views of the International Monetary Fund (IMF) on its economic condition. The IMF plays such a role under the balance-of-payments provisions of the GATT. It would afford an objective and expert third-party appraisal that would help to insure a responsible use of this sweeping authority.

In paragraph 4, to avoid abuse of the authority to extend balance-of-payment measures, there should be two understandings. First, no measure should be extended more than 150 days beyond the initial 150 days. Second, a period of at least 300 days should elapse between the cessation of prior balance-of-payments measures and the reimposition of such measures.

In paragraph 8, it should be understood that, if quantitative restrictions are used, they too should apply to

all imports, like import duties or import deposits. That is, consistent with paragraph 3(a), quantitative restrictions should not be imposed to protect either individual products or individual industries or sectors.

D. Article 14 - Intellectual Property

The mere reaffirmation of any obligations existing under current bilateral or multilateral agreements for intellectual property rights is not adequate.

This article, which deals with a particularly important area, should be the subject of two understandings. First, Article 19 should be invocable when a party considers that the other has failed to carry out its obligations under the intellectual property agreements referred to in Article 14. Second, a U.S.-Israel working party should be established to investigate, and make recommendations on, aspects of intellectual property not covered, or not covered adequately, by existing agreements. Specific current problem areas on intellectual property rights in Israel have been identified by the private sector. These could be at least the beginning of a list for the working party to consider in making recommendations.

E. Article 17 - Joint Committee

The provisions for the formation and operation of a Joint Committee do not include specific reference to how the private sector will be allowed to participate even though such assurances were made by the Administration to the private sector. It should be understood that, in participating in the activities of the Joint Committee, the U.S. representatives should be obligated to consult with representatives of the private sector on all issues before the Joint Committee that affect the private sector.

F. Article 19 - Dispute Settlement

In Article 19, paragraph 1(a), it should be understood that the dispute settlement procedure does not apply to any stage of an antidumping or countervailing duty proceeding, whether the commencement, any preliminary or final determination, or the actual imposition of antidumping or countervailing duties. In paragraph 1(b), in order to avoid unnecessarily long dispute settlement proceedings, it should be understood that consultations should in no event last for more than 60 days. This should provide more than adequate time for meaningful consultations, if both parties are seeking to resolve the dispute in good faith. Furthermore, it should be

specified that no more than 270 days can elapse during the entire dispute settlement procedure.

G. Article 20 - Specific Duties

The intent of Article 20, paragraph 2, that allows for specific duty rates to be adjusted based on the value of Israel's currency measured against the U.S. dollar, is well meaning, but the practical application using recent exchange rates would produce unintended results. This article provides different benchmarks for allowing the United States, on the one hand, and Israel, on the other, to adjust their specific duties. Such differences are likely to put one party, or the other, at a disadvantage. It should therefore be understood that both parties will seek to convert their specific duties to ad valorem duties as soon as possible.

H. Article 21 - Nomenclature Changes

The nomenclature change provisions in Article 21 makes reference to a possible "major revision", but does not specifically address the harmonized system that has been proposed. This article should take account of a clearly-anticipated event, that is, the entry into force in January of 1987 of the Harmonized Commodity Code (HCC), which both the United States and Israel are expected to

sign. In particular, this article should describe how the HCC will affect the continuing implementation of duty rates and adjustments under the FTA beginning in 1987.

I. Annex 4 - Commitment on Subsidies

The FTA treatment Israel proposes with respect to their intent to eliminate all current export subsidies is totally inadequate in view of the fact that the U.S. plans to give Israel the benefit of the injury test a full six years before all export subsidies are to be eliminated by Israel. Israel's commitment on subsidies is fundamentally and dangerously inadequate, gravely impairs the integrity of the Antisubsidies Code, and seriously depreciates the value of the U.S. concession to apply the injury standard in countervailing duty proceedings. Israel will obtain immediately the benefits of the injury standard, but it will be permitted to maintain up to two-thirds of its export subsidies until 1989, and will not be required to terminate all of its export subsidies until 1991. This renders the FTA doubly objectionable. In the first place, no country should be given such a "free ride", especially when it relates to such a sensitive area as export subsidies. In the second place, it establishes a dangerous precedent, which other countries will not fail to exploit to the fullest.

Some type of optional "snap-back" provisions should be written into the FTA so that MTN tariff rates could be re-imposed by the U.S. if Israel's export subsidies are not eliminated by some specifically-defined date that is much sooner than 1991. To afford Israel zero U.S. tariffs on the vast majority of current trade, and to allow export subsidies to continue up to six years, is too high a price for U.S. industry to pay for any FTA benefits that may accrue during the six years.

This six year period is a longer period of time than the U.S. has ever allowed to any other country while continuing to allow them to have the benefit of the injury test. For the Administration to take the position that six years is warranted because Israel is a developing country, and not consider that in the context of a FTA, benefits that are allowed by the U.S. under a multilateral context should not be the same as those under a FTA, is a position the Alliance does not endorse and finds totally unacceptable.

We recognize that many conflicting and cross-sectorial considerations are part of any trade agreement negotiation, and appreciate the fact that you may not be able to deal with some of our views in connection with the U.S.-Israel FTA, but we submit that each of the items we have identified are important to examine, that corrective actions should be considered,

and urge you to insist that at least the export subsidies issue be readdressed by the Administration before any FTA with Israel is finalized. The U.S. Congress should not allow this FTA with Israel to be finalized without requiring that Israel eliminate their export subsidies much sooner than 1991 or the U.S. should not give Israel benefit of the injury test until they do eliminate them.

Respectfully submitted,

U.S. BROMINE ALLIANCE

March 20, 1985 By: Max Turnipseed

U.S. Bromine Alliance
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1155 Fifteenth Street, N.W.
Washington, D.C. 20005

STATEMENT OF R.M. COOPERMAN, EXECUTIVE DIRECTOR, INDEPENDENT ZINC ALLOYERS ASSOCIATION, WASHINGTON, DC

Mr. COOPERMAN. Thank you, Mr. Chairman. For the record, I am representing the Independent Zinc Alloyers Association. The United States consumes about 1 million tons of zinc a year. Independent alloyers provide almost 20 percent of that total in alloy form. A provision in the United States-Israel Free Trade Agreement is a threat to the existence of the U.S. zinc alloyers. The proposed agreement in Annex I, second stage, provides that the duty on products that are not included in the Tokyo round of the MTN shall be reduced to zero by 1989.

The duty on zinc alloy was not negotiated in the Tokyo round. This provision in the FTA would end a U.S. public policy sanctioned by Congress in the Trade Act of 1974 and agreed to by our trading partners. Zinc alloyers constitute a truly American industry providing specification metal alloy for use in automobiles, trucks, armored cars, tanks and weapon carriers, household water faucets, fire hose couplings, golfcarts, and thousands of other industrial and consumer products. There are less than 35 custom alloyers in the United States. Three are part of integrated companies that produce other zinc products. The remaining firms are family founded, family owned, and family operated. The long-term U.S. Government policy on the zinc alloying industry was reinforced in the late 1970's when the Trade Policy Staff Committee recommended excepting the duty on zinc alloy from the Tokyo round of MTN under section 101 of the Trade Act of 1974. The United States tabled the exception in Geneva during the Tokyo round, and all our trading partners agreed to except this duty from negotiations. The document requesting the exception submitted September 2, 1977, contains business confidential data on the industry pertinent to that year. It is the basis upon which the exception was granted. That document is still a sound profile of the industry, if you include in the consideration of it the inflationary factors between 1977 and 1985. With the chairman's permission, I would like to submit this document nominating alloyers of zinc for an exception from the 1979 round. I do know that the document contains business confidential data and ask that its use, if possible, be restricted to the members of the committee.

The CHAIRMAN. I don't want to interrupt you, but I can say that—if you are going to put this in the record, and all the members are going to have access to it—I don't want to guarantee its confidentiality. I have been in this business too long, and if 20 Members of the Senate have access to it, plus the clerk that is putting it together, plus two or three other staff, I don't want to rest the national security on that.

Mr. COOPERMAN. I understand. Thank you, Mr. Chairman. If I may, I will submit it to the individual members of the committee.

The CHAIRMAN. All right.

Mr. COOPERMAN. Domestic zinc has survived as an import-sensitive industry because of a long-term consistent policy of the U.S. Government. The owners and operators of these companies and their employees should not face the end of that protection in their investments and their jobs in a single negotiation by an agency of

the U.S. Government. It is relatively easy to establish a zinc alloying operation—Greenfield, within a short time, 4 to 6 months. Plants are not costly to build. We are concerned that as the duty on zinc alloys begin to drop between the United States and Israel, zinc alloying facilities will be put in place in Israel. And they will be the only other alloying plants in the world that will have free access to our markets. Not even GSP countries have that access. This trade agreement, if it is approved without consideration for import-sensitive industries, will be a monument to singlemindedness in a multicomplex world. Certainly, what has been done in this agreement should not be permitted to stand as precedent for any future bilateral or multilateral negotiations. Thank you for this opportunity, Mr. Chairman, to appear before you.

(Mr. Cooperman's prepared statement follows:]

TESTIMONY OF

RICHARD M. COOPERMAN
EXECUTIVE DIRECTOR

INDEPENDENT ZINC ALLOYERS ASSOCIATION, INC.

MY NAME IS RICHARD M. COOPERMAN. I AM EXECUTIVE DIRECTOR OF THE INDEPENDENT ZINC ALLOYERS ASSOCIATION, INCORPORATED, WITH HEADQUARTERS AT 900 17TH STREET, N.W., WASHINGTON, D.C.

THE UNITED STATES CONSUMES ABOUT ONE MILLION TONS OF ZINC A YEAR IN GOOD YEARS. INDEPENDENT ALLOYERS PROVIDE ALMOST 20% OF THAT TOTAL IN ALLOY FORM.

A PROVISION IN THE U.S.-ISRAEL FREE TRADE AGREEMENT IS A THREAT TO THE EXISTENCE OF THE U.S. ZINC ALLOYERS. THE PROPOSED AGREEMENT IN ANNEX 1, SECOND STAGE, PROVIDES THAT THE DUTY ON PRODUCTS THAT WERE NOT INCLUDED IN THE TOKYO ROUND OF THE MTN SHALL BE REDUCED TO ZERO BY 1989. THE DUTY ON ZINC ALLOY WAS NOT NEGOTIATED IN THE TOKYO ROUND. THIS PROVISION IN THE FTA WOULD END A U.S. PUBLIC POLICY SANCTIONED BY CONGRESS IN THE TRADE ACT OF 1974; AGREED TO BY OUR TRADING PARTNERS, AND WHICH HAS CONTINUED THE SUPPLY OF ZINC ALLOY FROM DOMESTIC SOURCES AND MAINTAINED DOMESTIC JOBS FOR THE PAST SIX YEARS.

ZINC ALLOYERS CONSTITUTE A TRULY AMERICAN INDUSTRY PROVIDING SPECIFICATION METAL ALLOY FOR USE IN AUTOMOBILES, TRUCKS, ARMORED CARS, TANKS AND WEAPON CARRIERS, HOUSEHOLD WATER FAUCETS, FIRE HOSE COUPLINGS, GOLF CARTS, COMPUTERS, ELECTRIC GENERATORS, AND THOUSANDS OF OTHER INDUSTRIAL AND CONSUMER PRODUCTS.

THERE ARE LESS THAN 35 CUSTOM ALLOYERS IN THE UNITED STATES. THREE ARE PART OF INTEGRATED COMPANIES THAT PRODUCE OTHER ZINC PRODUCTS. THE REMAINING FIRMS ARE FAMILY FOUNDED, FAMILY OWNED, AND FAMILY OPERATED. THEY PROVIDE EMPLOYMENT IN COMMUNITIES ALL

ACROSS THE UNITED STATES. THEY ARE ESSENTIAL TO MANY OTHER DOMESTIC BASIC INDUSTRIES.

THE LONGTERM U.S. GOVERNMENT POLICY ON THE ZINC ALLOYING INDUSTRY WAS REINFORCED IN THE LATE 1970'S WHEN THE TRADE POLICY STAFF COMMITTEE RECOMMENDED EXCEPTING THE DUTY ON ZINC ALLOY FROM THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS UNDER SECTION 101 OF THE TRADE ACT OF 1974. THE U.S. TABLED THE EXCEPTION IN GENEVA DURING THE TOKYO ROUND AND ALL OUR TRADING PARTNERS AGREED TO EXCEPT THIS DUTY FROM NEGOTIATIONS.

THE DOCUMENT REQUESTING THE EXCEPTION SUBMITTED SEPTEMBER 2, 1977 CONTAINS "BUSINESS CONFIDENTIAL DATA" ON THE INDUSTRY PERTINENT TO THAT YEAR. IT IS THE BASIS UPON WHICH THE EXCEPTION WAS GRANTED.

MOST OF THE NUMBERS IN THIS SUBMISSION CONCERNING PRICES HAVE CHANGED BY VIRTUE OF INFLATION. HOWEVER, THE INCREASES CAN BE APPLIED UNIFORMLY, AND THE CONCLUSIONS OF THE PAPER ARE VALID TODAY. NOT VERY MUCH OF THE MARKET FOR ZINC ALLOY LOST IN THE EARLY 1970'S HAS BEEN REGAINED BETWEEN 1977 AND 1985. THE QUANTITY OF ZINC-BASED ALLOY PRODUCED BY INDEPENDENT COMPANIES TODAY IS ABOUT THE SAME AS THE AVERAGE PRODUCTION OF THE YEARS 1974 THROUGH 1979 SHOWN IN ATTACHMENT C OF THE SUBMISSION. IN GENERAL, THEREFORE, THE SUBMISSION IS AN ACCURATE CURRENT PROFILE OF THE DOMESTIC INDUSTRY. A DROP OF A FEW PERCENT IN THE DUTY ON ZINC ALLOY IMPORTS TODAY WILL PUT U.S. INDEPENDENT ALLOYERS OUT OF BUSINESS JUST AS IT WOULD HAVE IN 1979.

WITH THE CHAIRMAN'S PERMISSION, I WOULD LIKE TO SUBMIT THIS DOCUMENT NOMINATING ALLOYS OF ZINC FOR AN EXCEPTION FROM THE 1979 ROUND. I NOTE THE FACT THAT THIS DOCUMENT CONTAINS BUSINESS CONFIDENTIAL DATA AND ASK THAT ITS USE BE RESTRICTED TO THE MEMBERS OF THE COMMITTEE.

DOMESTIC ZINC ALLOYERS HAVE SURVIVED AS AN IMPORT-SENSITIVE INDUSTRY BECAUSE OF A LONG-TERM CONSISTENT POLICY OF THE UNITED STATES GOVERNMENT. THE OWNERS AND OPERATORS OF THESE COMPANIES AND THEIR EMPLOYEES SHOULD NOT FACE THE END OF THAT PROTECTION AND THEIR INVESTMENTS AND THEIR JOBS IN A SINGLE NEGOTIATION BY AN AGENCY OF THE UNITED STATES GOVERNMENT. NOR SHOULD THE CONTEMPORARY POLITICS OF INTERNATIONAL AGREEMENTS BE THE INSTRUMENT BY WHICH THE FRUITS OF FAMILY BUSINESSES MIGHT BE DESTROYED.

IT IS RELATIVELY EASY TO ESTABLISH A ZINC ALLOYING OPERATION, GREENFIELD, WITHIN A SHORT TIME--FOUR TO SIX MONTHS. PLANTS ARE NOT COSTLY TO BUILD.

WE ARE CONCERNED THAT AS THE DUTY ON ZINC ALLOY BEGINS TO DROP BETWEEN THE U.S. AND ISRAEL, ZINC ALLOYING FACILITIES WILL BE PUT IN PLACE IN ISRAEL AND THEY WILL BE THE ONLY OTHER ALLOYING PLANTS IN THE WORLD THAT WILL HAVE FREE ACCESS TO OUR MARKETS. NOT EVEN GSP COUNTRIES HAVE THAT ACCESS.

THE USE OF ZINC HAS BEEN IN DECLINE IN THE UNITED STATES FOR MANY YEARS. 1984 SAW THE FIRST STRONG RECOVERY IN OVER HALF A DECADE. THIS IS THE RESULT OF DOLLARS EKED OUT OF BARELY PROFITABLE YEARS AND PUT INTO MARKETING PROGRAMS BY ALLOYERS AND THEIR CUSTOMERS, THE DIE CASTING COMPANIES. IZAA ALSO CAN POINT TO AN

APPLIED TECHNOLOGY AND MARKETING TRAINING PROGRAM INSTITUTED IN 1977 BY THE ASSOCIATION TO IMPROVE SALES. THE INDUSTRY DID NOT ASK FOR HELP FROM THE GOVERNMENT, AND THEY SHOULD NOT NOW SUFFER PENALTIES AT THE HANDS OF THEIR GOVERNMENT.

THIS TRADE AGREEMENT, IF IT IS APPROVED WITHOUT CONSIDERATION FOR IMPORT-SENSITIVE INDUSTRIES, WILL BE A MONUMENT TO SINGLE-MINDEDNESS IN A MULTICOMPLEX WORLD. U.S. INDUSTRY WITH WORLDWIDE SUPPLIERS AND CUSTOMERS UNDERSTANDS THAT IT IS NO LONGER POSSIBLE TO HAVE A SINGULAR FREE TRADE OR TRADE PROTECTIONIST POLICY IN THIS WORLD. GOVERNMENT MUST ALSO BEGIN TO UNDERSTAND IT. CERTAINLY, WHAT HAS BEEN DONE IN THIS AGREEMENT SHOULD NOT BE PERMITTED TO STAND AS PRECEDENT FOR ANY FUTURE BILATERAL OR MULTILATERAL NEGOTIATIONS.

THANK YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

The CHAIRMAN. Thank you. Dr. Runci, Senator Chafee wanted to be here to hear you. As a matter of fact, he wanted to call you early, but you weren't here earlier, and he had to go off to a formal joint session of Congress to hear the President of Argentina speak. And he wanted me to express his appreciation for your coming and apologize for not being here.

Dr. RUNCI. Thank you, sir. I am sorry I wasn't in the room at the time.

The CHAIRMAN. There is no reason you should have been as you wouldn't know you would have come on early had you been, and there is no point in your waiting 2 or 3 hours.

Dr. RUNCI. I appreciate the Senator's interest.

STATEMENT OF DR. MATTHEW A. RUNCI, ASSISTANT EXECUTIVE DIRECTOR, MANUFACTURING JEWELERS & SILVERSMITHS OF AMERICA, INC., WASHINGTON, DC

Dr. RUNCI. Mr. Chairman and members of the committee. The Manufacturing Jewelers & Silversmiths of America, a nationwide trade association with some 2,200 members, urge you to consider the importance we perceive in my appearance here today. The U.S. Government is moving to establish a new trade policy—free trade—by negotiating bilateral free trade agreements, country by country. Ambassador William Brock has stated publicly that the United States would negotiate such free trade agreements with countries other than Israel. This will significantly alter the trading patterns of 1982 which was the base year used in the negotiations. We believe that these changes will significantly impact the domestic jewelry industry. At the prior hearing of this committee in 1984 on the negotiation of the FTA agreement with Israel, the MJSA stated its opposition to the inclusion of jewelry related products. On behalf of MJSA may I advise the committee that this stated policy is not limited just to bilateral agreements with Israel. Rather, the MJSA as spokesman for the domestic jewelry industry wishes to state its opposition to the inclusion of jewelry related products in free trade agreements with any country. Not only is the MJSA concerned with future agreements with countries which promote exports of jewelry related products by the use of low wage employment and subsidies, but more importantly, the cumulative effect such agreements will have on the domestic industry. As to the summary of the United States-Israel Free Trade Area Agreement published by the Office of the USTR on March 1, MJSA concurs with the identification by the USITC of certain gold jewelry, namely chains, as sensitive in the context of the proposed Israeli agreement. However, it is urged that the USITC erred in not identifying other gold jewelry included in TSUS category 740.14 as similarly sensitive. Imports of other gold jewelry included in TSUS 740.14—items such as rings, bracelets, cufflinks, et cetera—have increased fivefold in the years 1980 to 1984 from $10.6 million to $52 million. Import penetration percentage would be greater if a unit comparison were possible. Such increases in Israeli imports of other gold jewelry to the United States results in large part from efforts of the Government and jewelry industry of Israel to diversify from gold chains to other gold jewelry. Diversification has been

successful as its percent of trade in gold jewelry has doubled in the last 5 years—from 28.5 percent in 1980 to 50.6 percent in 1984. As reported by the U.S. Department of Commerce, imports of precious metal jewelry from all countries which captured 25 percent of the domestic market in 1984 are estimated to increase another 11 percent in 1985. Further, the number of production workers in the U.S. industry declined 4.2 percent between 1983 and 1984. Further unemployment is expected. Imports of gold chain other than rope or mixed link is approaching the competitive need limitations under the GSP. TSUS Item 740.13 was $52 million in 1984 when the limitation was $63.8 million. Please note that this dollar limitation could be lowered under the provisions of the Trade and Tariff Act of 1984. There will be a real temptation to add a piece of finished jewelry to this type of chain and import it into the United States under the other gold jewelry classification, TSUS 740.14, which is included in the first stage immediate reduction section. To illustrate this point, Mr. Chairman, I have here a piece of gold chain which would, in its present form, be subject to the 10-year program. With a small pendant attached, in its present form, this item would now be eligible for immediate treatment under the proposed terms of this agreement. The MJSA respectfully requests that the Committee on Finance in its consultation process with the Office of the USTR in the negotiation of this agreement with Israel move to include gold jewelry classified in TSUS Item 740.14 in the fourth stage 5-year freeze on duty reductions.

[Dr. Runci's prepared written statement follows:]

Summary Statement of Matthew A. Runci, Assistant Director
Manufacturing Jewelers and Silversmiths of America, Inc.

Hearing on U.S. Israel Free Trade Agreement
U.S. Senate Committee on Finance

March 20, 1985

The Manufacturing Jewelers and Silversmiths of America, (MJSA) at the time of the 1984 hearings, based on import sensitivity, opposed the inclusion of jewelry related products in the Free Trade Area Agreement with Israel.

MJSA concurs with the identification by the U.S. International Trade Commission (USITC) of certain gold jewelry (chains) as sensitive in the context of the proposed Israeli agreement. However, it is urged that the USITC erred in not identifying other gold jewelry included in TSUS 740.14 as similarly sensitive.

Import of other gold jewelry included in TSUS 740.14 (Items such as rings, bracelets, cuff links, etc.) have increased five fold in the years 1980/84 from $10.6 million to $52.0 million. Import penetration percentage would be greater if a unit comparison were possible.

Such increases in Israeli exports of other gold jewelry to U.S. results in large part from efforts of government and jewelry industry of Israel to diversify from gold chains to other gold jewelry. Diversification successful as percent of trade in gold jewelry doubled in last 5 years (28.5% 1980 to 50.6% in 1984).

As reported by the U.S. Department of Commerce, imports of precious metal jewelry from all countries which captured 25% of the domestic market in 1984 are estimated to increase another 11% in 1985. The number of production workers declined 4.2% 1983-84. Further unemployment is expected.

Imports of gold chain (other rope or mixed link) is approaching the competitive need limitations. TSUS Item 740.13 was $52 million in 1984 when limitation was $63.8 million. Note: This dollar limitation could be lowered under the provisions of the Trade and Tariff Act of 1984. There will be a real temptation to add a piece of finished jewelry to this type chain and enter into the U.S. under the other gold jewelry classification, TSUS 740.14 which is included in the First Stage-Immediate Reduction.

The MJSA respectfully requests that the Committee on Finance exercise its oversight responsibilities in the negotiation of the Free Trade Area Agreement with Israel and include gold jewelry classified in TSUS 740.14 in the Fourth Stage - Five Year Freeze On Duty Reductions.

BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

HEARING ON
UNITED STATES/ISRAEL
FREE TRADE AREA AGREEMENT

March 20, 1985

STATEMENT OF MATTHEW A. RUNCI
ASSISTANT EXECUTIVE DIRECTOR
MANUFACTURING JEWELERS AND SILVERSMITHS
OF AMERICA

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Before the
Committee On Finance
United States Senate

Hearing on U.S. - Israel Free Trade Agreement

March 20, 1985

Statement of Dr. Matthew A. Runci
on behalf of
Manufacturing Jewelers and Silversmiths of America

The Manufacturing Jewelers and Silversmiths of America (MJSA) has previously submitted its views in opposition to the inclusion of jewelry related products in any bilateral free trade agreement between the United States and Israel (Senate Finance Committee, February 6, 1984; and, U.S. International Trade Commission and U.S. Trade Representative, April 3, 1984).

The MJSA urges the Committee on Finance to take notice that this stated policy is not limited to an agreement with Israel alone. Rather the MJSA as spokesman for the domestic jewelry industry states its opposition to the inclusion of jewelry related products in free trade area agreements negotiated with any country. Such a statement on the part of MJSA appears necessary because of the recent statement made by Ambassador William E. Brock that he hoped that the United States would negotiate free trade agreements with other countries. It is the view of MJSA that jewelry related products are import sensitive not only as to Free Trade Area Agreement with Israel but should be so determined as to other countries, particularly those countries which are promoting exports by the use of low wage employment and subsidies.

MJSA is the principal national trade association representing approximately 2200 manufacturers of precious metal and costume jewelry, as well as findings, chain, and other jewelry-related products. MJSA members employ about 87,000 persons throughout the United States. More than one-third of these companies, employing approximately 23,000 persons, are located in the State of Rhode Island.

On March 1, 1985, the Office of the U.S. Trade Representative released a Summary of U.S.-Israel Free Trade Area Agreement. The following was contained in the Summary:

C. U.S. TREATMENT OF CATEGORIES OF PRODUCTS OF PARTICULAR INTEREST TO CONGRESS

The following summarizes the way U.S. duty reductions are planned for certain products or product categories which were highlighted during Congressional debate of the U.S.-Israel Free Trade Area. All references to trade value are for U.S. imports from Israel in 1982.

o Products Identified by the U.S. International Trade Commission as Sensitive in the Context of this Agreement

The USITC identified seven categories of products as potentially sensitive in the context of this agreement. These products were: processed tomato products; certain categories of olives, dehydrated onions and garlic, citrus fruit juices, cut roses, certain bromine products;

and certain gold jewelry (chains). These products, which compose the FOURTH STAGE under the Agreement, will face no duty reduction for the first five years of the agreement (January 1, 1990), at which time the President will request further advice from the USITC on how duties on these products should be eliminated.

* * * *

o Gold Jewelry - All gold jewelry items identified by the USITC, valued at $44 million in 1982, are in the fourth stage, while the remaining gold jewelry items which are generally GSP-eligible (and were not identified as sensitive by the USITC) fall into the immediate stage.

While the MJSA concurs with the identification by the USITC of certain gold jewelry (chains) as sensitive in the context of the agreement it urges that the USITC erred in not identifying other gold jewelry included in TSUS 740.14 as similarly sensitive.

Gold jewelry, other than necklaces and neck chains, is classified for Customs purposes in TSUS 740.14. Articles such as rings, ear rings and clips, bracelets, brooches, cuff links, studs, pendants, etc. are included in this TSUS Item. The following table shows the trend of imports of such gold jewelry from Israel over the five year period 1980/84. Also included is the average price of gold for each year. An index using 1980 as the base year is included for both data.

IMPORTS OF GOLD JEWELRY FROM ISRAEL
CLASSIFIED UNDER TSUS ITEM 740.14. 1980-84 ($1000)

	1980	1981	1982	1983	1984
Imports	$10,636	$32,048	$44,185	$48,028	$51,992
Index	100	302	416	452	489
			Average Price of Gold $Troy/Ounces		
Price	$613	$460	$380	$410	$350
Index	100	75	62	67	57

It is obvious that the value of imports of gold jewelry from Israel has increased almost five fold in the five years 1980/84. In the same period the average annual price of gold has declined 43%.

While the displacement of the value of gold jewelry sold by the domestic industry is important in measuring sensitivity, unit displacement is a more important factor especially when related to employment and man hours. When a declining price of gold (which is traded at a world price) is related to an increasing value of imports the result is a larger percentage increase in unit imports.

This increase in imports of gold jewelry is not surprising as the Israeli Government and jewelry industry sources continue to highlight the importance of the United States in their overall marketing plan. Nella Yaacobi, director of Israel Export Institute's Jewelry Center, was

reported as predicting in the fall of 1983 that the nation's total exports of gold jewelry in that year were expected to exceed $130 million, of which more than $100 million (or 77 percent) was exported to the U.S. Confirming that exports to the U.S. now form the backbone of the Israeli industry, the same source acknowledged that 85 percent of the country's total jewelry production is now exported.

The jewelry industry in Israel reportedly includes 140 firms, of which 131 are involved in exporting. The five largest firms provide 70 percent of exports, while 126 smaller firms combined have an export volume of $13 million to $35 million per year.

Imports of precious metal jewelry from Israel have continued to increase their penetration of the U.S. market place jumping from $48.8 million in 1980 to $114.5 million in 1984. Gold jewelry accounts for the largest percentage of these imports expanding from 76 percent in 1980 to 90 percent in 1984.

While gold necklaces and neck chains [1/] were the predominant export of gold jewelry to the U.S. in the 1970's, this trade has seen a marked change as exports of other gold

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1/ TSUS Items 740.11-740.13 and 740-70. Prior to 1980, chain was not broken out separately in the TSUS from other gold jewelry.

jewelry has grown at a more rapid rate than chains. It is estimated that gold chain accounted for 97% of Israeli exports of gold jewelry to the U.S. in 1978-79. This share has dropped

IMPORTS OF GOLD JEWELRY (Including Chains)
FROM ISRAEL 1980 - 1984
($1000)

	1980	1981	1982	1983	1984
TSUS ITEMS					
740.11-13					
740.70	26,631	45,749	45,076	44,776	50,708
Percent (%)	71.5	58.8	50.1	48.2	49.4
740.14	10,636	32,048	44,185	48,028	51,992
Percent (%)	28.5	41.2	49.9	51.8	50.6
Total	37,267	77,797	89,261	92,804	102,700
Percent (%)	100.0	100.0	100.0	100.0	100.0

Source: U.S. Department of Commerce, Bureau of Census IM 146

to 49.4 percent in 1984. Exports to the US of other gold jewelry included in TSUS 740.14, have experienced a growth rate double that of chains and have increased from 21.7 percent of imports of gold jewelry from Israel in 1980 to 50.6 percent in 1984.

Precious metals analyst Mark Delevan Harrop has reported that Israel continues to emphasize new, less costly,

mass-produced machine-made rope chains in its U.S. marketing program.[1/] At the same time, Beny Pomerantz, Director, Jewelry, Giftware, and Light Industries for Israel's Ministry of Trade, was recently quoted by U.S. trade press sources as having emphasized government encouragement for growth in non-chain-related sectors of the Israeli jewelry industry. Large factories are now reported producing jewelry mounted with precious and semi-precious stones intended for export to the U.S., Europe and Japan.[2/]

It would appear, then, that with encouragement from the government of Israel, jewelry manufacturers have begun to diversify their production, while at the same time maintaining production of mass-produced machine-made chain of various types which qualify for duty-free treatment under the GSP. Overall industry production has apparently been adjusted in such a way as to make best use of tariff preference arrangements and domestic labor supply.

Imports of precious metal jewelry from all countries have already captured a significant share of the U.S. market. Any action such as the immediate elimination of duties on TSUS Item 740.14 in the proposed Free Trade Area Agreement

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1/ Gerwitz Report, (November, 1983), p.4

2/ National Jeweler Newsletter, (January, 1984)

with Israel will have a significant adverse impact on the segment of the domestic industry producing such gold jewelry.

[The MJSA is well aware that U.S. imports of gold jewelry from Israel classified under TSUS 740.14 are currently duty free under the Generalized System of Preferences. However, this duty free access is limited in dollar value by the competitive need regulations. In 1984, the regulations provided that when imports of a TSUS item from a single eligible GSP country reached $63.8 million import duties would be reimposed during the next importing year. The FTA agreement provides that imports from Israel included in the First Stage, as are imports classified under 740.14, would not be subject to the GSP annual dollar limit. Imports under TSUS Item 740.14 amounted to $52 million in 1984. It is anticipated such imports will soon exceed the competitive need limit. It should be noted that the

Trade and Tariff Act of 1984 established new limitations on preferential treatment which could affect U.S./Israel trade in gold jewelry.]

In addition, while the impact of the elimination of duties on TSUS 740.14 would primarily concern manufacturers of gold jewelry classified in this TSUS Item the long-term impact could negatively affect the manufacturers of necklaces and neck chains whose products are included in the Fourth Stage. The Committee should be advised that current export articles from Israel to the U.S. contain finished jewelry incorporating gold chains of the kind included in the Fourth Stage TSUS Items 740.11-13 and 740.70. These imports are classified under the blanket category for gold jewelry, TSUS item 740.14. Imports of gold chain classified under 740.13 amounted to $45.3 million in 1984. The competitive need dollar limitation could well apply to these imports before 1990 giving a strong impetus to add a pendant to such chains and enter the article under TSUS Item 740.14.

As to the impact of imports on the domestic precious metal jewelry industry, the Committee should

consider a recent publication of the U.S. Department of Commerce which concluded:

- o All of the industries that produce jewelry and housewares felt the impact of rising imports in recent years.
- o Strongly affected by the high value of the U.S. dollar relative to other currencies, imports of both, precious metal and costume jewelry were up sharply during 1984 while exports for both types of jewelry declined.
- o U.S. import of precious metal jewelry increased an estimated 29 percent to $1,125 million.
- o The major suppliers were Italy, Israel and Hong Kong.
- o Imports are expected to continue to increase their market share.

(1985 U.S. Industrial outlook. U.S. Department of Commerce, January 1985, at pg. 48-1-3).

The MJSA respectfully requests that the Committee on Finance exercise its oversight responsibilities in the negotiation of the Free Trade Area Agreement with Israel and include gold jewelry classified in TSUS 740.14 in the Fourth Stage - Five Year Freeze On Duty Reductions.

The CHAIRMAN. Dr. Runci, let me ask you the same question I have asked some others. As far as gold jewelry is concerned, can the United States compete, if there is a level playing field, in the world market and in the United States?

Dr. RUNCI. Yes, sir, I believe we can without question.

The CHAIRMAN. The wage differentials make no difference?

Dr. RUNCI. In certain categories in which the product is more labor-intensive in production, wage differentials may make a difference, but industry-wide I would have to say that is not the case, and we could compete.

The CHAIRMAN. That is encouraging. I am glad to hear that.

Dr. RUNCI. Our association has been very active, in cooperation with the U.S. Commerce Department, in trying to advance exports by our industry. The strength of the dollar in the past 18 months has not helped those efforts, but the programs are in place, and there is interest.

The CHAIRMAN. I have no other questions. Thank you very much. You have been a most helpful panel, and this has been a most helpful morning. We are adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

[The following communications were submitted for the record.]

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

BEFORE THE
SENATE FINANCE COMMITTEE

STATEMENT OF NATIONAL GROWERS AND PROCESSORS FOR FAIR TRADE

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March 20, 1985

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

BEFORE THE
SENATE FINANCE COMMITTEE

STATEMENT OF NATIONAL GROWERS AND
PROCESSORS FOR FAIR TRADE

This statement is being submitted by the National Association of Growers and Processors for Fair Trade (the Association) in connection with the March 20, 1985, hearing on the proposed U.S.-Israeli Free Trade Area Agreement. The Association appreciates this opportunity to present its views regarding the operation and impact of the proposed agreement on its members.

The National Association of Growers and Processors for Fair Trade is a unique organization. For the first time, tomato growers and processors have joined together in an organization that is national in scope to address issues vital to their continued existence. The Association has members from coast to coast, representing every tomato producing state in the country. The views we present reflect the common concerns of this diverse membership.

Last year this Association came before this Committee, its House counterpart, and the International Trade Commission (ITC) to argue the case of a depressed industry being injured by rapidly increasing imports in its home market. At that time, we urged that processed tomato products be exempted from any free trade agreement with Israel. It soon became clear, however, that although there was sympathy for the plight of our industry, for political reasons a flat exemption for any trade item, however import sensitive, would not be created. Nonetheless, we were told that we had "made our case" before the ITC, whose report would have great influence over what degree of protection our industry would receive under the agreement.

The ITC issued its report last June. It disturbed us that that report was kept confidential, preventing our industry and others from evaluating its conclusions and responding to them. It was even more disturbing to find that certain interested parties were able to obtain copies of the report, despite its confidentiality, and presumably use it to their benefit. Given that the negotiations have been completed, we now respectfully request that the International Trade Commission report be made public.

It was only with the recent public release of the draft U.S.-Israeli Agreement that we could confirm the nature of the ITC's findings with regard to our industry. Within the confines of the draft agreement, our industry cannot complain

that we were awarded less favorable treatment than any other party. It is apparent that the ITC and our trade negotiators have acknowledged that our industry is highly import sensitive and, therefore, deserving of at least a five-year freeze on duty reductions for its products.

There is one major aspect of the agreement that is unclear to us at this time. Although the agreement calls for the President to seek additional advice from the ITC at the end of the five-year freeze on duty reductions, it is not clear how this evaluation process will work. This issue is of great concern to our members. If the domestic tomato processing industry sets forth strong evidence as to our import sensitivity to the International Trade Commission five years from now, we believe that our industry should be able to maintain our duties until January 1, 1995.

This issue was unequivocally addressed in the following colloquy between Senator Wilson and Senator Danforth during the congressional debate on the Free Trade Area:

> Mr. WILSON.
>
> . . . .
>
> It does not make sense to eliminate tariffs on goods, when that elimination will, according to the ITC, have significant adverse economic impact on the U.S. industries producing those goods.
>
> . . . .
>
> It is my position that the ITC should have continuing review responsibility, at five year intervals, over articles which are likely to be affected by a Free Trade Agreement. Should the ITC make a finding that

> goods were no longer import sensitive, the President would have the authority to negotiate duty reductions on them. However, if the ITC found continued sensitivity, the President would have no such authority.
>
> Mr. DANFORTH. Mr. President, if the Senator from California will yield, I should like to express my full support for the position he is taking. . . . Certainly industries which are subject to significant adverse economic impact from increased imports from the goods they produce should not subjected to the elimination of duties on those goods. . . . It is my intention, . . . that as long as the ITC finds that certain goods are import sensitive, it would be inappropriate to reduce duties on them.

Clearly, there should be no doubt about where congressional sentiment lies on this issue.

If current import trends for processed tomato products persist, and it is likely that they will, then our industry will be in no better position in 1990 to absorb the impact of a duty reduction on such products than it is now. Indeed, it is likely that our industry will be in a worse position five years from now. We agree with the legislative history that if an industry is being afforded duty protection now because the ITC has determined it to be import sensitive, it is only logical that such a protection should continue if, after five years, the situation of the industry has not improved or, as we expect, has worsened.

Even without duty reductions, Israel will, no doubt, continue its' rapid growth in the U.S. market. Imports of canned tomatoes from Israel have increased from approximately 4,150,000 pounds in 1980 to almost 35,000,000 pounds in 1984.

Comparing the same two years, imports of tomato paste have increased from approximately 315,000 pounds to almost 12,600,000 pounds, and imports of tomato sauce have increased from approximately 1,300,000 pounds to over 18,275,000 pounds. We have no reason to believe that this trend will not continue.

Israel has been able to capture an increasing share of our market because its tomato processing industry is highly subsidized, either through export or production subsidies. These subsidized imports from Israel, and other major suppliers such as the Europeean Community, threaten the U.S. tomato processing industry. We are willing to compete fairly with these foreign competitors, but our industry does not receive any government subsidies or assistance. Therefore, our industry must retain our modest duties until such time as we are able to defend ourselves from subsidized imports.

According to the draft agreement, export subsidies would presumably be eliminated by the end of six years. However, the Israelis will still be able to retain their production subsidies. The draft agreement provides no assurances that the Israeli government will halt its direct subsidy or aid programs to its tomato processing industry. This is an additional reason why it is necessary to maintain our duties for the entire ten-year period.

In summary, we respectfully request that this Committee ensure that the tomato processing industry be given, in accordance with the agreement, a fair chance to demonstrate

our case to the International Trade Commission prior to the second phase of the ten year period. If the domestic tomato processing industry continues to be sensitive with respect to Israeli imports, our industry should be able to maintain the current duties until January 1, 1995. To do otherwise would undermine congressional intent as set forth in House and Senate colloquies on this subject and would cause the ITC reexamination in five years to be meaningless.

The National Association of Growers and Processors for Fair Trade thank the members of this Committee for their attention to this critical issue.

HEARINGS ON THE PROPOSED U.S.-ISRAELI FREE TRADE AREA

TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE

STATEMENT OF THE CALIFORNIA ALMOND GROWERS EXCHANGE

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March 20, 1985

HEARINGS ON THE
PROPOSED U.S.-ISRAELI FREE TRADE AREA

TESTIMONY BEFORE THE
SENATE FINANCE COMMITTEE

STATEMENT OF THE
CALIFORNIA ALMOND GROWERS EXCHANGE

This statement is being submitted by the California Almond Growers Exchange (the Exchange) for the written record in connection with the March 20, 1985 hearing on the Administration's proposed Free Trade Area with Israel. We appreciate this opportunity to discuss how the proposed Free Trade Area does not provide a meaningful reduction of trade barriers with Israel.

The California Almond Growers Exchange had expressed reservations about extending negotiating authority for this agreement when we participated in Congressional hearings on the matter last spring. At that time the Exchange voiced its concern that a bilateral trading arrangement would be contrary

to the United States' commitment to fair and equal tariff treatment to all GATT member countries. Additionally, the Exchange cautioned that the authorizing legislation gave the Executive Branch discretion to negotiate the agreement without guaranteeing protection of U.S. import and export interests. Therefore, as a matter of policy and economics, the California Almond Growers Exchange opposed a bilateral approach to reduced trade barriers.

Notwithstanding these objections, the authority for negotiating a U.S./Israel Free Trade Area was conferred by Congress to the United States Trade Representative. Despite our reservations, we hoped that such an agreement would lower Israeli barriers to U.S. export trade in almonds and almond products, and that a Free Trade Agreement would result in improved access to the Israeli market for our products. The present agreement will not produce this result, because it does not effectively address Israeli import restrictions which inhibit trade.

The California Almond Growers Exchange has had a long-standing interest in developing the Israeli market for almond exports. This interest has historically been frustrated by Israel's tariff and non-tariff barriers which have obstructed U.S. export opportunities for almonds.

Currently there is a 15% ad valorem import duty on almonds. In addition to this tariff barrier, Israel imposes

restrictive licensing requirements which effectively limit access to this market. Beyond these barriers, imported almonds are subjected to a variable levy scheme designed to eliminate price advantages of the imported product versus the local product. The actual levy amount varies depending on the price of the imported product relative to the competitive domestic product. Therefore exporters have no real opportunity to fairly compete in the Israeli market.

Israel also currently maintains a sizeable import deposit requirement on almonds. Accordingly, importers have to deposit 60% of the landed value with the Israeli Ministry of Finance, and receive a repayment of the nominal value of the deposit after one year. The deposit requirement, in essence, creates a considerable disincentive to import since a large portion of the import deposit is forfeited owing to the high Israeli inflation rate.

Recently, prospects for almond exports significantly worsened when Israel raised its import deposit requirement from 40% to 60% of the landed value. This action was taken in January, 1985, well after the Free Trade Area negotiations were under way. The Israelis have erected additional trade barriers while at the same time negotiating for the reduction of U.S. tariffs. We feel that if the proposed agreement is to produce a legitimate bilateral Free Trade Area, Israel should not be increasing trade barriers to almonds, but eliminating them.

From what we understand of the proposed agreement, almonds will be treated by the Israeli's as a Stage Four product, i.e., there will be no duty elimination for five years, with additional negotiations to determine reductions in the future. Therefore, Israel will maintain its 15% tariff on almonds through 1989. In the following five years, the tariff will gradually be staged to zero depending on the outcome of future negotiations.

Even after this ten year delay, the ultimate duty free status of almonds will not ensure U.S. exporters free access to the Israeli market. As we understand the Agreement, Article VI of the proposed agreement provides that Israel can maintain all of the substantial non-tariff barriers outlined above that effectively limit U.S. trade in this area. In terms of real access to a market, it is meaningless to grant duty free status without also removing non-tariff barriers as well. So long as these barriers remain in effect, prospects for greater U.S. almond trade with Israel would be frustrated even with zero duty on imports. The proposed agreement simply does not address this problem.

One of the key objectives of the Free Trade Area is to eliminate tariff barriers to markets and thereby provide a free flow of commerce between these two countries. This goal cannot be accomplished if non-tariff barriers are erected in substitution of duties. Israel has done exactly this by increasing import restrictions on almonds beyond the substantial barriers to trade previously in existence.

The Exchange also is concerned that the proposed Free Trade Agreement does not allow for fair and equal competition among almond producers. The proposal eliminates U.S. import tariffs as soon as the agreement goes into effect. Therefore the expanding Israeli almond industry will have immediate, unrestricted access to the U.S. market place. In recent years, Israel has demonstrated a growing interest and ability to export this product. While Israel will have the benefit of immediate free trade in the U.S. market, U.S. exporters will not be afforded the same consideration in the Israeli market. This imbalance demonstrates the inequities of the proposed agreement: the agreement opens the door to the U.S. market without ensuring a reciprocal opportunity for access to the Israeli market.

The California Almond Growers Exchange continues to have a strong interest in expanded trade with Israel. However, even with the eventual phase out of duties on almonds, we do not anticipate increasing almond exports to Israel because of pre-existing non-tariff barriers. Under Article VI of the proposed agreement, Israel has the ability to maintain these non-tariff barriers which effectively neutralize any benefits of a duty free status for U.S. almond exports. Recent Israeli actions indicate a predisposition to protect its national industries by raising, rather than lowering, import restrictions. In light of this, we urge the Committee to ensure that the final agreement truly provides U.S. exporters with meaningful access to the Israeli market.

Written Testimony of Dr. Thomas R. Stauffer
36 Stella Road
Belmont, Mass. 02178

Senate Finance Committee

Proposed U.S.-Israel Free Trade Area

I am offering this testimony in my private capacity as an economic consultant and writer specializing in contemporary economic issues in the Middle East. Until last semester I was a visiting professor at the Diplomatic Academy in Vienna and prior to that was a lecturer and research associate in the economics department and Center for Middle Eastern Studies at Harvard University.

I urge that the proposed "free-trade" agreement be suspended until key questions are clarified and until existing disadvantages for the United States are rectified.

This agreement is not a cost-effective device to increase US trade with Israel. It will cause still more American jobs to be lost -- above and beyond the 75,000 - 150,000 already lost through the aid/trade package presently operative with Israel.

This proposed agreement actually further unbalances the already distinctly unfavorable "aid-trade imbalance" which presently prevails. Currently, our small trade surplus vis-a-vis Israel is more than offset -- indeed, several-fold -- by our very much greater outflows of new aid each year. This proposal, by asymmetrically opening US markets to Israeli goods, further tips the balance against the US.

The proposed agreement increases the one-sided advantages for Israel and perpetuates the real disadvantages for the US, and it is necessary to recognize several unusual and key aspects of the US-Israeli economic relationship:

1) The U.S. and Israeli markets are strikingly asymmetrical; what the US offers is much greater than what it receives.

   Under the agreement, a $ 2,000- plus billion market is being opened to Israel, while in

return we are promised access to a minor, twenty-billion dollar market.

The difference is 100-to-one in Israel's favor, and this dramatic disparity in the scale of the markets is simple but indicative evidence of the lack of reasonable balance in the proposal.

2) Israel does not pay for its imports from the United States.

Our balance on current transactions with Israel is extremely one-sided and unfavorable to the U.S. Israel's imports from the US are much less than total US aid to Israel, so that the present arrangement amounts to the export of US jobs, because Israel is free to take US aid and import from our competitors.

This aid/trade deficit is large, endemic, and serious -- especially when compared to our trade patterns with other countries which receive no aid and pay for our exports to them.

For 1983, the most recent year for which figures are available, the effective deficit on current transactions is between $3.5 and 4 billion -- to Israel's advantage and to our disadvantage.

This is equivalent to a loss of some 100,000 American jobs, without any allowance for the likely multiplier effect under today's circumstances where unemployment in the US is high and industrial capacity utilization is low.

3) Israel's exports are highly subsidized, so that US aid money or technical assistance (largely military) in effect directly undercuts our own industries.

Subsidies are large and pervasive in Israel, and the Central Bank of Israel reports overall levels of subsidy exceeding 20-25% of value-added.

These subsidies are both industry-specific and structural, as in the case of the virtually costless capital embedded in the water projects, from which agricultural exports benefit, or the low effective tax rates, which lower real industrial costs.

4. The tying of US aid

The present provision for tying US aid to Israel to US exports is ineffectual.

The 1983 figures are instructive: total Israeli imports from the US, including arms, did not exceed $2,300 million (fob). The efficacy of aid-tying under the present procedures can be tested agains two benchmarks:

a) Good trade partners

If Israel were a good customer, like Saudi Arabia or pre-revolutionary Iran, it would have purchased 20-25% of its imports from the US, or some $ 2-2.5 billion. By that test, the efficiency of the present method of tying aid is zero, i.e. Israel, in spite of massive aid, imports essentially no more from the US than a typical "good customer".

b) Average trade partner

The average share of US goods in world trade is circa 12%. If Israel is viewed not as a good trading partner, but simply as an average case, it should be expected to import about $ 1 billion from the U.S.

On this basis, possibly $ 1.2 billion of US exports to Israel can be attributed to the ostensible tying of aid, and the efficiency of the procedure is at best 50%, compared with official aid, or at most 30-33% if tested against total US aid.

5. The disadvantage to the US is indeed institutionalized.

The US does not stipulate any effective tying of aid to exports, whereas Israel requires all firms selling commercially to

Israel to "buy-back" an amount equal to 35% of their sales to Israel (on any contract in excess of $ 50,000).

Thus Israel, on purely commercial transactions, demands a higher -- or comparable -- level of effective tying than the US achieves to date on its unilateral, unrequited grants and loans.

It is correct that US exports do not have their proper share of the Israeli market -- but the proposed free-trade area is a step in the wrong direction and worsens the situation it is alleged to rectify. Our exports are inappropriately low because Israel uses US aid money to buy non-US goods and services.

The fair level of US exports to Israel should be at least equal to total US aid appropriations in each year. In fact it should be higher, since countries which do not receive US aid also import from the US, so that our proper share of the Israeli market should equal our gross aid in each year, plus some reasonable fraction -- between 12 and 20% -- of those imports for which the Israelis actually pay, since we typically supply that fraction of most markets in "friendly" states.

Further, with regard to imports from Israel, US manufacturers and farmers should retain full protection against dumping by Israel of subsidized products into our markets -- protection which could be lost under the proposed agreement unless it contains iron-clad provision for measures no less effecttive than those available today in such cases. There seems to be great risk that the agreement could foreclose those last measures protecting US workers.

Therefore, in order to protect against further losses of US jobs to Israel ,and in order to regain some of those already lost ,I propose three measures which are much more effective in improving the US-Israeli trade balance:

1. Require that all US aid be tied to purchases of US goods, exclusive of any debt service payments to which Israel is contractually committed.

   This is usually required of all other major aid recipients and maximises protection to US workers. The aid still is a real cost to the US, but at least US goods are involved.

This simple device improves our trade balance and reduces our dollar outflow.

2. Insure fair trade by more careful review of Israel's export and other subsidies and applying countervailing tariffs where appropriate, as appears to have been done already in at least one case.

   This would put US workers then on a more equal footing with their highly subsidized counterparts in Israel.

3. Control use of Israel's free access to US military technology in order to prevent our aid programs subsidising Israeli weapons and military equipment firms to undercut our own manufacturers for third-country markets.

   This is a third area in which Israeli firms have gained an unfair advantage over our own companies and where we have another opportunity to protect US jobs.

The proposed free-trade agreement is a misnomer, since it in fact reinforces an unfair and unequal trading relationship by further increasing advantages for Israeli vis-a-vis American workers. Given our alarming balance of payments deficits, and given the still high numbers of unemployed workers in the U.S., it is the wrong time to jeopardize still more US jobs and risk still greater dollar outflows.

It is clear that Israel wants to increase its economic privileges, but it is equally clear that this is at the expense of the American worker and the American taxpayer.

STATEMENT OF MITCHELL J. COOPER, COUNSEL TO THE FOOTWEAR DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

The Footwear Division of the Rubber Manufacturers Association is the spokesman for companies producing the major share of the waterproof footwear and rubber-soled fabric-upper footwear manufactured in this country. When the issue of whether there should be authority to negotiate a free-trade agreement with Israel was before the Congress, the rubber footwear industry, in testimony before both the House Committee on Ways and Means and the Senate Committee on Finance, took the position that the grant of such authority should exclude the right to negotiate any reduction in the duties on those rubber footwear items described in TSUS numbers 700.51, 700.52, 700.53, 700.57, 700.59, 700.61, 700.62, 700.63, 700.64, 700.67, 700.69 and 700.71.

When the issue was before the International Trade Commission we urged that body to exclude rubber footwear from the coverage of any United States - Israel free-trade agreement. And when the issue was before the Trade Policy Staff Committee of the United States Trade Representative we took a similar stand.

The essence of the rubber footwear industry's position then, as it is now, was that, despite duty levels ranging from 20% to in excess of 60% this domestic industry has shrunk considerably as import penetration has increased. Its current employment is approximately 14,000 production workers and has shown a decline each

year for at least the past ten years. Imports of both waterproof and fabric-upper footwear have captured in excess of 60% of the American market.

The seriousness of the rubber footwear industry's import problem has been recognized by the Government time and again: The industry's duties were not cut in either the Kennedy Round or the Tokyo Round; the products of this industry have been excluded by the statutes governing both General Statutory Preferences and the Caribbean Basin Initiative; in 1981 and again in 1983 the Defense Department studied the industry and concluded that "if we lose one or two of the major domestic suppliers it would jeopardize our peacetime supply capacity"; in 1981 the Department of Commerce issued a report on domestic and import competition in the rubber footwear industry which noted the steady decline in domestic shipments and the steady increase in imports of rubber-soled footwear with fabric uppers over the past several years; and in January, 1985, the General Accounting Office issued a report on the U.S. Footwear Industries' Ability to Meet Military Mobilization Needs, and called attention to the likelihood that what is left of the rubber footwear industry might not be able to meet mobilization needs for rubber combat footwear.

All of these facts were known to the negotiators of the free-trade agreement with Israel. Nonetheless, they saw fit to agree to stage this industry's duties to zero within a period of five years. Having lost the battle for exclusion, we had pleaded with

our negotiators for a ten-year staging. At no time did representatives of our Government dispute the merits of our position. At most they asserted that Israel is not currently a competitive threat to this industry and is not likely to become one. But they gave us no basis for such an assertion, and no rebuttal of our view that the elimination of duties on rubber footwear would provide Israel with a significant incentive to manufacture and export the labor-intensive products of this industry.

If our prediction of significant Israeli exports of rubber footwear is warranted, a ten-year staging period would be far more appropriate than the agreed-to five years. If our prediction is unwarranted, the length of the staging period should be a matter of little concern to the Israelis. In either case, one would have thought that our Government would have shown greater sensitivity to the survival needs of this small but vital domestic industry.

Accordingly, we urge this Committee to return the United States - Israel free-trade agreement to the negotiators with an indication that its ultimate approval will depend in part on the extension of the staging period for the rubber footwear products enumerated herein to a minimum of ten years.

March 12, 1985

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Committee on Finance in a hearing on the proposed free-trade agreement between the United States and Israel. March 20, 1985

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

Now that a U.S.-Israel free trade area has been negotiated, I support its implementation, notwithstanding my reservations about strictly bilateral U.S. initiatives seeking free trade -- be the other party Israel, Canada, a group of Arab countries, or anyone else. I strongly urge -- indeed, our Council may well be the only such advocate -- an explicitly free-trade initiative on the part of the United States. But such a policy should be multilateral in conception, even though something less (far less) than a broadly multilateral arrangement -- even as limited as a free trade area with only one other country -- may be the initial result of the far-reaching initiative that should be undertaken. In other words, the United States should have invited the more advanced countries of the world to join with us in programming a free trade area -- expressing our readiness to negotiate such an arrangement with as many countries as may care to go this route with us in accordance with a realistic timetable. If Israel turned out to be the only country willing to proceed immediately to negotiate such an arrangement with us (as might well have been the case), so be it.

I shall not here elaborate on the many facets of the free-trade strategy I have in mind. I shall only mention, in passing, that the broad free trade area I envisage would provide special privileges (without seeking equivalent reciprocity until some distant millennium) to less-developed countries prepared to make significant commitments commensurate with their economic capabilities. The arrangement would program achievement of totally fair trade as well as totally free trade (objectives I regard as indivisible). And the free-trade strategy in foreign economic policy should be backstopped in domestic economic policy by a coherent adjustment, full-employment strategy essential to securing and sustaining U.S. commitment to a trade policy conceptually so advanced and politically so controversial.

Since the agreement with Israel has been negotiated (albeit

strictly bilateral in original conception), every effort should be made to make it work, not only in the best interests of both countries, but as a prototype for a more far-reaching free-trade initiative in the near future, pitched to a much larger array of countries. Certain aspects of the present free-trade agreement, however, cause me concern.

Although the agreement programs the mutual removal of all tariffs affecting trade between these two countries in delineated stages over a 10-year period (purportedly facilitating adjustment), and retains in some degree the applicability of import-relief remedies to possible contingencies of import-related dislocation attributable to removal of these barriers, I do not feel that the U.S. government has been sufficiently attentive to the adjustment problems that may befall weak U.S. industries which may be especially sensitive to progressively freer (ultimately unrestricted) imports from Israel. For example, the government should be moving right now to assess the real problems of these industries, including reassessment of all statutes and regulations materially affecting the ability of these industries to adjust to the removal of these import restrictions. Any inexcusable inequities should be corrected forthwith. Both countries should be taking measures calculated to preclude, at least minimize, recourse to the loopholes that leave the door open for restoration of trade barriers in certain cases.

My concerns also include disappointment that, although all tariffs affecting trade between these countries come within the purview of the agreement, not all nontariff barriers are covered. For example, import quotas on textiles and apparel could still be imposed under the multifiber agreement (although no such quotas now exist on imports from Israel). Thus, the free-trade agreement with Israel is less than the totally free-trade arrangement it ought to be (even as a strictly bilateral proposition). A coherent U.S. textile strategy addressing the real problems and needs of the U.S. textile/apparel industry -- a policy we have never had and do not appear to be contemplating -- could have equipped the United States to bring textiles and apparel within the scope of this free-trade agreement.

The United States lacks, and urgently needs, a coherent adjustment/redevelopment strategy to backstop progressively freer trade with the world, ultimately a definitive free-trade strategy per se. The free-trade arrangement with Israel provides an opportunity, indeed invites ways to set an example, for forging the domestic strategy whose time has come. This policy should be fully consistent with the highest practical principles of free enterprise, limiting government's role to fostering the most productive climate for growth of a resilient private-enterprise system able to adjust to the scheduled removal of all import restrictions -- and ensuring workers of the government's readiness

to help them make a successful adjustment to possible dislocation attributable in substantial measure to the removal of import restrictions.

Absence of the kind of domestic U.S. policy I have suggested may be a major reason the free-trade agreement with Israel is not the prescription for even bilateral free trade it ought to be. If the United States were prepared to ensure fullest implementation of a free-trade commitment covering all imports from Israel, it would be better prepared to press Israel to ensure fullest implementation of the commitments the Israeli government has made in this innovative agreement.

Ethyl Corporation
611 Madison Office Building
1155 15th St., N.W.
Washington, DC 20005
Telephone 202-223-4411

INTERNATIONAL TRADE AFFAIRS

March 21, 1985

DELIVERED BY MESSENGER

Ms. Anne Cantrel
Administrative Director
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: U.S.-Israel Free Trade Agreement (FTA) Hearings
March 20, 1985 -- W/L 85-003

Dear Ms. Cantrel:

On behalf of the U.S. Bromine Alliance (Alliance), we request that you include the additional comments, that we are submitting in this letter, into the written record concerning the proposed FTA with Israel. You already have our earlier written statement and the testimony we presented during the hearing on March 20th.

Since there was not sufficient time during the hearing to express some further views we have not already addressed in the record, we ask that the Committee give these additional views full consideration. Our views are in response to some of the comments the Administration witnesses gave during their oral testimony on March 20th, and we will further amplify some of the suggestions we made during the hearing about how possible alternative actions could resolve some of the specific concerns about certain non-tariff measures in the FTA with Israel.

Our comments are listed in the same order they appear in our written statement, and are identified by the FTA Article/Annex number and title.

Article 5 - Relief from Injury Caused by Imports

Although Ms. Cooper's response to the question, from Chairman Packwood, "will the consultation procedures of the Agreement interfere with the operation of U.S. import relief laws?", was that, "they will not", we urge the Congress to insure that Articles 17, 18 or 19 cannot be used to defer imposition of an escape-clause action nor can they be used to delay the commencement of such proceeding. It should be understood that "interference with the operation" encompasses all steps from the beginning of an escape-clause proceeding right through to any actual imposition of relief.

Article 5 (continued)

The provisions in paragraph 3 of Article 5 allow discriminatory application of an escape-clause action. This is in violation of Article XIX of the GATT, and is contrary to what the U.S. trade policy position has previously been concerning the exclusion of certain countries within the context of an international (MFN) trade agreement.

Article 10 - Infant Industry

Although the Administration indicates the definitions employed with respect to this provision are those which apply to Article XVIII of the GATT, we cannot find any such definitions in the GATT, and submit that the proposed definitions are inadequate.

Article 11 - Balance of Payments

The Administration has indicated they have agreed to use the "standard of actions" allowed by the GATT under the balance of payments section. If the GATT is the standard, why not also employ paragraph 2 of Article XV in the GATT that requires that the fundings of the IMF be accepted? Our earlier written statement suggests that at least the FTA should require that IMF advice be sought and considered in the FTA consultation process.

Article 14 - Intellectual Property

The Administration has indicated that the "U.S. will retain the right to consult with the Government of Israel under the Joint Committee established to administer the FTA", should any issue arise where there is less than satisfactory protection provided. If this is the intent, why not include such language in the FTA under this Article? We still consider our earlier comments on this subject are even more appropriate.

Article 17 - Joint Committee

The Administration has indicated they "have not formally laid out the procedures involving the private sector advisors in preparation for Joint Committee discussions." However, they acknowledge that the advisors have a strong interest in participating in this process and that our advisors will have an opportunity to "play an active role in this process." If this is the intent, we submit that it should be so stated in the FTA, or at least be made part of the legislative record in the implementing legislation process.

Annex 4 - Commitment on Subsidies

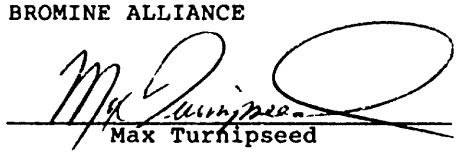
In our oral testimony we noted that the type of legislation that Senators Heinz and Long might be introducing (charterized as a Subsidies Keeping Bill) could help alleviate some of our concerns in this area, but we also suggested that serious consideration be given to some form of an optional snap-back provision (as outlined in our written statement), and we introduced a new suggestion which we were not able to sufficiently explain due to the time restraints of the hearing.

We recognized our concern, and the many other expressed concerns, about giving Israel the benefit of the injury test a full six years before they have committed to eliminate all export subsidies. One way that might strike some balance here is to have both parties agree in the text of the FTA that the U.S. will have the right to waive the "injury test standard" on specific products involved in any Commerce Department investigation which determines that export subsidies do exist and are benefiting exports of those specific products. If some grace period is appropriate, maybe this right to waive the injury test could become effective after 1987 when export subsidies are found by the investigative agency to be benefiting Israeli exports.

In conclusion, we urge the Congress to keep in mind the likely precedent-setting provisions this FTA will establish, and strive to include the "real intent" of the FTA non-tariff measures in the legislative record. If this is done, it should be understood that the administration of the FTA should be guided by the legislative injunctions that accompany the implementing legislation.

Respectfully submitted,

U.S. BROMINE ALLIANCE

By: 
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cc: Senator David Pryor
U.S. Bromine Alliance Members

Electronic Industries Association

Peter F. McCloskey
President

March 26, 1985

The Honorable Robert Packwood
United States Senate
259 Russell Senate Office Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

This statement is submitted in accordance with your March 8, 1985 notice concerning the hearing on the proposed U.S.-Israel Free Trade Agreement. We ask that it be circulated to members of the Committee and be included in the hearing record.

I would like to say first, Mr. Chairman, that this proposed agreement contains a number of commendable provisions, including particularly Article 13 pertaining to trade related performance requirements and Article 14 pertaining to intellectual property.

However the provisions of Article 2 pertaining to the staging of tariff reductions is not equitable with respect to electronic products, and we recommend that the Committee require a change in the Agreement to meet this deficiency.

The staging of tariff reductions as provided for in Article 2 and explained in the U.S.T.R. document, Summary of U.S.-Israel Free Trade Agreement, Parts III, V and VI, fails to harmonize the reduction of tariffs on electronic products in an equitable manner and, thus, does not ensure equivalent market access for U.S. producers. It provides Israel with immediate duty-free entry to the U.S. for virtually all of these products, while most U.S. electronic products are denied duty-free entry to the Israeli market until various dates between 1989 and 1995.

Specifically, most electronic imports from Israel as identified in Part V of the Summary are within the scope of the ISAC-5 Electronics and Instrumentation sector, but some are in the ISAC-1 Aerospace Equipment sector. The agreement would provide that U.S. duties be eliminated immediately on 98.5% of the ISAC-5 and 100% of the ISAC-1 goods. With respect to comparable Israeli products, however, Part VI of the summary indicates that only certain electronic components (valves, tubes, photocells) would be subject to immediate elimination of duty. Duties on automatic data processing machinery would be eliminated as of 1/1/89; telegraphic equipment and parts as of 1/1/95; and radio telegraph apparatus sometime between 1/1/90 and 1/1/95.

(More)

It should be noted that the electronic industry of Israel is not primitive and is certainly not an "infant industry" as defined in the proposed Agreement. There are 40 companies in the Israeli Association of Electronic Industries; their products are sophisticated -- many of them state-of-the-art developed for military end use, and very little prevents their modification to serve commercial end uses. Hence we recommend that more harmonization be secured between the two staging schedules, so that fair and equitable market access is achieved for U.S. goods. Phasing out duties on an equivalent basis in both countries during the later years would allow more time for the industries in both countries to adjust.

I would also like, in view of the relativley high technical level of Israeli industry with respect to production of defense products and the high level of U.S.-Israeli trade in defense-related products, to call the Committee's attention to point numbered 7 of the attached EIA Position on Bilateral Free-Trade Arrangements. That point, as elaborated in Addendum-B of the attached, reflects the concern of U.S. electronic companies that international trade in defense and dual use goods and services warrants attention when trade agreements are negotiated so as to ensure that U.S. industry is not disadvantaged by foreign subsidies, offset requirements, and relatively more burdensome official U.S. requirements. Should this aspect of the U.S.-Israeli trade relationship prove to be a cause of significant concern to members of the Electronic Industries Association in the future, the Association will seek to have the U.S. government raise the issue in the Joint Committee provided for under Article 17 of the Agreement.

Sincerely,

Peter F. McCloskey
President
Electronic Industries Association

Attachment
PFM:ahg

EIA POSITION ON
BILATERAL FREE-TRADE ARRANGEMENTS

The Electronic Industries Association (EIA) supports congressional action authorizing the negotiation of bilateral agreements with other countries, such as Israel and Canada, to harmonize, reduce, or eliminate tariff and nontariff barriers which hinder the foreign trade of the United States or adversely affect the U.S. economy. However, EIA is opposed to the entering into force of such agreements until they have been approved by the Congress and unless they include satisfactory provisions with respect to the following:

1. Rule of origin, which requires that in order to be eligible for duty-free treatment under an agreement providing for a free-trade area at least sixty percent (60%) of the appraised value of an article entering the U.S. from the other signatory country must have originated in the U.S. and the other signatory country, or, alternatively, that at least fifty percent (50%) of the appraised value of such an article must have originated in the other signatory country. SEE: Addendum-A.

2. Each government's assurance that it will take any legislative or regulatory action that is needed in order to ensure equivalent, competitive market access into its marketplace for all product sectors covered by the agreement;

3. Trade in services and investment transactions, as well as in goods;

4. Technical barriers to trade, such as engineering and safety standards, and the certification of articles as conforming to such standards;

5. Unfair trade practices, such as subsidies and dumping;

6. Safeguards specifying the conditions under which one signatory country may suspend its obligations to the other signatory country with respect to specific goods, services or practices;

7. Safeguards to ensure that the other signatory country does not obtain a means whereby defense products, components, and services may be exported to the United States under conditions that place U.S. industry at an unwarranted competitive disadvantage. SEE: Addendum-B.

Electronic Industries Association
October 10, 1984

ADDENDUM-A
to the EIA Position on
Bilateral Free-Trade Arrangements

Background to EIA's Position on Providing a "Rule of Origin."

In today's world, raw materials and component parts can readily be transported over long distances for assembly in a country which happens to enjoy customs advantage with the country of eventual destination. In this context, please observe that the ultimate customs advantage is Duty-Free Entry, and that the world's favorite destination is the United States.

Raw materials, component parts, or sub-assemblies which have been extracted, grown, or made in a nation do properly constitute "Content" (cost or value) originating there. So also do such labor, processing, transportation, packaging, R&D or other overhead costs as are allocable to the specific merchandise.

Ordinarily, materials, parts, or sub-assemblies that have been imported from foreign (external) sources -- for incorporation into articles which are assembled in a signatory nation -- must not be allowed to contribute to Content originating in that nation. However, if imported from the other signatory nation, they should be allowed to contribute to Mutual Content.

The rules of origin commonly observed by Customs Services the world over are generally based on "MFN" trade and, hence, presume that customs duty is collectible. To them, the manipulation of an article sufficient to change its tariff-heading is the criterion for confering origin. A stick of wood carries one tariff-heading; a wedge of iron, another; once assembled, they constitute a Hammer, carrying yet another tariff-heading. Accordingly, Customs Services would rule that such Hammers originated in the nation where assembly took place.

However, since its two main components represent about 90% of a Hammer's value -- and the connecting of them, only about 10% -- we oppose the "change of tariff-heading" criterion and favor the "mutual content" criterion for determining origin in duty-free trade.

The European Economic Community (EEC) and the European Free Trade Association (EFTA) -- both of which provide for internal duty-free trade -- require that a minimum of 60% of the value of a manufactured article must have originated in member nations. Products having 41% or more "foreign" content are subject to tariff even when shipped from one member nation into another.

EEC and EFTA honor Mutual Content -- by prescribing a minimum value toward which their signatory countries may jointly contribute.

Electronic Industries Association
October 10, 1984

ADDENDUM-B
to the EIA Position on
Bilateral Free-Trade Arrangements

Background to EIA's Position on Providing for Trade in Defense Products, Components, and Services.

Until now, it has been customary to include in trade agreements a provision to the effect that defense trade (military procurement) is excluded. However, the distinction between defense products and commercial products has now been obscured by Government itself.

The Export Administration Act recognizes "dual-use," i.e., the fact that some products and technologies can be exported for ostensible commercial-use but actually put to military-use. Further, defense trade now involves "offsets." A 1983 survey by the Treasury Department indicated that, on the average, 35% of the value of military exports actually takes the form of goods or services supplied by the recipient nations. U.S. exporters of defense products are usually obliged to accept agricultural produce or commercial products as part of their foreign transactions.

Since defense trade is no longer pure; it must not be excluded from the provisions of future bilateral free-trade arrangements. The following are examples of governmental policies or practices from whence arises the need for defense-trade safeguards:

> (a) Where government-subsidized defense products and services are exported to the U.S. (b) Where the defense products of U.S. industry must conform with requirements imposed by the U.S. Government but where those requirements are relaxed or waived with respect to defense products of the other signatory country. (c) Where cost accounting requirements imposed by the U.S. Government on U.S. suppliers of defense products are waived or relaxed on suppliers from the other signatory country. (d) Where equal employment opportunity and affirmative action requirements are imposed by the U.S. Government on U.S. suppliers of defense products but where their waiver or relaxation as to suppliers from the other signatory country gives imports a cost advantage.

Procedures should require that (1) prior to the importation from the other signatory country of defense products or services, the procuring agency certify that the import would not jeopardize the U.S. defense-industrial base, and that (2) prior to our exportation of defense products or services, the other country's government has agreed to control their subsequent re-export to third countries.

Electronic Industries Association
October 10, 1984

STATEMENT OF MONSANTO COMPANY

SUBMITTED BY LEE MILLER

GENERAL MANAGER, NUTRITION CHEMICALS DIVISION

BEFORE THE COMMITTEE ON FINANCE

OF THE UNITED STATES SENATE

ON THE U.S.-ISRAEL FREE-TRADE AGREEMENT

MARCH 20, 1985

Ethoxyquin is an antioxidant used in animal feeds to preserve their nutritional value.

The future of ethoxyquin will be placed in serious jeopardy if duty free status into the U.S. is granted to Israel under the terms of the U.S. - Israel-Free Trade Agreement.

- ABIC (Israel) purchases raw materials at very low prices from European sources. Little value is added by Israel in the coversion of the raw material into ethoxyquin. ABIC passes these cost advantages along in its ethoxyquin prices resulting in current market prices being depressed.

- Removal of the U.S. duty will force Monsanto (the sole U.S. producer) into a net loss position in this business as it will have to reduce its price to remain competitive and maintain market share.

- A routine but costly update on ethoxyquin safety data is expected to be required by the EEC in 1985. Without Monsanto's support it is unlikely that the other producers will be able to fund the needed toxicological tests and ethoxyquin will lose its approved status by default.

- Removal of the U.S. duty as proposed will not benefit Israel either in the short term or long term. In the short term U.S. prices will decline by the amount of the current duty rate and ABIC will experience the same financial returns from the U.S. as it does today. In the long term Monsanto's failure to support toxicological tests will by default cause ethoxyquin to lose its approval status. Both the U.S. and Israel stand to lose if ethoxyquin is not given continued duty protection in this trade agreement.

BACKGROUND

Ethoxyquin is the most cost effective antioxidant available today to preserve the nutritional value of animal feeds and as such enjoys the widest use in the feed industry. The two largest markets are Europe and the U.S. Monsanto is the sole domestic ethoxyquin producer in the 4.5 million pound U.S. ethoxyquin market. Monsanto was the innovator of

ethoxyquin in the mid-1950's and is the largest producer today. ABIC (Israel) is the second largest producer and combined with Monsanto these two represent approximately two-thirds of the world's capacity. The other ethoxyquin producers are small companies (usually privately held), and have no other interests in the feed industry.

ABIC (Israel) has been extremely competitive in the U.S. in the past several years because of its favorable cost position. Raw materials comprise over 80% of the ethoxyquin manufacturing cost. ABIC has been receiving these materials at very low prices from a European producer. Little value is added by ABIC in the conversion of these raw materials into ethoxyquin. This cost advantage has been reflected in ABIC's ethoxyquin prices. As an added advantage ABIC enjoys duty free access to the EEC while Monsanto must pay a 9% duty.

Ethoxyquin is currently protected by a U.S. import duty of 10%. Recent import statistics are as follows:

(000 Lbs.)

	1982	1983	1984
Israel	687	337	536
Other	553	323	395
TOTAL	1240	660	931

Israel's recent participation in the U.S. imports is tangible evidence of their competitiveness. ABIC is responsible for a 25% reduction in U.S. ethoxyquin prices since 1982

Reduction or elimination of the current U.S. duty for Israel will cause Monsanto to lose money on its ethoxyquin business. In order to continue to participate at current levels, Monsanto will be forced to lower its prices by the amount of the duty reduction in order to compete. The U.S. market will always be the most attractive market for Monsanto and therefore will be strongly defended. Reduction of the market prices will cause Monsanto to lose money on its sales and prevent ABIC from experiencing any financial gains.

A routine but expensive update on ethoxyquin safety data will soon be required. Like all feed additives, ethoxyquin is subject to governmental regulation. Periodically it is required that product safety data be updated to current technological standards. Efforts are

underway in the EEC to request updated toxicological studies for a group of products - which includes ethoxyquin. An EEC directive to this effect is expected to be issued this year. Costs to conduct such a study are estimated at $750,000. While no safety problems are known or anticipated, additional trials and costs may become necessary to update the safety file.

With such poor financial performance it will be difficult for Monsanto to rationalize a $750,000 investment for EEC re-registration. The other producers are collectively too small to support this need without Monsanto. Failure to comply with the EEC requirements will, by default, cause ethoxyquin to be blacklisted and will have repercussions in other world markets. A collapse in the ethoxyquin market does not help either the U.S. or Israel. It potentially will cost over 80 American jobs.

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