

EXTENSION OF FAST TRACK LEGISLATIVE PROCEDURES

HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE ONE HUNDRED SECOND CONGRESS FIRST SESSION

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MARCH 14, 1991
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EXTENSION OF FAST TRACK LEGISLATIVE PROCEDURES

THURSDAY, MARCH 14, 1991

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

The hearing was convened, pursuant to notice, at 10:05 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Packwood, Roth, Danforth, Chafee, Heinz, Symms, Breaux and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-7, March 12, 1991]

FINANCE COMMITTEE TO HOLD HEARINGS ON EXTENSION OF FAST TRACK; BENTSEN STRESSES IMPORTANCE OF CONSULTATION WITH CONGRESS

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman of the Senate Finance Committee, Tuesday announced hearings on the President's request for extension of fast track legislative procedures for consideration of international trade agreements.

The first hearing is at 10 a.m. on Thursday, March 14, 1991 in Room SD-215 of the Dirksen Senate Office Building. United States Trade Representative Carla Hills will be the only witness. Other hearings will be announced.

"Since 1974, Congress has given the President authority to negotiate trade agreements and bring them back to it on the fast track. But this process only works when the Congress and the Administration consult closely regarding negotiations. Now that the President has asked for two more years of fast track authority, the Finance Committee will want to review what has been accomplished since fast track was last extended as well as what can be expected in the next two years," Bentsen said.

"I intend to hold a series of hearings to examine every aspect of this request. The first step is to hear why the Administration believes it needs another two years," Bentsen said.

The Omnibus Trade and Competitiveness Act of 1988 authorizes the President to enter into trade agreements to reduce trade barriers with foreign countries through June 1, 1991. Subject to the consultation and other requirements of that Act, the President may submit implementing legislation for such agreements to be considered under the expedited legislative procedures set forth in section 151 of the Trade Act of 1974. The 1988 Act provides that this "fast track" implementation authority may be extended to trade agreements entered into before June 1, 1993 if the President so requests and if neither house of Congress disapproves of the extension before June 1, 1991.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN OF THE COMMITTEE

The CHAIRMAN. This hearing will come to order. This morning's hearing is the first in a series of hearings that we will hold in dis-

cussing the President's request for fast track authority for the negotiation and implementation of trade agreements.

When I took over the chairmanship of this committee four years ago, effective trade legislation was one of my top priorities. I had been frustrated and disappointed by what I thought was a lack of strong trade policy during the Reagan Administration. Therefore back in 1988, this committee put together comprehensive trade legislation. We accomplished this over two long, tough years of negotiating and trading, and in the face of a possible presidential veto.

A cornerstone of that 1988 Trade Act was the fast track. The President's ability to negotiate trade agreements depends upon it. No one is going to take negotiators for this country seriously if, once the negotiations are completed and an agreement reached with another country, the agreement is brought back to the Congress and subject to amendment after amendment being added to it.

The President's ability to negotiate depends upon the fast track. By taking the lead in negotiating multilateral trade agreements, the United States can expand world trade in a way that will significantly help the American people. Trade negotiations offer the greatest possible potential for opening up foreign markets to U.S. exports, which benefits the country as a whole. I believe that in 1988, and I still believe it.

I support extending the fast track authority for the Uruguay Round and for a U.S.-Mexican Free Trade Agreement because, properly executed, the fast track provides the best means for the Congress and the Administration to work together toward an agreement that is going to increase our exports, create more good jobs in the United States, and improve prices for our consumers.

But in 1988 our unhappiness with the Reagan Administrations' trade policy made us cautious. So when the Congress granted fast track in 1988, we built a number of safeguards into the process. One of those safeguards brings us here today.

In 1988, the Administration proposed that we grant them permanent fast track. We refused that. We gave the President the fast track until June of this year, but we provided that the President could have two more years of fast track authority if he asked for it by this March, and on the understanding that either House of Congress could deny that extension.

Now, why did we include the option for extension? Our reasons were: to ensure that Congress was really involved and were well-consulted during negotiations; to ensure that the Administration's eyes did not just glaze over when we expressed the concerns of our constituencies; to ensure that they were really tuned in and that they were listening.

Madam Ambassador, these conditions are why you have spent so much time with this Congress in the last 2 years, and we commend you for it.

This spring we will have to decide whether to allow that extension. The Administration has a tough sale to make. Many members of the Congress have serious problems with the Mexican Free Trade Agreement and the Uruguay Round negotiations.

In reference to the Mexican negotiations, last week Chairman Rostenkowski and I sent a letter to the President asking for an

action plan. We want to know the Administration's intentions for addressing the labor and environmental concerns that have been raised in connection with these negotiations. I urge the Administration to give very careful thought to that plan.

I think we also must look at important domestic policies that relate to those negotiations. For example, in the 1988 Trade Act, we extended the trade adjustment program through 1993. That program is intended to help workers and firms adjust to import competition. Therefore, it will be important for this program to be working if we reach an agreement with Mexico, for we know that this agreement would create both winners and losers. But for the last 10 years, the Administration has been trying to kill that program. I think that this committee had better take a good look at the current status of that program and ensure that it can meet the challenge of an agreement with Mexico.

If the fast track is to be extended, the Administration must convince the members of Congress that they should allow these negotiations to proceed. Thus, I have invited Ambassador Hills today for the first of our hearings on the extension.

In the next months, I want us to take a close look at what has been accomplished under the fast track in the last 2 years and what we would accomplish in the next two. I know this town. The tendency during this debate will be to focus on the vote count, but let us not lose sight of why we put this process in the 1988 Trade Act.

I will also be scheduling hearings in April on the Uruguay Round and the Enterprise for the Americas Initiative. Together with the hearings that we held on the prospects of trade negotiations with Mexico, these hearings will give us a good idea of what to expect if fast track is extended.

I would like to defer now to Senator Packwood for his comments.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. I agree completely with the Chairman. We should give the President the benefit of the doubt and allow an extension of his fast track authority. The reality is that without this extension, we will not be able to pursue two critical trade policy goals, and that is finishing up the Uruguay Round and hopefully, concluding with Mexico a North American Free Trade Agreement.

If a North American Free Trade Agreement achieves its goals, it will bring stability and certainty to Mexico's fragile economy and will create a significant export market for United States' goods and services.

A successful conclusion to the Uruguay Round is important because it gives the United States its best opportunity to eliminate a wide variety of foreign trade barriers to a whole array of U.S. goods and services. For example, the Uruguay Round gives us the upper hand in pressing Europeans to dismantle the web of protection and subsidies they have provided for years to their insufficient farmers.

Pursuing both of these agreements is in this interest of Oregon which is heavily dependent upon trade. About one job in six in

Oregon are directly and indirectly dependent upon imports or exports. Oregon's agriculture, timber and horticultural industries are convinced they can benefit from a Free Trade Agreement with Mexico if Mexico eliminates its relative high tariffs on forest and horticultural products and liberalizes the rest of its import licensing requirements on agricultural products.

There are, however, some legitimate concerns confronting both of these initiatives that will need to be addressed and resolved and if they are not, Congress clearly will not approve of the agreements.

We need to make sure that free trade with Mexico does not result in significant job losses in the United States. And in the final Uruguay Round Agreement, the U.S. must not give up more than it gets. But we should not pre-judge the results of what President Bush and Ambassador Hills can or cannot achieve in these negotiations. All the President is asking is to allow the talks to proceed.

Once a final Uruguay Round or North American Free Trade Agreement is completed, Congress will have the full and final opportunity to review, debate and if we choose, to reject their agreements if they are not in the interest of the United States.

I think Ambassador Hills has proven that she will not bring back a bad agreement. And I would oppose with every resource I had a bad agreement. But this is not the time to make that judgment; that time is when the agreements come back. And without the extension of the fast track authority, there will be no agreements.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you. Chairman and Ambassador Hills, I support extension of the fast track because I believe that the Administration should be able to sit down to talk with Mexico and sit down to talk with our trading partners in the Uruguay Round. We do not know what we are going to come up with unless we sit down and talk. And it is for that reason that I support the fast track extension.

I must tell you, though, that in speaking with Senators, it is by no means a sure bet that the Congress will, in fact, extend the fast track. I hope it will. I think in the final analysis Congress will allow an extension of the fast track. But I can tell you it is my opinion anyway, that the Administration is going to have to do a better job than it has thus far in addressing the concerns of Senators who are concerned about wage rate differential; concerned about lack of environmental enforcement in Mexico; Senators who are concerned about the inability to offer amendments on the floor of the Senate.

It is going to be very, very difficult, and I urge you very, very strongly to go even further than you have to address not only issues on the surface, saying that, well, we will see what we can work out in negotiations, but much more substantively. For example, the Administration is opposed to trade adjustment assistance of programs. That causes a lot of concern for a lot of Senators.

There are more and more stories about environmental problems in Mexico. And today in the Journal of Commerce, for example, there is a story about how the border is a cesspool caused by American multi-nationals. That does not sit well with a lot of Senators.

And I just strongly urge the Administration to go a lot farther than it has, not only in the actual negotiations when fast track extension is approved, and that is assuming it is improved, but in securing fast track extension in the first place. It is just my judgment that the Administration is going to have to do much more than it already has.

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

The CHAIRMAN. Thank you. Senator Breaux, do you have any comments?

OPENING STATEMENT OF HON. JOHN BREAU, A U.S. SENATOR FROM LOUISIANA

Senator BREAU. Just very briefly, Mr. Chairman. I want you to know that if we cannot extend fast track in the Senate Finance Committee, we've got some real problems with finalizing the terms of all trade agreements. I serve on another committee whose chairman has a different opinion of the merits of fast track, and I think we all, sometimes, find ourselves in such conflicting situations. But I think, you know, you cannot have 535 or 100 Senators writing the merits of a trade agreement. We need to be consulted. We need to be involved. We need to have our considerations properly taken into account by negotiators.

But I think ultimately, the fast track is the only process that is going to allow a treaty in the trade area to ever be timely considered and voted on. All of us have the right to vote against a proposed agreement if we do not like it. We certainly reserve that right—I do. But the fast track process is one that I think deserves our favorable attention.

The CHAIRMAN. Thank you. Senator Danforth, would you care to make some comments?

OPENING STATEMENT OF HON. JOHN C. DANFORTH, A U.S. SENATOR FROM MISSOURI

Senator DANFORTH. Mr. Chairman, other than to say that I strongly support fast track extension, I have no opening statement.

The CHAIRMAN. Senator Symms?

OPENING STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR FROM IDAHO

Senator SYMMS. Thank you, Mr. Chairman and Madam Ambassador. There is a lot to be said about this. I also support the fast track. I would like to have my entire statement put in the record at this point and just make a couple of brief points if I could in order to save time.

But I do think that we have run into some problems with the Canadian Free Trade Agreement. One of these problems is the attempt by the provincial government of British Columbia to withdraw the memorandum of understanding for timber imports which

was instrumental in getting the support of this committee for the Free Trade Agreement fast track for Canada. So it is not a small matter. I have joined with Senator Packwood and others to work towards the preservation of that memorandum. I hope that we can do that.

There is another situation which has come up as a result of the Canadian Free Trade Agreement which is the Saferco fertilizer project in the Saskatchewan province where the provincial government is providing significant equity in guaranteeing the owners' commercial debt. So I hope that that situation can be resolved because those kinds of issues are the things that those of us on this committee are running into with our colleagues in the Senate.

Another issue that we have run into in my State—Idaho, is a big pork producing State and there seems to be a big difference between the Bi-National Commission of what—the U.S. International Trade Commission does not see eye-to-eye on what the Bi-National Commission is. And our pork producers are coming to us and saying that they are in some kind of a pig-pen of indecision.

So I hope that you can address that issue for us in general at least in your testimony today to assure us that maybe our pork producers are not caught in some kind of a dispute between agencies. And I hope that you and your staff are looking into it and I will be interested in hearing a general sense about it and maybe a more detailed report later.

But I know there are a lot of questions that we will all have as the morning goes on. But I think this is a most critical issue and I appreciate the work that you are doing.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Senator Roth?

**OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S.
SENATOR FROM DELAWARE**

Senator ROTH. Thank you, Mr. Chairman. I have a statement which I would ask be included.

The CHAIRMAN. That will be done.

Senator ROTH. I will make just a couple of short remarks. To me the matter is very simple. I strongly support fast track. I strongly support fast track because I think it provides us the only opportunity to expand exports, to expand trade opportunities and jobs. If we fail to extend fast track, then I think we are faced with the threat of protectionism and trade wars—something that we do not need.

And I would just like to say that I agree with Senator Packwood, when he says we will judge the agreements negotiated at the time they are submitted to the Congress. But in the meantime, I have great confidence in your negotiating ability and wish you well. Thank you.

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

The CHAIRMAN. Senator Heinz?

**OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR
FROM PENNSYLVANIA**

Senator HEINZ. Mr. Chairman, thank you. First, I would ask unanimous consent that my entire statement appear in the record.

The CHAIRMAN. That will be done.

Senator HEINZ. Mr. Chairman, I have supported every single trade agreement that has come before the Congress since I have been here—the passage of the 1979 Trade Agreement Act, which I worked very hard for; the U.S.-Israel and U.S.-Canada Free Trade Agreements. I supported the 1974 Trade Act when I was in the House.

I do not know how I am going to vote on fast track authority which puts me in unusual territory. The reason I am perplexed, of course, is that this is not just a question of extending fast track for the Uruguay Round, but also for the U.S.-Mexican—or if you prefer, North American Free Trade negotiations. I have some concerns that we all have talked about. We all have concerns about how the Uruguay Round negotiations with the E.C. and others are coming. But on the latter, I have some very specific concerns. I want to take a moment just to highlight them for Carla Hills.

The first is that the Administration and indeed Ambassador Hills have argued that once negotiations have begun, they have got to be concluded because to torpedo such negotiations in mid-stream would cause severe damage to U.S.-Mexican relations. I have trouble with that line of argument because once those negotiations are completed, we are going to be told that the agreement must be approved regardless of perhaps the merits that might be objectively judged, because to reject it would severely damage U.S.-Mexican relations. Apparently if you follow that logic to its conclusion, the only way to oppose a trade agreement is to oppose ever talking to anybody, which obviously is ridiculous.

The second issue is environmental regulation. There is great concern that a Free Trade Agreement with Mexico will lead to further environmental degradation there. Mexico has what might charitably be called generally a more benign regulatory environment and might encourage American companies to relocate in Mexico. And thus far, as far as I can tell, the Administration has not provided convincing assurances that it both recognizes and is prepared to deal with this problem.

Third, is the issue that Chairman Bentsen mentioned, adjustment and worker re-training. There are going to be jobs that disappear in the United States as a result of any Free Trade Agreement with Mexico. But the people who held those jobs are not going to disappear. They will still be here wondering what their government has done to them, and I am wondering what we can do for them.

Fourth and lastly, is the issue of rules of origin which will determine whether this agreement will help Mexico to become a developed country instead of a third world country which is exploited for its cheap labor and lax regulatory requirements. Too low a threshold of value added or, and this could be just as if not more important, any laxity in the enforcement of such rules of origin would lead other countries to set up minimal screwdriver or assem-

bly plants and forego the transfer of technology and know-how that will raise the Mexican standard of living.

Mr. Chairman, these are not obviously all the problems you or I or anybody else can think of with respect to a Free Trade Agreement, but they are ones that stand out in this Senator's mind. I bring them to the attention of the Ambassador because I know that she will negotiate a good agreement if she possibly can. But nobody can do it all by themselves, and I hope that she will take my comments as constructive ones for her and the rest of the Administration. And it requires more than just her considerable abilities. It will take the rest of the Administration to address many of these issues.

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

The CHAIRMAN. Madam Ambassador, you have heard some of the Members' concerns. You have a very major responsibility in these negotiations, so we have given you the entire morning with no one else to testify.

STATEMENT OF HON. CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you very much, Mr. Chairman and members of the committee. It is a pleasure to be here. You have my prepared and written comments for the record and perhaps in the interest of time, to maximize the opportunities to have a dialogue, I could put aside my prepared testimony and just mention a few points.

I hope the members will also take the opportunity to read the President's report submitted March 1st, which lays out in detail the basis for the President's request for an extension of fast track procedures.

First, you know how strongly we in the Administration feel about fast track. The President underscored the importance this Administration attaches to fast track extension in a letter he has sent to each member of Congress. The question is really quite simple. Are we going to be in the business of negotiating trade agreements to open markets and bring down trade barriers? That is the objective that this Congress established in the 1988 Trade Act. My answer is equally simple—we must be. The United States leadership in the global economy depends upon it. The success of the multilateral trading system depends on it, and above all, the U.S. economic growth depends upon it.

During the past 3 years export expansion has accounted for over half of the growth of U.S. G.N.P. And last year alone, with a slowing domestic economy, vibrant exports accounted for 88 percent of G.N.P. growth.

Second, Mr. Chairman, I did read with interest the letter that you and Chairman Rostenkowski sent late last week to the President, and I fully share the sentiments reflected in your letter. You said there, that extension of fast track is necessary if the Administration is to have any credibility in multi-bilateral or bilateral trade negotiations. Let there be no mistake, there will be no real

trade negotiations involving the United States if fast track is not extended.

You also noted in your letter that in considering free trade negotiations with Mexico, a number of members of Congress have raised concerns about issues not typically addressed in trade agreements; specifically, about the adequacy and the enforcement of environmental standards, health and safety standards, and workers' rights. I agree with your characterization of these concerns as legitimate ones that deserve to be addressed in a meaningful way.

You asked for our thoughts by May 1 on how these concerns should be addressed and I look forward to working with members of the committee and private sector representatives in fashioning an effective approach.

I am confident that we can find common ground with those who share our vision of unprecedented opportunity for economic growth on both sides of the border and the advancement of a broad agenda with the Government of Mexico.

Finally, Mr. Chairman, you cautioned in your letter that we ought not to lock ourselves into any unrealistic time frame to consider a North American free trade negotiation. Once again, I fully agree.

As you know well, fast track is neither fast nor a track. In truth, the process is actually quite deliberate. No one is being railroaded into approving agreements that are to be negotiated. Fast track procedures have absolutely nothing to do with the pace at which we conduct our negotiations.

And let me reiterate an assurance that I have made many times before this committee. We will not rush to conclude any agreement; Uruguay Round, Mexico or otherwise, merely for the sake of having an agreement. We proved that in Brussels, and our standards remain high. While we are eager to capture the benefits that these agreements promise, we will take the time necessary to arrive at agreements that are truly and substantially in the economic interest of the United States.

We will take the time needed to consider all relevant issues and to consult fully with you and with the private sector. And until we arrive at good agreements, one that we believe that you will agree are good agreements, there will be no agreements. The fast track as perceived by Congress and as implemented by the Executive and by Congress, is a genuine partnership between the two branches. Although only the President can negotiate trade agreements, and fast track's guarantee of a timely up or down vote--at the end of the process is essential to the President's ability to do so--Congress has a full role throughout the entire process in formulating the negotiating objectives in close consultation as the negotiations proceed.

In the Uruguay Round, for example, you have reviewed each and every one of our proposals, and many of you were with us at Brussels. You participate in close consultation before any agreement is signed and in full participation in drafting the implementing legislation. As in the past, I expect the Administration will work very closely with this and other committees of jurisdiction in crafting and implementing legislation.

If we do our job right, then we will see the Administration submitting to the Congress precisely the legislation that you and other committees produce in the mock markup and the conference process. Indeed, if we do our job right which includes the close consultation envisioned by the fast track, then trade agreements and the implementing legislation should be approved overwhelmingly by Congress. But if we do not, then each member of this committee and the Congress overall retains the unqualified right to vote the agreement down by a simple majority. An extension of fast track is in no way impairing of your ability to exercise that right.

Mr. Chairman, in my 2 years as Trade Representative, I have been most grateful to you and to Senator Packwood and many others on this committee for your leadership in forging an effective partnership between our Administration and the Congress on trade policy. And I hope that through supporting fast track extension we can have that partnership continue. And we shall together pursue vigorously unprecedented opportunities for economic growth and prosperity that our partnership makes possible.

And I am very pleased to respond to your questions.

[The prepared statement of Ambassador Hills appears in the appendix.]

The CHAIRMAN. Thank you, Madam Ambassador.

Let me ask you about one issue you mentioned. Let us just suppose that fast track is denied to you, that the Congress does not agree to it. Would you give up on the negotiations with Mexico and in the Uruguay Round, or would you proceed in hopes that whatever final product you put together would, at the end of the day, be approved by the Congress? What would be your action?

Ambassador HILLS. It would not be me who would give up. My trading partners would not negotiate with me. They demonstrated that in 1974, where before fast track they would not negotiate, it required fast track to get them to come to the bargaining table, and you cannot blame them for it.

The Uruguay Round would crash. We have 107 trading partners with whom we are negotiating across 15 negotiating groups. Each of the groups have complicated sub-parts. The prospect of negotiating laboriously, while knowing that the deal struck may not be the final agreement, that there could be even a few changes, would simply destroy the negotiation.

And when we talk about a North American Free Trade Agreement, we are not talking about a simple agreement on one issue. To be GATT compliant, we need to have an agreement that stretches across all trade. It has to be a comprehensive agreement. It involves three parties and it would have to cover all goods; all services; investment; protection of intellectual property; a dispute settlement. And minor changes would destroy that agreement.

We saw that Mr. Chairman, in the 1930s with the Smoot-Hawley bill, where Congress sought to hang special protections for special interests from each district on a bill. That drove us into the Great Depression. It was that lesson that drove this body to pass the Reciprocal Trade Act of 1934 to give the President the power to negotiate reductions in tariffs so that we could have an expansion of trade. And that bill and that authority has done very well by this Nation.

The **CHAIRMAN**. Madam Ambassador, I supported the Canadian Free Trade Agreement and worked for its passage. I am very interested in seeing if we can work something out with Mexico. But I really favor multilateral trade agreements. I think they are essential for the future prosperity of this country. However, I must tell you that there is one thing that grates on me in these agreements relating to the Most Favored Nation clause. I see most of the big countries making commitments to open their trade, but I see a lot of the smaller countries ending up as hitch-hikers, free riders because of MFN.

These free riders get the benefit of those agreements because of MFN, but they do not all have to reciprocate. You get a situation, for example, if we give something on semi-conductors to Italy or Japan, then the rest of the GAT members also get the advantage of that decision. Then we look at a country like India, which has an average import duty of 118 percent while the United States' is under 5 percent.

Or, we look at the portion of our duties which are bound—approximately 99 percent of them are bound. This binding means that if we want to raise a duty, we have to pay for that increase—compensate for it. Then I look at a country like Australia that has only about 25 percent of their duties bound. In other words, they have freedom to increase the tariffs on the other 75 percent. How do we induce these other countries to give us true reciprocal trade agreements? What can we do to try to close that gap? Do you have any thoughts on that?

Ambassador HILLS. I do. This issue was very much in my mind at the Brussels meeting in the discussions over opening access in services markets which is important to us. I felt that to commit to most favored nations in context of telecommunications was inappropriate unless linked to commitments for access and national treatment. That is because our market is open, and the majority of the markets of our trading partners are not. And so I am perfectly willing to give most favored nations treatment, so long as they are perfectly willing to give access and national treatment. So it is something that we have to look at more carefully as we refine our trading system.

At the beginning after World War II when we were dealing with tariffs, some were able to reduce tariffs in one product and others in another; all had sensitivities; we had and have ours; others had and have theirs. And there, most favored nations made sense because the reciprocal grant of reduction of tariffs induced others to participate. But as we get into some of these other areas, I think that market access must be paramount in our mind.

The **CHAIRMAN**. Thank you, Ambassador.

Senator Packwood?

Senator PACKWOOD. Ambassador, you are well aware that one of the divisive arguments is going to be labor rates in Mexico; unskilled labor in this country; are we going to lose jobs; are we not going to lose jobs. A preliminary finding in the ITC's report said, "that unskilled workers in the United States would suffer a decline in real income" as a result of the FTA. Yet this was a preliminary finding.

I have not seen it first hand, but I understand that there may be information available that disputes this finding. Do you have it? Can you tell us what it is?

Ambassador HILLS. I am aware of a memorandum. It has been made a public document. I would not refer to it unless I knew it had been made a public document. It indicates that there are findings made since the preliminary conclusions set forth in the ITC report.

Senator PACKWOOD. Is this an ITC memorandum?

Ambassador HILLS. Yes, it is.

Senator PACKWOOD. It is.

Ambassador HILLS. It is, and I am told that it had been made public and sent to the Congress. But what it says is that there is data that they did not have when they did their original report and made their preliminary findings that enables them to make accurate estimates of the elasticity of substitution of Mexican goods for U.S. competing products.

And when they rely upon these estimates which are based upon data that has been scientifically collected, they find, in fact, that unskilled workers in the United States would not suffer, but indeed would have a general increase in real wages as a result of a Free Trade Agreement. And I am hopeful that this data can be incorporated in any final report.

Senator PACKWOOD. Ambassador, I hope you will use the argument, and you touched upon it here, about the Reciprocal Trade Acts and the President's proclamation authority because this is the argument that is being raised: we passed the Kennedy Round with no fast track authority, therefore, it is not needed. But the Kennedy Round was basically tariff cutting and the bulk of it the President could do by his proclamation authority.

And if you talked about Congress giving away its authority—if you say to the President within a certain range, here, go ahead and cut the tariffs as you want, that is a much greater abdication of authority than what we are now suggesting in other agreements. Here we are talking about negotiating an agreement which will be brought back to us and we may turn it down.

Ambassador HILLS. Absolutely.

Senator PACKWOOD. But we never would have had the Tokyo Round without fast track. And has this country benefited from the Tokyo Round? You bet we have. So I would emphasize over and over that there are no comparable past grounds.

And secondly, emphasize over and over the fact that we would be in infinitely worse shape in this country today in terms of a recession—if we are in one—but for the export growth. And this export growth will grow exponentially if we conclude satisfactory agreements.

I have no other comments, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Thanks, Mr. Chairman.

Ambassador, I am a little unclear about whether you think that North American Free Trade Agreement will or will not result in loss of jobs. The earlier ITC report did say as I recall that unskilled

American employees could lose jobs, whereas higher waged American employees will benefit.

Just a minute or two ago you referred to a more recent ITC memorandum which I think you said states that unskilled employees would have a general increase. So my question is, is it your view that unskilled employees will enjoy an increase in wages or is your view that potentially they could lose wages? What is your view?

Ambassador HILLS. My view, based upon the data that has been supplied to me, is that American workers will gain in real income.

Senator BAUCUS. And that is across the board, that is at all income levels? Is that your view?

Ambassador HILLS. This would be an aggregate analysis. I do not think that we can guarantee that in every town across America workers will gain in real income. But the Clopper Almon Study which was commissioned by the Department of Labor did do an analysis of 55 sectors. Basically we have two issues.

The ITC report refers to real income figures. The Department of Labor report refers to jobs and the increase of jobs. It finds that there will be an overall increase of jobs by reason of the North American Free Trade Agreement.

Senator BAUCUS. We all know about the tyranny of averages. The average may be higher but there could be significant sectors that are not higher and, in fact, it could be lower.

I am a little bit concerned by your response. Intuitively, it seems to me that there is going to be a significant number of American employees, unskilled employees in particular, whose jobs are going to be threatened by an agreement with Mexico. I hope that this new memorandum is not some sort of revisionism because of actual criticism of the agreement.

It is just my sense that there will be potential job loss. And it is further my belief, if my assumption is correct of job loss, that the Administration must show that, in fact, its enthusiastically willing to provide some kind of a trade adjustment, assistance of some kind.

It is my understanding that in the European community a large regional development fund was created. My information might not be accurate, but as I understand it, it amounts to \$68 billion. It is a regional development fund in the formation of the European community to address economic dislocations caused within the community; that is, between countries as a consequence of the common market.

Now if that is accurate, it seems to me that there is at least some evidence that perhaps we should in our country consider something similar; that is, assuming there is a dislocation.

My staff actually yesterday asked for the memorandum you referred to. The ITC would not send it. I hope we are able to get that memorandum soon so we can examine it. But I strongly urge you to spend a little more time and show a little more, if you will, sensitivity to potential job loss and particularly for unskilled employees in our country.

And in the same vein, let me just turn to the environmental side. The Journal of Commerce today reports—let me just read a paragraph. It is referring to the border between the United States and

Mexico. The region called a "virtual cesspool in a report last year by the American Medical Association has become a dumping ground for toxic wastes and pesticides by multi-national corporations whose actions are rarely monitored by Mexico's cash-strapped environmental agency, environmentalists say."

You know, there is a perception that there is a problem here and again, if we are going to get fast track extended, you have to go the extra mile to address those environmental concerns. The Chairman referred to the issue in his letter to the President. And I just hope we have substantive, solid suggestions either at the end of the agreement or parallel to the agreement and also, if it is parallel, an environmental agreement that has real teeth in it—not just words.

Thank you.

Ambassador HILLS. Let me deal with each of your issues. One is the job loss. I certainly do not mean to signify a lack of sensitivity, but we are trying to work on the actual data. As we proceed with the negotiations and further analyze the effects of the negotiation on jobs, we will be consulting with you to determine how best to handle whatever problems are created.

The data that we have to date indicates that jobs will be created in the United States by reason of the North American Free Trade Agreement. Our economy is dynamic and there has been an opportunity in years past for concerns to go to Mexico where it has been competitively desirable from their point of view. Many of them have written to say, that an investment in Mexico has enabled them to keep their jobs expanding in the United States. We want to work on that.

When you mentioned the regional development fund in Europe, I would only say that that has been the source of many complaints by members of Congress here in this country with respect to what is regarded as a subsidy to specific industries. So we want to work on how to deal with the blending of the dynamic nature of our economy and the effects that can be traced from the Free Trade Agreement.

With respect to the environment, I think that it is quite apparent that there are serious problems at the border. And before we launch the negotiations, President Bush and President Salinas met in Monterey in November of last year and agreed to an environmental master plan for the border with public participation. This master plan will be made public after public comment this fall and there have been many, many meetings between EPA and its counter-part in Mexico. And I think that is one very positive step.

There are many other positive steps that have been taken. I am going to be meeting with a number of environmental groups in the weeks ahead. And I am scheduling those meetings with Mr. Reilly of our E.P.A. to listen very carefully to concerns so we can try to fashion our reactions that deal with their concerns. As you know, I have met already with our labor leaders.

So there is no unwillingness to reach out. Indeed, during this whole process, we are trying to reach out and evaluate the concerns in the two areas that you mentioned have, and there are other concerns that we will want to deal with.

Senator BAUCUS. Thank you. I have other questions but the light is on. Thank you.

The CHAIRMAN. Senator Danforth?

Senator DANFORTH. Madam Ambassador, I am struck with an irony and I wonder if you are too. We in Congress have been making the point over a number of years with a number of Administrations that we want a tough trade policy and we want tough trade negotiators.

You could have wrapped up the Uruguay Round in plenty of time to submit it to the Congress without getting fast track extension, but you did not because you took a tough negotiating position, especially on agriculture. You were willing even to let the Uruguay Round talks collapse if they did not turn out well for the United States. Because you were tough in being a negotiator, you now have to come to us and ask for permission, in effect, to continue negotiating.

And I think that if we were to deny you fast track extension with respect to the Uruguay Round, it would be tantamount to saying that, if you are a tough negotiator, we will not let you negotiate. Am I correct in spotting an irony here?

Senator CHAFEE. That is what we call a soft ball. [Laughter.]

Senator DANFORTH. I have got more.

Ambassador HILLS. Then I defer my time.

Senator DANFORTH. Well, I would then point out that, Senator Heinz in the first point that he made, which was to call into question whether negotiations once begun must be concluded and that puts us in a bad negotiating position. I think that that is a very good point. I have made that point myself from time to time, that the problem with trade negotiations is that you get into them and you must conclude them successfully or it is a disaster.

However, to me you proved with respect to multilateral trade negotiations in the Uruguay Round that you were willing to walk away from the table, and that if you were not going to get a good deal, particularly for agriculture, you were willing to let that negotiation which had lasted for four years collapse.

Now if you were permitted to conclude the Uruguay Round negotiations and to enter into negotiations with respect to Mexico and Canada, would you continue to feel that if you did not get a good agreement or two good agreements, you could walk away from the negotiations?

Ambassador HILLS. Absolutely. And not only do I feel that way, but the President of the United States feels that way. He has said on a number of occasions, no agreement is preferable to a bad agreement. And we will consult with this body regularly to set standards so that when we finish the process, we are of a common mind, that we do, indeed, have a good agreement.

Senator DANFORTH. Now the law is that in approving fast track, we have to do so generically. That is, we have to approve fast track for all purposes; for the Uruguay Round and for Mexico-Canada. That is procedural approval. However, each issue would be submitted to us to vote on separately, is that correct? So as far as Congress is concerned, we would be maintaining our flexibility to pick and choose between the two agreements.

Ambassador HILLS. Absolutely.

Senator DANFORTH. We could decide that the Uruguay Round is a good deal for our constituents and maybe the Mexico- Canadian Agreement or whatever it turns out to be is not a good deal. We could reserve our judgment on those issues, but we would be maintaining maximum flexibility by giving you fast track authority, would we not?

Ambassador HILLS. Absolutely. And you are part and parcel of the process: before during and after the negotiations through consultation. The private sector advisors write you a report on every chapter in any agreement expressing their concern or their approval. And so Congress is an integral part of the on-going process.

Senator DANFORTH. Now people on other committees say that they are dealt out of this program and that this is just a matter for the Finance Committee or the Ways and Means Committee in the House. But have you been consulting with other members of Congress and would you continue to consult with other members of Congress?

Ambassador HILLS. Absolutely. I meet regularly with a number of committees; beyond the Finance committee, the agricultural committee; those who are interested in intellectual property; and others. And I have met with individuals who are on committees that are really quite far removed, but the individual Congressman has an interest.

Senator DANFORTH. Well, at least twice I have been to meetings in our back room that have been convened by our chairman where he has invited members of other committees to show up. And I have been amazed at the lack of attendance. We can invite people to participate in negotiations and in working out the legislation, but they have to have the initiative to show up.

But in any event, you will continue to reach out to people regardless of what committee they are on.

Ambassador HILLS. Absolutely.

Senator DANFORTH. One more short, really yes or no question. If we became dissatisfied because we thought that somehow the consultation mechanism had broken down, we could under the terms of the 1988 Trade Act put in place the reverse fast track and terminate your authority to negotiate, could we not?

Ambassador HILLS. A resolution could be passed, yes, at any time.

Senator DANFORTH. So in other words, to grant you this authority at this time does not tie the hands of Congress during the course of the negotiations?

Ambassador HILLS. You are correct.

The CHAIRMAN. Thank you.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman. As you know, we have attempted to address a number of U.S. concerns with the E.C. single market in the context of the Uruguay Round. For example, we have tried to eliminate the discriminatory aspects of the E.C. broadcast directive and public procurement utilities directive through specific negotiating groups in the Round.

Now in light of the fact that the E.C. Member States will be moving towards implementing their single market program over the next 2 years, will not an additional 2 years of multilateral

trade talks further harden the E.C.'s position in these and other trade restrictive areas?

And let me also ask you in your view, what are our chances of adequately addressing these issues in the Uruguay Round and whether you believe we should more assertively address these issues bilaterally?

Ambassador HILLS. Actually, Senator Roth, we are addressing them both multilaterally and bilaterally. We have had many, many discussion on the broadcast directive bilaterally, and we are resisting that sort of provision in the multilateral agreement.

With respect to procurement I think we are making progress in those negotiations, but until they are completed. I cannot say that we will have an agreement. I do think that we have put all of our eggs in one basket. We try very hard to move multilaterally because I agree with the Chairman—that gives us the maximum benefit as a nation that trades very extensively throughout the world. But where there are individual problems, we meet with our counter-parts to talk about those individual problems.

Senator ROTH. A number of Senators have talked to me about their concern that other countries, specifically Japan, might be able to utilize a Free Trade Agreement with Mexico as a means of exploiting that agreement to get into the United States. How do you address that kind of a problem if there is one?

Ambassador HILLS. A good rule of origin makes certain that North American material is used in order to qualify for the benefits of the North American Free Trade Agreement. Where any country invests, whether it be in the United States or in Mexico, and the concern is usually stated with respect to investment in Mexico, it would have to be a part of a place and a rule of origin takes care of that problem.

Senator ROTH. A number of the Senators on the panel today have discussed the problem of worker adjustment. And I think that is a major concern of all of us, particularly in connection with the Mexican Agreement. You will recall we passed in the 1988 Trade Act some language requiring the negotiation of a small import fee, 0.15 percent, for the specific purpose of helping and assisting workers dislocated because of trade liberalization. Is there any means of utilizing that legislation or that approach as a means of helping worker adjustment in connection with the Mexican Agreement?

Ambassador HILLS. I think that it would be useful for us to explore various approaches. There is, of course, the Economic Dislocation Worker Adjustment Act ("EDWA") that was passed in 1988 also with broad bi-partisan support. That program has been quite effective. I am told, for example, that its costs have averaged about \$1,200 per person trained, as contrasted to the Trade Adjustment Assistance ("TAA") which has a per person cost of \$7,000. The percentage of persons getting permanent jobs as a result of EDWA is 66 percent as contrasted with TAA, which is 32 percent.

So clearly we would want to look at the program that makes the most sense. The Economic Dislocation Worker Adjustment has a local delivery system. Its funding has doubled over the past two years. It is funded at about a half billion dollars at the current time.

And I think we need to look at where we think the dislocations will occur and why did they occur. It is often very difficult to assign a cause; to say that an import was the cause; whether mismanagement was the cause; whether obsolescence or a variety of other reasons. One of the benefits perhaps of the Economic Dislocation Worker Adjustment Act is that it takes care of all the reasons, and it is not just geared to imports as a cause.

But I would like to work with the committee—those who have expressed a concern over workers' adjustment and with our Labor Department. We have set up an inter-agency group to focus on these concerns and to reach out to those who are concerned. And I have met with my counter-parts in the Cabinet and I think that this is a very good mechanism for trying to come up with solutions for actual problems.

Senator ROTH. Well, I would like to work with you. I think this is a critically important problem in respect to the Mexican Agreement. Under our budget summit, of course, we have rules that limit increase in spending so that if we are going to do more, we have to find some source of funds. So I think this is something that ought to be explored.

Thank you, Madam Ambassador.

Ambassador HILLS. Thank you.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman.

Ambassador Hills, there are two questions I would like to ask, one having to do with the Uruguay Round and the other having to do with Mexico.

The first has to do with issues of cultural activities. I understand that our trading partners in the GATT are seeking to include a cultural exemption, at least some of them are. As you know, as I did on Canada, I would oppose such an exemption. I understand that is your position too. Certainly it would be contrary to the objectives of the treaty to have that kind of an exemption.

Is it fair to say that the Administration remains firmly committed to protecting America's cultural industries through the GATT?

Ambassador HILLS. Yes. And we are opposed as you said to a cultural exemption.

Senator HEINZ. Do you expect this issue to come up if there are discussions in connection with the North American Free Trade Agreement?

Ambassador HILLS. We have not even started the negotiations. I really cannot answer that question as to whether one of the three parties will raise it. You know our position.

Senator HEINZ. As you know, there was an exemption in effect and an explicit statement in the services agreement that cultural activities were exempted from the U.S.-Canadian Free Trade Agreement. We reserved our 301 rights accordingly.

By the way, I think Jack Danforth made a very good point regarding the Uruguay Round negotiations. You have proven to be a very tough and very resourceful negotiator, and I think frankly if the fast track issue only revolved around the Uruguay Round, there would not be a very lengthy or protracted discussion. And I would predict there would be very little hesitation to extend it if it was just a question of the Uruguay Round.

So to get back to the U.S.-Mexico Free Trade Agreement, which as you know, should you negotiate one by the end of the two year period, would be covered by any fast track extension. I mentioned a moment ago the regulatory environment in Mexico and, of course, that is not just a border issue. It is an issue throughout the country.

Do you have any encouragement or report you can make to us that if your negotiation should be successful, we will be able to safeguard American economic and national interests against, unless safeguards are somehow obtained, a regulatory regime that is hard to characterize except to say that the results of it are uncertain? In Mexico, of course.

Ambassador HILLS. We are quite admiring of what the Salinas Administration has been able to do in two short years in regulatory areas. Environment, for example—there is a new environmental protection law that is a very big step forward for a developing country. In human rights, the Salinas Administration has formed a human rights commission chaired by a respected jurist—fired some 500 government officials, and jailed some persons in very high positions whom they found corrupt.

In the various areas across the board, we find a commitment to try to move Mexico from a developing country to a first world country. We think that the—

Senator HEINZ. You put your finger on the key issue, which is that this is, at least as far as I know, the first time a developed country has ever negotiated anything approaching a Free Trade Agreement with an L.D.C., a less developed country, and you are the point person on that. You are attempting to make history in trade. I do not know if that was your original intention but it is what you are involved in whether you like it or not. And I guess my only caution is that since it has never been done before, there is going to be a real need for concrete answers to the kinds of questions I addressed in my opening statement.

Let me give you an opportunity, if you can, to make a concrete answer. Senator Bentsen asked about trade adjustment assistance to take care of the casualties that will undoubtedly take place in this country because of free trade with a low wage country. And the question I would ask is, are you prepared to recommend to the Bush Administration the establishment or perhaps re-establishment of a strong trade adjustment assistance program?

Ambassador HILLS. I am certainly willing to explore it carefully and to look at the various programs and the options. Would you forgive me if I address a sentence that you just made that it is inevitable that we will have a job loss if we have a Free Trade Agreement with a low wage country. What I am trying to do, and perhaps I have been—

Senator HEINZ. I did not say we would have a job loss. I said we would have job losses. I was trying to avoid, as Senator Baucus mentioned, the tyranny of averages.

Ambassador HILLS. Well, let us talk about the job losses that you believe may occur. I think this deserves careful consideration. What we are trying to do in the Free Trade Agreement is to bring down Mexican trade barriers that are twice as high as our own.

If we go back to 1986 when Mexico had 100 percent tariffs and extensive import licensing, we sold relatively little to Mexico. In 1986 to 1990, our exports went from 12 billion to 28 billion. Every billion dollars worth of exports translates about 25,000 jobs. What we know is that since their restrictions are currently more than twice as high as ours and in some areas we cannot sell at all because of import licensing, we know that our exports will expand and we know, therefore, we will have job creation in this country.

Our restrictions on Mexico's exports are relatively low. It has been mentioned that on average they are below five percent in tariff. Therefore, you will not expect a surge of imports into our country that have been not coming to date. There has been virtually no restriction in many areas. For example, in the auto sector our tariffs are two and one-half percent. A U.S. company could locate in Mexico and ship into this country. For many auto parts—they are only three percent.

So that the restrictions that we have in terms of Mexico exports coming into our country are relatively low, but we face relatively high barriers to shipping into Mexico. We know that we will get job creation as a result of reducing those restrictions.

If there are dislocations that come from adjustments, that may just be from our advancing. There were job dislocations when we stopped making buggies. We should meet together and talk about what are the best remedies. But I do not have a single study that can say there are going to be substantial job losses. Indeed, to the contrary. The studies which have been handled through econometric models, different sorts of approaches. They are not perfectly uniform in their outcome, other than they all show that we will have job gains.

So I do not resist, nor do I show a lack of sympathy. I am prepared to look at the best means to deal with the problems that we identify. But I think it is important to understand what the objective is of our Free Trade Agreement: it is to get trade restrictions down. And I guess I fail to understand why it is unhealthy to get trade restrictions down with a poor country.

Senator HEINZ. I certainly didn't say that it was. What I asked you about was the premise of job losses. You say you have got a lot of studies. There are some other studies floating around that, of course, depending on sector, do not necessarily coincide. And my question was, if there are going to be casualties of a Free Trade Agreement, and you would have to I suppose believe that the moon was made out of green cheese to believe that there would not be some—my question was simply, are you going to be the advocate for such a policy if you are convinced that there are going to be some sectoral or other kinds of dislocations as a result of this kind of an agreement? That was the substance of my question, not whether it was good macro-economically or not.

Ambassador HILLS. Well, macro or micro, we have a good program on the books. We will want to meet with you to talk about the dislocations that are there and, of course, we will want to deal with those issues that are identified.

The CHAIRMAN. Thank you very much, Senator.

Senator HEINZ. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

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

Senator GRASSLEY. Thank you, Mr. Chairman. I would like to have the statement that I was going to give this morning put in the record as printed.

The CHAIRMAN. That will be done.

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

Senator GRASSLEY. I think the positive attitude towards fast track expressed by most members of this committee, shows relative confidence in you Madam Ambassador, and I think you ought to feel good about that. I think it also shows relevant confidence in President Bush because he obviously sets the policy for this administration.

But let me ask a very basic question, because I think the confidence that has been expressed in your ability to negotiate and the attitude you take is pretty important. Do you plan on staying in this present job to see these negotiations through? [Laughter.]

Senator GRASSLEY. Well, I think it is pretty important. We need to know whether or not we should take your word since we are going to be dealing with you for the next several months and maybe even into the next year or whether you might be leaving shortly.

Ambassador HILLS. I serve at the pleasure of the President, Senator Grassley, and I am pleased to stay as long as he is pleased.

Senator GRASSLEY. All right. I would also like to ask you a question that is related to what has been expressed to you by myself and other members of this committee at the last several times we have had an ad hoc meeting. As you know, one of my main interests happens to be farming and agriculture.

I have a question which we have discussed before, and I would like to ask you again. How will the marketing loan program for agriculture be effected by either the passage or the failure to grant an extension of the fast track?

Ambassador HILLS. There is a provision in the Budget Act, as I understand it, that if the Uruguay Round is not completed by June of 1992, then there are some mandatory provisions that would cause the marketing loan program to be re-instituted for the years 1992 through 1995, if my recollection serves me, unless the reason that the Uruguay Round is not completed is because the Congress has taken away the President's fast track authority.

Senator GRASSLEY. All right. So, as long as we grant fast track and as long as you continue to negotiate, then when that period of time has come and we do not have an agreement there will be an immediate imposition of a program of marketing loans?

Ambassador HILLS. If my recollection serves me, I think that the marketing loan provision is mandatory and the export enhancement program is mandatory. That is my recollection.

Senator GRASSLEY. Yes. Again, focusing on what Senator Danforth said when he used agriculture as an example, what assurance can you give me and those of us in Congress that represent agriculture that granting an extension will not find agriculture short-changed in any agreement reached simply for the sake of reaching

an agreement? More specifically, my concern is that if four or five things require serious negotiation, the keystone being agriculture, that it will not be sacrificed to some degree to get an agreement in these other areas—intellectual property rights as an example.

Ambassador HILLS. Let me say that I do not think that agriculture can be ignored in these negotiations. We saw that in Brussels. It is a lynch-pin of or the magnet of the negotiating process. If we do not deal with agriculture, then we will not get the participation of the Latin American countries or the 14 members of the Cairns Group—there are many developing countries where all they want out of this negotiation is agriculture.

If we do not get their participation, a protection of intellectual property becomes far less meaningful because our problems with the protection of our intellectual property are more with the developing world than with the industrial world. And so it is with access for our service providers which in general have less of a problem with respect to access in the industrialized world and more of one in the developing world.

So if we are to accomplish our objectives in the Uruguay Round, we need to deal with agriculture as well as with the other areas. And agriculture is the negotiation that brings in the parties that enable us to deal with the new areas. Apart from that I would say that the manner in which the Administration acted in Brussels should give you considerable solace that we feel keenly about agriculture.

Senator GRASSLEY. Let me just say that I do not question your sincerity, but I do want to quote to you from a recent article by John Maggs Journal of Commerce. It says, "U.S. trade officials and congressional aides say last week's announcement of a breakthrough in the Uruguay Round has done little to bring the United States and the European community closer to a compromise on farm trade. However, it is clearly a breakthrough in the crucial art of coaxing the governments of the two trading partners to allow an eventual compromise these sources say." The last short paragraph states: "It gives the E.C. cover to move forward with its budget reforms while at the same time telling some of its members that its position has not really changed." For Congress, the news allows supporters of the Round something to hang their votes on when they consider an extension of fast track negotiating authority in the next few weeks.

I want you to know that I do approve of fast track, but I want to know that there is going to be a positive outcome as you stated, and that we are not in some sort of maneuvering with the European community just so Congress gets over this hump of positive responses to the President and fast track.

Ambassador HILLS. I can assure you that if we do not get reform in agriculture, we will not get an agreement. I cannot assure you we will get an agreement, but I can assure you that we will have to deal with agriculture in any agreement that we get.

The CHAIRMAN. Thank you.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee?

**OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR
FROM RHODE ISLAND**

Senator CHAFEE. Thank you, Mr. Chairman.

Ambassador Hills, international trade, as I understand it, is more important to the U.S. now than it has been in the past. The expansion of our exports has been one of the engines that has contributed to the prosperity that we have enjoyed and has cushioned the recession that we have been going through. In other words, the rise of exports has been twice as fast at least in 1990 as the rise of imports.

Ambassador HILLS. Correct.

Senator CHAFEE. Now it seems to me that you come to us with a two-step process. First, you are saying it is beneficial to have the Uruguay Round. And second, in order to achieve the Uruguay Round we need fast track. Can you take the reverse of that? And you have spent a good deal of time telling us of the merits of the Uruguay Round. Could you tell us what would be the effect if we did not have fast track, I presume that we would not have the Uruguay Round. What is the down side?

Ambassador HILLS. Well, we would not only have the Uruguay Round, we would not have the capacity to negotiate with foreign governments on trade matters. Our trading partners would not negotiate with us, and those few that might would not give us their bottom line, therefore, I could not negotiate a good deal or the best deal for the United States.

Senator CHAFEE. All right, so what? Would our exports decline?

Ambassador HILLS. The marketing opening initiatives that we have negotiated have improved the opportunities for our exports. Furthermore, if you limit yourself to the Uruguay Round, we are trying to get reliable rules to govern our trade. Roughly one-third of our international commerce is not covered by internationally agreed rules and they are important areas to our growth. Agriculture, example, is one area where we have inadequate rules.

Senator CHAFEE. Intellectual property?

Ambassador HILLS. The areas of services, investment, protection of intellectual property, government procurement—and it is in those areas that we have the largest number of frictions internationally precisely because we do not have agreed rules. If we do not have fast track and we cannot negotiate in these areas, then we will have greater trade friction in the future. Friction leads to contraction of trade because if you retaliate against me, I counter-retaliate against you, and as a result we have less trade.

Senator CHAFEE. As you clearly noticed from the letter that the two chairmen sent, everybody in Congress is not necessarily in favor of fast track. I think we ought to stress some of the down sides that will occur if we do not achieve this, as well as the up sides that we will achieve.

I was not here during the first part and I apologize, but one of the arguments we are hearing, what is the need for fast track, you never had it before 1974? I think you touched briefly on that in your prior answers. This is a chance for you to expand on that if you would like, otherwise, I can go back and get it from the record. But one of the arguments we do hear is, come on now, do not tell

us fast track is absolutely necessary, or that we could never get along without it because we got along without it for a couple of hundred years.

Ambassador HILLS. That is not true. We have had a constitutional partnership with respect to trade for 50 years. Ever since the Smoot-Hawley Bill in 1930 where Congress did try to be individual negotiators by hanging protections on specific industries and that fueled the Great Depression. Congress passed in 1934 the Reciprocal Trade Act which authorized the President to negotiate in the area of tariffs. The Act did not even require him to return for implementing legislation.

That legislation governed us until 1974, when the Trade issues that we were addressing went beyond tariffs. Congress fashioned fast track authority, with consultation, notice, participation of the private sector; and the 1974 legislation required a vote within a specified period of time after ample consultation and a vote up or down without amendment. We have had fast track authority in the 1974 bill, in the 1979 bill, and in the 1988 bill. This legislation permits the Constitution to work because Article II gives to the President the authority to negotiate with foreign governments; Article I, rests the Congress—the authority to regulate commerce and together we can exercise our respective responsibilities.

Senator CHAFEE. Would it be accurate or inaccurate to say that the ultimate tribute to non-fast track trade negotiations was the Smoot-Hawley bill?

Ambassador HILLS. I am sorry?

Senator CHAFEE. Would it be inaccurate to say that the Smoot-Hawley bill was the epitome of negotiations absent fast track authority?

Ambassador HILLS. Absolutely. It is exactly the arguments that I am hearing now. "I do not want to give you fast track because the agreement that you might negotiate which I cannot see might hurt an industry that is located within my jurisdiction." And rather than let you negotiate a market opening that could contribute rather meaningfully to our exports that has been demonstrated most particularly with Mexico where we have had a doubling of our exports in just four years as they partially brought down their restrictions. That expert growth could be much greater were Mexico to fully bring down its restrictions. So it is comparable to what went on in 1930 with the Smoot-Hawley bill.

Senator CHAFEE. Thank you.

The CHAIRMAN. Senator Bradley?

OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Thank you very much, Mr. Chairman.

What would you say would be the result of not granting fast track authority?

Ambassador HILLS. It would cause the Uruguay Round negotiations to stop and so we would lose the work that has been undertaken to try to create rules governing world trade. It would lose the opportunity to grow the global economy by, according to our economic calculations, \$5 trillion over a decade, our share being

over \$1 trillion. To bring that figure down to the micro level, it is like writing a check to every American family of four for \$17,000 payable over 10 years.

We would lose the opportunity to negotiate any broad scale trade agreement which would include, of course, the North American Free Trade Agreement. There we see the economics as being very positive for the United States and the geo-political significance being quite beneficial to the United States. We would be literally driven from the negotiating table.

Senator BRADLEY. I think that most people listen to that answer and say why. So could you tell us why it would break down the Uruguay Round or the Mexican Agreement?

Ambassador HILLS. We are negotiating with 107 countries across 15 negotiating areas. Each of those areas have many complicated sub-parts. If we were to bring home an agreement and Congress were to amend, just in a few instances, it would cause the agreement to change and we would have to go back to our trading partners who then would have to make changes that were compensating.

These negotiations are linked. The fact is that some countries want desperately to have reform in agriculture and others are resisting mightily. If we do get a reform in agriculture, that will induce other countries to be willing to negotiate in areas such as the protection of our intellectual property, where we lose \$60 billion a year, or to open up their markets to our service providers which would add to our economic wealth in this country. But that cannot happen if parts of the agreement to which a deal is linked is destroyed.

Furthermore, I can honestly represent to you that the countries will not negotiate with us. They do not want to negotiate where it is all for nil, where it is just a dress rehearsal for the real thing. And they most assuredly will not give us their bottom line if they know that the real thing is not my negotiation, but a subsequent negotiation with 535 negotiators, each of whom have very real interest in their home districts.

Senator BRADLEY. If fast track was not granted, how soon would you expect other countries to take actions?

Ambassador HILLS. Immediately.

Senator BRADLEY. Immediately.

Ambassador HILLS. Yes. I think that we would close down our Geneva operation. It would just be the same as the recent stalemate and except it would not be temporary. It would be permanent because I think that there would be no future prospect for going forward.

Senator BRADLEY. And what impact might that have on the world economy?

Ambassador HILLS. I think it would be a real loss. It is a lost opportunity of \$5 trillion for growth to the global economy. It is a lost opportunity to reduce the friction among the key trading nations. And so we would have less harmony. And when we had any kind of an international need to develop international collaboration as we just had in the Gulf, the basis for cooperation would be weaker. It would, I think, gravely diminish the opportunities for growth by the emerging democracies, both in this hemisphere in Latin Amer-

ica and in Central and Eastern Europe, because if we are not going to provide greater market access, whether it be in agriculture or in other areas, these fledgling democracies are not going to make it.

Senator BRADLEY. I was curious—you mentioned \$17,000 over 10 years for every American family. What is this number?

Ambassador HILLS. This is simply dividing our population into the projected growth to our global economy. That is the dynamic growth that comes from reducing trade barriers by one-third and opening up markets. We will grow the global economy by \$5 trillion over a decade and our share would be over \$1 trillion.

Senator BRADLEY. And if we were more competitive, we would get more?

Ambassador HILLS. Without a question. And every billion dollars of exports translates to 20,000 to 25,000 jobs. So whether you are talking about growing your exports to Mexico from 28 billion to 55 billion, or whether you are talking about growing the global economy by 5 trillion, this translates to jobs.

Senator BRADLEY. Or if you are talking about the future.

Ambassador HILLS. Absolutely.

Senator BRADLEY. Let me ask you, in terms of the jobs issue with regard to the U.S.-Mexico Agreement, you said that you have no precise number but there have been a number of econometric models and all of them have been in the direction of creating more jobs than losing jobs?

Ambassador HILLS. Correct. The Clopper Almon Study would show that over the next decade we ought to produce about 18,000,000 more jobs, that is without a Free Trade Agreement. And that with a Free Trade Agreement, and this is the static assessment without the dynamic impact that economists talk about, we ought to have about 66,000 more jobs. So that is the very minimal case.

Senator BRADLEY. Thank you very much.

The CHAIRMAN. Ambassador, with all this talk about environmental problems and wage differentials, which are certainly concerns to us for a Mexican Agreement, we should not overlook some of the fixed trade barriers to Mexico that we have right now. If we examine those barriers that are the most troublesome, and if we were successful in getting rid of them, where would we see the greatest increase in our exports to Mexico?

Ambassador HILLS. I think that straight across the board we would have gains; certainly in agriculture. We have import licensing on a number of agricultural products, and Mexico is a net importer of food. Telecommunications, capital equipment is another area of, I think, significant gain. I could perhaps make a list of gains. I think the pharmaceuticals would be a gainer; processed food; dairy.

The CHAIRMAN. Where do we see some of the biggest barriers? One problem I recall is that Mexico has a domestic content law on the manufacturing of automobiles. Isn't there a requirement that Mexican auto manufacturers be net exporters?

Ambassador HILLS. Correct. Those sorts of restrictions severely impede our exporting autos to Mexico which would buy autos as they make a very limited line—mainly, sub-contract cars. But because of their import restrictions and the fact that we cannot get

sports cars, vans, a range of larger autos in, they simply are not sold there.

The CHAIRMAN. Vegetable farmers have been in to meet with me, and they are concerned. Apart from the disparity in wages stands is the question of the utilization of pesticides in particular those that are not allowed in this country because of health and safety. What would you anticipate we would be able to do in that regard?

Ambassador HILLS. Well, at the present time Mexico has a registration system that is not too unlike ours and they have prohibited about 42 of the 52 main pesticides that we prohibit. But if they use a pesticide that we do not approve of, that violates or has not established the human tolerances that we require through our Food and Drug Administration, then that food is not permitted to come in until the proper tolerances are established.

You recall the procymodone case. We use these rules with all countries. There, Sumitomo had not established the tolerance for procymodone. It was used in wine in Europe, and we did not let the wine come in. So I am told by those whose responsibility this is, that the rate of violation in Mexico is fairly commensurate with our own; that is, the California farmers violate our rules just about as much as the Mexican farmers do. We catch those violations because these rules apply to our own farmers as well as exporters. You cannot use a pesticide that is not established and registered in this country.

The CHAIRMAN. But, of course, I assume that we cannot stop them from using a pesticide that they would use domestically. But we do anticipate rigid enforcement of their use of those that we do not allow into the United States because we think they endanger the consumer.

Ambassador HILLS. I am talking about at border protection where I presume your vegetable farmers are worried about competition from Mexico and the consumers are worried about whether those vegetables might be tainted. Our rules apply internationally; that should give them the solace that they are protected.

The CHAIRMAN. What the farmers are concerned about is that a pesticide can be very effective, but dangerous to the consumer, we do not allow it in this country. Their concern is that it might be allowed to be used in the other country, and they want to be assured that a product on which it had been used would not be brought into the United States because it would give a competitive advantage to the other country.

Ambassador HILLS. In fact, the Food and Drug has worked in tandem with Mexico trying to enhance our bi-national mechanism of dealing with these sorts of problems, as has our Environmental Protection Agency. I think that these discussions with Mexico give us a good platform on which to talk about these issues and build upon the progress that we have made in the past.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Yes, Mr. Chairman.

A few quick questions here, Ambassador. In talking to some Senators from agricultural States, they are concerned about the Uruguay Round because in their view, even though the Administration

as I recall, is asking for 90 percent reduction in export subsidies in the European community and what, a 65 percent reduction roughly of internal price—

Ambassador HILLS. Seventy-five.

Senator BAUCUS. Sorry?

Ambassador HILLS. Seventy-five.

Senator BAUCUS. Seventy-five percent reduction of internal price supports, they say, well, that will probably end up maybe getting not that, but maybe 50 percent. And they say that is unfair to American farmers, particularly wheat producers because that locks in a level of subsidy in Europe which is much higher than that in America. For example, the European community export subsidies last year I think were \$11 billion. Our total farm program was \$10.4—everything included.

So what is your response to those concerns from those Senators and House members who say, hey, we are going to end up in a Uruguay Round agreement that locks in American farmers at a competitive disadvantage?

Ambassador HILLS. We will have to look at the agreement at the end of the day and analyze it very carefully. Our protections on agriculture last year were lower than Europe's—they cost about \$45 billion. And that is not just farm programs, but quotas and other restrictions. And Europe's were about 50 billion, but they also have \$85 billion that the consumer pays for in a two-price mechanism.

Senator BAUCUS. I just want you to know those are their concerns and I urge you to be thinking of them in trying to address them to get support for extension of fast track.

Second, what about taking sugar out of the U.S.-Mexican negotiations and putting that over in the Uruguay Round? There is a precedent for that in Canada. We did not include agriculture in the Canadian FTA, but instead put them over in the GATT. Does it make sense here to do the same with respect to perhaps sugar?

Ambassador HILLS. I think we have to see where the Uruguay Round is going. The restrictions that we have will have to be put on the table if we expect other countries to put their restrictions on the table. That that will be a broad and comprehensive negotiation.

What we do with respect to agriculture in the Mexican Agreement will obviously be consistent with and maybe go beyond, the Uruguay Round. But at this juncture I cannot tell you. We have not started the negotiations and I would be glad to have your views on—

Senator BAUCUS. You might pick up support if sugar is in the Uruguay Round and not in NAFTA. What about subsidies? We have a big problem with Canada still over subsidies. The OECD, I think ranks Canada as maintaining four times the level of subsidies compared to Americans. And Mexico I think last year spent \$1.6 billion in the first half of 1990 on industrial subsidies—so on a comparative basis, a proportionate basis, more than Canada.

To what degree are you going to include subsidies in your negotiations with Mexico?

Ambassador HILLS. We have not even started the negotiations. We are trying to get a subsidy discipline again in the Uruguay Round and the whole purpose of a Free Trade Agreement would be to go beyond the disciplines that we have in the Uruguay Round

and to try to bring down as many restrictions as we can. And, of course, subsidy is just another form of a trade restriction.

Senator BAUCUS. And finally on environment, I heard you say earlier that you and the EPA Administration, Bill Reilly, will be working at some agreements with Mexico. I raised this with Mr. Reilly in a public hearing last week. And I must tell you, I did not get the sense that he knew very much about all of this or that he was aggressively pursuing this matter.

Ambassador HILLS. He and I met last week with others interested in the environment. And I have worked closely on the Bi-National Commission with Bob Reilly. He has a first rate mind and he is dedicated to addressing these issues. I look forward to having his participation when we meet with the environmental groups.

I think that if we listen carefully and they too listen—because there is no reason in the world for an environmentalist to be against a Free Trade Agreement—We can have a constructive dialogue.

Senator BAUCUS. I hear you and I agree with your assessment of Bill Reilly. But again, I am just urging you to be very aggressive along with Mr. Reilly in pursuing environmental agreement with Mexico because I think that is the key to this.

Ambassador HILLS. Well, I appreciate that. I hope the environmentalists understand that poverty is the greatest enemy to environmental improvement.

Senator BAUCUS. Thank you.

The CHAIRMAN. Madam Ambassador, I think it has been an excellent exchange and you have faced at some point virtually every member here expressing his concerns and his questions. I appreciate very much your attendance and participation. Thank you.

Ambassador HILLS. I appreciate the time and the courtesies.

The CHAIRMAN. Thank you.

[The letter to the President from Senator Bentsen and Representative Rostenkowski appears in the appendix.]

[Whereupon, the meeting was adjourned at 11:48 a.m.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR MAX BAUCUS

Two weeks ago, the Administration formally requested an extension of the fast track negotiating authority provided by the 1988 Trade Act.

The fast track process has been harshly criticized by a number of my colleagues and various outside groups who claim that the process unnecessarily chokes off debate and denies Congress a voice in the consideration of trade agreements. I understand a resolution will shortly be introduced to disapprove the Administration's request for fast track negotiating authority.

Those criticisms are specious, and the resolution very unwise. The fast track is essential if we are to negotiate trade agreements and it has worked quite well.

THE FAST TRACK

The fast track is an arrangement under which the Congress agrees to vote up or down on a trade agreement negotiated by the Administration without offering amendments within 90 days after the agreement is formally submitted to Congress.

In return, the Administration agrees to consult closely with the Congress on objectives and strategy in the negotiations. The Administration also agrees to allow the Congressional Committees of jurisdiction to draft the implementing legislation for the agreement.

The fast track is a thoughtfully crafted balance that allows the Administration to negotiate trade agreements while preserving the rights of Congress.

THE RECORD OF THE FAST TRACK

With the fast track in place, the United States has negotiated a number of important trade agreements, the Tokyo Round of GATT Agreements, the U.S.-Israeli Free Trade Agreement, and the U.S.-Canada Free Trade Agreement.

These agreements have served the national interest. The Israeli and Canada FTA's have expanded U.S. trade by \$15 billion annually and created at least 150,000 new jobs. The Tokyo Round lowered tariffs worldwide by 40%, increased protection against subsidies and predatory pricing, and cleared away many non-tariff trade barriers. Since the Tokyo Round of GATT agreements has been in place, U.S. exports have expanded by 150%.

Each of these agreements could have gone further, but each did contribute significantly to U.S. welfare.

RATIONALE FOR THE FAST TRACK

But there can be little doubt that those trade agreements would not have been approved or even negotiated were it not for the fast track.

The fast track procedure is unique, because the problems confronted in trade agreement negotiations are unique. Unlike arms control treaties or other treaties, trade agreements require literally thousands of concessions in return for thousands of benefits. Though the overall balance of concessions and benefits will presumably be very much in the U.S. interest, particular concessions may well adversely impact discrete economic sectors. No other type of international treaty is likely to effect such a wide array of special interests.

If amendments were possible, Members would doubtlessly feel pressure to offer amendments to protect these special interests. Some of the amendments may well pass. If they do pass, other nations would certainly follow suit and protect their spe-

cial interests leading to further steps in the U.S. Soon the entire trade agreement would be pulled apart by special interest concerns.

We don't have to look far into history to see this pattern being played out. When the U.S. Congress piled special interest tariff upon special interest tariff in the Smoot-Hawley Act, our trading partners quickly followed suit. As a result, the world trading system was nearly destroyed.

The purpose of the fast track is not to exclude these special interest concerns from Congressional consideration. But it does force the Congress to recognize that catering to special interest concerns will unravel a trade agreement. The cases of special interests are still considered, but the Congress is forced to balance them against the national interest.

Trade negotiator after trade negotiator in both Democratic and Republican Administrations have argued that without the fast track it would be impossible to even negotiate trade agreements. In the words of our current chief trade negotiator, Ambassador Carla Hills: "The fast track is crucial to my credibility as a negotiator." Other nations would have no reason to even negotiate with the U.S. unless there was a reasonable chance that such an agreement would be approved by Congress.

The argument that the fast track chokes off debate unnecessarily and denies Congress a voice in the negotiations is simply untrue.

In all cases, Congressional consideration of the impact of a trade agreement takes place over a period of years. It begins when the concept for the negotiations is floated by the Administration. It continues during the negotiations. The final 90 days of debate that are conducted under the fast track is merely the final round of a debate that has taken place over the preceding years.

Take the Uruguay Round for example. Congressional hearings on the Round began four years ago. Even if a Uruguay Round agreement were concluded tomorrow, Congress would have had more than five years to consider the Round before it was asked to vote on it. I myself began hearings on the proposed U.S.-Canada-Mexico agreement—known as the North American Free Trade Agreement or NAFTA—eleven years ago.

But without the guarantee that Congress would at least vote on an agreement that is negotiated, U.S. trade negotiations would be seriously compromised. Certainly, the prospect of a Senate filibuster or Congressional amendments to the implementing legislation, would be enough to raise doubts in our trading partners' minds as to whether U.S. commitments would ever be implemented.

In sum, Senators should be under no illusion: Passage of this resolution would terminate the Uruguay Round and all other major international trade negotiations.

CONCLUSION

Of course, Senators have every right to reserve judgment on the outcome of the Uruguay Round or the NAFTA negotiations until the negotiations are completed.

Every Senator has the right to expect that the Administration will consult with him during the negotiations. Further, Senators should expect that the eventual implementing legislation for the Uruguay Round will be written by the Congressional Committees of jurisdiction, not the Administration.

And if Senators feel that the eventual agreement is not in the best interest of the Nation, they can vote against it. And if the majority of his colleagues follow suit, the U.S. will not enter into that agreement.

Under the fast track, the Congress still makes the final decision.

I have spoken previously to the merits of the Uruguay Round and the NAFTA negotiations and will do so further in coming weeks.

The sponsors of the disapproval resolution will doubtlessly point out that there are difficult issues to be resolved in these negotiations. And it is certainly possible to imagine an agreement emerging from these trade negotiations that is not in the U.S.' best interest.

But that is not the issue before us in the next few weeks.

The issue is whether or not we allow the Administration to carry out those negotiations.

If a poor agreement is negotiated, I will be the first to vote against it. But we cannot assume that any trade agreement that is negotiated will be a bad one. In fact, history would argue for quite the opposite conclusion.

We should not be hasty. We should allow the Administration to complete the Uruguay Round and the NAFTA and then judge their merits.

It is ridiculous to try to judge those agreements before they are even negotiated.

(SUBMITTED BY SENATOR LLOYD BENTSEN)

CONGRESS OF THE UNITED STATES,
Washington, DC, March 7, 1991.

The PRESIDENT,
The White House,
Washington, DC.

Dear Mr. President: On March 1, you officially notified the Congress of your request to extend the so-called fast-track procedures for implementation of trade agreements. As you know, unless either the House of Representatives or the Senate passes a disapproval resolution before June 1, 1991, such procedures would be automatically extended for agreements entered into during a two-year period ending on June 1, 1993. This authority would be applicable to bilateral or multilateral trade agreements, including the proposed North American free trade agreement and completion of the Uruguay Round.

We recognize that extension of such authority is necessary if the Administration is to have any credibility in pursuing negotiations within either a multilateral or bilateral context. You should be aware, however, that this process will not be easy.

A number of Members of Congress have expressed concern about the proposed extension of fast-track authority, particularly as it applies to the proposed free trade agreement with Mexico. They have identified a number of legitimate concerns that, in our judgment, should be addressed in a meaningful way before Congress considers the extension of fast-track authority. Specific concerns include the disparity between the two countries in the adequacy and enforcement of environmental standards, health and safety standards and worker rights.

While we recognize that issues such as these are not typically addressed in a trade agreement, we believe that such issues need to be addressed in this case, either within the agreement itself or through some appropriate alternative context, within the same time frame as the trade negotiations.

The time period for Committee deliberations on the issue of the proposed extension of fast-track procedures expires on May 15. We, therefore, request that you provide us, by May 1, your thoughts on how the Administration intends to address these and other relevant issues. Such an action plan is essential to the Congress as we deliberate on your fast-track request. More importantly, successful implementation of such an action plan is likely to be exceedingly critical when and if the Congress considers approval of any trade agreement which results from the negotiations. Whether such an agreement is ultimately approved by the Congress will depend on an assessment of whether the agreement has a net positive effect on jobs and wages in the United States.

We also strongly believe that the Administration should not commit itself to an unrealistic time frame to conclude the negotiations. Some Administration officials have publicly stated that they expect the negotiations with Mexico and Canada to be concluded by the end of this year. We do not believe that such a time frame recognizes the complexity of the issues that need to be addressed. Thus, we urge the Administration to use whatever time period may be necessary to resolve the numerous issues critical to the economic interests of the United States, which will serve to maximize Congressional support for the ultimate agreement.

Finally, as you know, it is absolutely essential that the Administration consult fully with the Congress on these and other important issues throughout the negotiations.

We look forward to working with you on these important issues.

Sincerely yours,

LLOYD BENTSEN, *Chairman, Committee
on Finance, U.S. Senate.*

DAN ROSTENKOWSKI, *Chairman,
Committee on Ways and Means, U.S.
House of Representatives.*

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Thank you Mr. Chairman: Given the events in the Persian Gulf, Eastern Europe and our own domestic economy I would like to commend you for having the foresight to focus on the concerns we need to address in the international trade arena.

There is hardly a sector of production in the United States that does not warrant both public and private concern if we are to maintain our competitiveness in the years ahead. If we are to have a promising future, we must be successful in opening more markets, promoting more growth, and encouraging more innovation.

I read once that supporters of the Uruguay Round argued that the difference between a failed negotiation and a successful one is \$400 billion in U.S. gross national product. Others have argued that success in the Uruguay Round would only add to the deterioration in the U.S. trade balance.

Regardless of which position one holds, the request for a 2 year extension of "fast track" needs to be looked at in light of what it will accomplish as far as opening markets for U.S. goods and eliminating unfair trade practices placed upon American exporters.

Mr. Chairman, it has been no secret that one of my primary concerns about the Uruguay Round was the outcome of the agricultural talks. I was pleased to receive Ambassador Hills statement of February 20th which announced the deadlock over agriculture had been broken. I will be carefully monitoring the difficult negotiations that lie ahead in this area. Last fall, Ambassador Hills stated these complex talks could be completed in a matter of weeks if the EC compromised on the issue of agriculture. Negotiators now say that it will take more than a year to finish, even if the agricultural talks go smoothly.

I look forward to the testimony to be presented this morning by Ambassador Hills regarding the extension of fast-track. While I reserve my commitment to the agreement for the time being, it would nonetheless be fair to say I am supportive of the President's request for extension of the "fast-track" based on what I have thus far heard from constituents and from Ambassador Hills privately to date.

PREPARED STATEMENT OF SENATOR JOHN HEINZ

One of the important decisions the Congress faces in the next several months is whether to extend the so-called fast track process for consideration of trade agreements. While there may be reasons to extend it, the argument that it is essential to trade negotiations is not one of them. It is my view that with good management a good product can pass with normal legislative procedures. It is more work—and hard work—but it can be done. What we all should fear is use of the fast track in lieu of good management on behalf of a mediocre product. That serves no one's interest.

Our consideration of the extension includes both the Uruguay Round and the free trade negotiations with Mexico. I have some concerns with respect to the former, but today I want to make a comment or two on the latter. I have not made a final decision on how I will vote on the extension, but I do want to suggest that if the following points cannot be addressed satisfactorily, it will be difficult to obtain Congressional support for a fast track extension.

First, the Administration has argued that once the negotiations are begun, they must be concluded because to torpedo them in midstream would cause severe damage to U.S.-Mexican relations. Of course, once they are completed, we will be told the agreement must be approved, regardless of its merits, because to reject it would also severely damage U.S.-Mexican relations.

Apparently, the only proper way to oppose an agreement is to prevent the talks from ever beginning. Of course, if anybody suggested that, they would be criticized for condemning a proposal before there is anything to condemn. By this logic, once the Administration makes up its mind to have a negotiation, there is no point at which it is responsible to stop it.

That line of argument makes Congress irrelevant in the consideration of trade agreements and in the making of trade policy, and I know Senators are too smart to be taken in by it.

The second issue is environmental regulation. There is great concern here that an FTA will lead to further environmental degradation in Mexico, and that what might charitably be called a more benign regulatory environment will encourage American companies to relocate in Mexico.

Thus far the Administration has not provided convincing assurances that it is on top of this problem. While there has been some indication that perhaps it can be addressed in separate talks, what has been lacking is a commitment to deal with the problem. The Administration can help its cause immeasurably by making that commitment loud and clear.

The third issue is adjustment and worker retraining. There is no question that there will be American victims of an FTA. The huge wage differential between our

two countries makes it certain that Mexican exports to the U.S. of labor intensive goods will increase at the expense of those industries here. Jobs are going to disappear in the United States as a result, but the people who held those jobs are not going to disappear. They will still be here, wondering what their government has done to them.

The constructive solution to this problem is a proactive and aggressive adjustment policy that includes expanded retraining programs to assist the victims of our trade policy.

The Administration has not yet seen fit to make a statement on this subject. It does, however, have a record we can review. We currently have adjustment assistance programs for both workers and firms impacted by imports. Those programs were significantly scaled back in 1981 and have been little more than a blip in the budget ever since. The program for firms, for example, amounts to less than \$11 million for actual assistance.

Despite this budgetary insignificance, the Reagan and Bush Administrations have proposed their total elimination in every budget they have submitted. The Congress has resisted those proposals just as strenuously, with the result that thousands of workers and hundreds of firms have acquired new skills and have been able to survive devastating import competition. I hope the Administration will be able to transcend its history and make a firm commitment to expand and improve existing TAA programs.

The fourth issue is rules of origin, which will determine whether this agreement will help Mexico to become a developed country instead of a third world country which is exploited for its cheap labor and lax regulatory requirements.

Too low a threshold of value added will lead other developed countries to set up minimal "screwdriver" or assembly plants and forego the transfer of technology and know-how that will raise the Mexican standard of living. Such a standard should not only be set at an appropriately high level, but it must be rigorously enforced with safeguards available to prejudiced U.S. commercial interests if it is not.

Such a standard will reassure U.S. manufacturers that they will not be forced out of business or required by economic necessity to relocate across the border simply because of cheaper wage rates for largely manual workers. Once again, we need a clear commitment from the Administration to address this issue.

These are not the only problems with an FTA, but they are the ones that stand out in my mind. I hope the Administration will move quickly to address them in some meaningful fashion. Otherwise, I fear the fast track extension is in for very rough weather.

PREPARED STATEMENT OF CARLA A. HILLS

INTRODUCTION

Thank you, Mr. Chairman, for the invitation to testify about the President's request to extend fast track procedures.

Fast track is crucial to United States leadership in the global economy. The procedure enables us together to pursue and implement United States trade policy, a policy which has been developed in close partnership with Congress and the private sector.

This morning, I would like to give the Committee an overview of fast track and then discuss why it is essential to the Uruguay Round and North American Free Trade negotiations, which could offer so much for U.S. consumers and workers.

OVERVIEW OF FAST TRACK

The United States is at an historic juncture. With the fast track procedure available, the United States has the opportunity to obtain trade agreements that can benefit the U.S. and world economies. However, without fast track, the United States is not even a player at the negotiating table.

There is, however, a widespread misunderstanding about what fast track is and what it isn't; about its origins and its application today.

For more than 50 years, Congress and the Executive Branch have worked together in close coordination and consultation to negotiate and implement trade agreements.

In the aftermath of the disastrous Smoot-Hawley Tariff Act of 1930 and the Great Depression it helped fuel, your predecessors and mine realized that we, the Legislative and Executive Branches, must work together to craft a national trade policy that opens markets and promotes U.S. exports.

That meant institutionalizing a system of trust and partnership which was first reflected in the Reciprocal Trade Agreements Act of 1934. Congress delegated to the President the power to negotiate tariff-cutting agreements with other nations and to implement them by proclamation without the need for subsequent legislation. In the years after its enactment, the Reciprocal Trade Agreements Act proved a great success. Congress's action in passing the 1934 Act can be credited with helping make possible the extraordinary economic growth after World War II, both in the United States and around the world.

Our partnership in developing and implementing U.S. trade policy evolved in later years as trading nations began to rely less on tariffs to protect their markets and more on non-tariff trade barriers. Consequently, the scope of trade negotiations was broadened to include new areas previously uncovered by international rules.

The fast track procedures were created by Congress as the necessary complement to this broader trade agenda. Fast track procedures for approval of trade agreements were included by Congress in trade legislation in 1974, 1979, and again in the Omnibus Trade and Competitiveness Act of 1988. While giving Congress the assurance of meaningful participation throughout the negotiating process, fast track also provides two guarantees essential to the successful negotiation of trade agreements: First, a vote on implementing legislation within a fixed period of time; and, second, no amendments to that legislation.

These procedures reflect an understanding that trade agreements, in which results in one area are often linked to results in others, are particularly vulnerable to multiple amendments that, while possibly small in themselves, could unravel entire agreements. Whether the balance of benefits contained in any trade agreement is in the overall interest of the United States can only be determined by looking at the whole package.

Through the fast track, Congress has given the President the same bargaining power possessed by his counterparts: The ability to ensure that the agreement reached internationally would be the agreement voted on at home. Without that assurance, foreign governments are reluctant to negotiate with the United States and will not make the tough concessions necessary to reach agreements the United States would be willing to sign. No negotiating partner will give its bottom line knowing that the bargain could be re-opened.

MYTHS OF FAST TRACK

Let me take a few moments to dispel two myths about fast track:

Fast track procedures are not "fast" and are not an inevitable "track." The process is actually quite deliberate and the outcome is not pre-ordained.

To be more specific, fast track procedures have absolutely nothing to do with the pace at which we conduct negotiations. Let me reiterate an assurance that I have given publicly many times: We will not rush to conclude any agreement, merely for the sake of an agreement. We proved that last December in Brussels, and our high standards have not changed. While we are eager to secure the benefits that trade agreements promise, we will take whatever time is needed to arrive at agreements that are truly in the economic interest of the United States. We will consider all relevant issues in a negotiation and consult fully with you and the private sector. Until we arrive at good agreements—ones that we believe you will agree are good—there simply will be no agreements.

Your vote to approve fast track extension does not mean that whatever the Administration negotiates afterward is automatically, or even rapidly, approved. Fast track procedures preserve Congress's role during the negotiation, approval, and implementation of trade agreements. The fast track statute includes extensive notification and consultation requirements with both Congress and the private sector throughout the process. Each step of the way, this Administration will continue its close consultation with Congress and the private sector.

For example, we started formal and informal consultations with Congress on an FTA with Mexico almost a year ago, well before our formal notification of negotiations. We have been talking to a range of Committees and members about their objectives and advice, and will continue to do so once negotiations commence.

Once an agreement is reached, Congress and the Administration will work in close consultation to formulate implementing legislation. The process has been open to all committees of jurisdiction. If the agreement and its implementing legislation are still not acceptable, they can be rejected by majority vote of either house.

ECONOMIC REASONS FOR EXTENDING FAST TRACK

The United States has much to gain through trade agreements that open markets and provide rules for free and fair trade. Maintaining the fast track will preserve our ability to continue efforts to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements.

Opening markets and expanding trade is at the top of the President's agenda.

As 1991 begins, international trade is more important than ever to the United States. Our economy has enjoyed six years of record expansion. The engine of this expansion was U.S. exports. Over the past three years, exports of goods and services contributed more than 50 percent of the growth of GNP.

The U.S. economy now has entered a temporary recession. But the vitality of U.S. trade has not been interrupted. As the President said in his State of the Union Address, "Exports are running solid and strong."

In 1990, the rate of growth of U.S. exports was twice as fast as the rise in imports. The nearly 8.5 percent growth in exports generated 88 percent of our total economic growth last year.

This is because the global economy remains strong, and U.S. goods are in great demand around the world.

The flow of U.S. products must be maintained and expanded lest exports—our vital engine of growth—sputter or stall. More than ever, we need the billions of dollars a year of economic stimulus that greater access to foreign markets could provide.

Opening markets and expanding trade also will enhance the economic growth of poorer nations, including the emerging democracies of Eastern Europe and Latin America. Such growth not only promotes political stability, but will also make those countries much better customers for U.S. products.

Without the impetus of a more open trading system, these nations will be drained by the massive costs of protections now imposed on them—costs that now total two-and-a-half times all the aid they receive from industrialized countries.

We find ourselves at this critical time with real opportunities to open markets in areas that will expand our trade. It was precisely to take advantage of such opportunities that Congress contemplated in the 1988 Trade Act a two-year extension of the fast track procedures that would otherwise have expired in June of this year.

FAST TRACK IS CRUCIAL TO CONCLUDING A SUCCESSFUL URUGUAY ROUND

Our best opportunity for opening world markets is to complete a comprehensive agreement in the Uruguay Round of global trade talks and in so doing to strengthen and broaden the General Agreement on Tariffs and Trade, or GATT. The GATT is without doubt the world's most important trade agreement. Indeed, it is the Constitution of World Trade.

Under GATT sponsorship, the world's trading nations have held seven successful rounds of negotiations since World War II in which tariff rates were slashed by more than 75 percent. As a result, trade exploded from just \$60 billion in 1950 to nudge the \$4 trillion mark this year.

This enormous expansion in global commerce has fueled a spectacular surge of the world and U.S. economies. Both have grown faster in the last 40 years than in any four decades of world history. Consequently, we have enjoyed unparalleled global prosperity.

The GATT has opened new markets for business, increased choices and lowered prices for consumers, and led to higher incomes and more jobs for workers.

But just as a thriving family outgrows its first house, so too has the family of 100 nations, who make up the GATT and account for 85 percent of world trade, outgrown the rules that have served us so well for so long.

Today, a third of world trade—more than \$1 trillion of international commerce a year—is not adequately covered by internationally agreed rules.

Areas inadequately covered by GATT rules, like agriculture, or not covered at all like services, investment, and intellectual property, have taken on an enormous importance in global trade generally and to the United States in particular.

The United States led the call for the far-reaching agenda of issues in the Uruguay Round. Congress and the private sector supported this effort. Congress laid out the negotiating objectives for the Uruguay Round in the 1988 Trade Act.

Several members of this Committee, and your staffs, were with us at the Uruguay Round ministerial meeting in Brussels last December. Rather than conceding our goal of an ambitious agreement, together we agreed that no agreement was far better than a hastily negotiated face-saving solution.

After a three-month suspension, the countries that brought the talks to a halt returned to the table with a new-found willingness to negotiate specific commitments in the critical area of agricultural trade reform. As you know, this area is the linchpin of the Round; without real reform, many of the countries participating in the talks are not willing to negotiate in many of the Round's other important areas.

The prospects for a successful conclusion are better now, but we have tough negotiating ahead. We will continue to work with you to bring these talks to fruition.

The benefits the Uruguay Round could bring to America are enormous:

- Lower tariff and non-tariff barriers to manufactured products and other goods could increase world output by \$5 trillion, and U.S. output by more than \$1 trillion over the next 10 years, meaning an additional \$17,000 for every American family of four;
- Rules to protect the intellectual property of America's entrepreneurs, ending the \$60 billion lost each year through theft and counterfeiting;
- New markets for U.S. service firms, which today export \$115 billion annually and create 9-out-of-10 of our new jobs;
- Broader market opportunities for international investment, creating expanded opportunities in a sector that already helps generate more than \$240 billion of U.S. exports, or two-thirds of total U.S. exports in goods;
- Fair competition and open markets for U.S. farmers, who lead the world with more than \$40 billion in annual exports;
- Full participation of developing countries in our global trading system, which could increase U.S. exports 50 percent, or \$200 billion, by the year 2000; and,
- Strengthened rules on dispute settlement, antidumping, subsidies, and trade remedy provisions, that should provide predictability and certainty in access to foreign markets and ensure fair trade at home.

The fact is that a failure to extend fast track authority will effectively end the Uruguay Round negotiations. It will damage prospects for world economic growth and cooperation. A collapse of the Round brought about by the removal of fast track would increase worldwide pressures to raise trade and investment barriers. And, of course, the unraveling of the international trading system would deny U.S. consumers and workers the enormous benefits of open markets.

FAST TRACK IS ESSENTIAL TO NEGOTIATE A NORTH AMERICAN FTA

Of course, we continue to press for open markets beyond the Uruguay Round negotiations.

A North American Free Trade Agreement more closely linking the economies of the United States, Mexico, and Canada could be a potent force for regional growth and prosperity. We expect these discussions to lead to market opening agreements that will create new and improved opportunities for U.S. exports across the entire spectrum of American industry.

Canada is our largest trading partner. Mexico is our third largest trading partner. Linking our complementary economies through free trade will strengthen these economic bonds and increase regional political stability. Ultimately, the creation of a North American Free Trade Area will create the largest, richest market in the world with 360 million consumers and \$6 trillion in annual output.

Also, a North American Free Trade Agreement will support our broader aim of open markets and expanded trade globally, for other countries will have greater incentive to seek open markets with us. It also can serve as a starting point for the pursuit of a hemispheric free trade area—the long-term objective of the President's Enterprise for the Americas Initiative.

Despite these benefits, some critics claim that an FTA will be a "one-way street" with inexpensive Mexican goods flowing into the United States and few of ours going the other way. The evidence disproves this notion. Since 1986, when Mexico joined the General Agreement on Tariffs and Trade, and reduced its tariff protections from 100 percent to roughly 10 percent, U.S. exports to Mexico have more than doubled, rising from \$12.4 billion to an annualized rate of \$28.4 billion in 1990. The doubling of U.S. exports created 320,000 U.S. jobs. Each additional \$1 billion of U.S. exports will mean more than 20,000 new U.S. jobs.

All sectors of the U.S. economy have benefited from this market opening: exports of automobiles and auto parts have quadrupled; exports of corn have tripled; and exports of telecommunications equipment have doubled. Exports of iron and steel, that were running a \$12 million deficit four years ago, now are tallying a \$300 million surplus. Just four years ago, we had a \$91 million deficit in textiles and apparel trade with Mexico. Today, we are running a surplus.

A free trade agreement would not only lock in these gains, but also create new openings for U.S. industry.

There is also a fear that a free trade agreement will export U.S. jobs to Mexico. But again, the experience of the last decade disproves this speculation.

During the 1980s, U.S. firms set up factories in Mexico at a record pace under the maquiladora program. As a result, thousands of jobs were created and retained on the U.S. side of the border to support those facilities, according to some studies.

A good example is Deltec, a San Diego electronics manufacturer. Since it started a maquiladora five years ago, its sales have quadrupled and its workforce has tripled with employment in San Diego rising by 50 percent.

Many of its San Diego workers were retrained to fill higher-skill and higher-paying jobs. Deltec's added business also generated new jobs in and around San Diego as its spending for raw materials and services there grew four-and-a-half times.

Indeed, the availability of Mexico as a factory site is saving U.S. jobs. Kendall Co., a Massachusetts-based medical equipment maker, says that were it not for the maquiladora program its ability to compete effectively in certain segments of the health-care market would have been significantly impacted. This fact could very well have jeopardized the approximately 3,000 jobs which currently exist within the United States. Other companies that would have been forced to relocate operations offshore to remain competitive instead are setting up operations in Mexico.

While the benefits of an FTA are apparent, the Administration recognizes that some groups worry about the consequences of increased competition from Mexico. We are sensitive to these concerns and want to work with Congress and the private sector to ensure that our negotiations take these concerns into account.

In this regard, nothing we negotiate will be implemented overnight. We know that business and labor on both sides of the border will need time to adjust. We will ensure that any agreement be phased in over time and provide an effective mechanism to protect against import surges. In the end, we will have a new economic regime that will benefit all.

Progress in the trade area also will support and reinforce progress in our broader bilateral agenda with Mexico. Long before there was any talk about an FTA with Mexico or a North American FTA, the United States and Mexico were discussing and acting upon a broad bilateral agenda extending far beyond trade. Our countries share a common goal of an improved way of life, both economically and socially, for our people. Agencies such as the EPA and the Departments of State, Justice, and Labor have been working in their area of expertise to promote our broader bilateral agenda. We have worked with Mexico to support and enhance its own efforts to address pressing social needs.

Progress in North American free trade negotiations would assist efforts on our broader agenda. Conversely, rejection of fast track would hinder our efforts in all areas.

The goal of United States trade policy is to open markets and expand trade for U.S. goods throughout the world and so provide a powerful stimulus for economic growth. A North American Free Trade Agreement will do just that and create on the North American continent a new era of opportunity and prosperity.

CONCLUSION

Supporting fast track will allow the Uruguay Round and the North American Free Trade negotiations to go forward without in any way detracting from Congress's ability to assess each agreement on its merits when presented for approval.

We have much to gain from extending fast track: an era of extraordinary economic growth, geopolitical stability, lower prices and greater choices for consumers, more jobs for workers, and a better standard of living for our people.

We have all this to gain and much to lose: After the enormous international respect and goodwill we have earned from our role in the liberation of Kuwait, to deny the President the ability to negotiate trade agreements would be a severe setback. For the United States, the world's biggest market, its largest exporter, the leader of the free world, not to be a real participant at the bargaining table would be an abdication of responsibility to the world trading system, the U.S. economy, and, above all, to the American people.

RESPONSES OF AMBASSADOR CARLA A. HILLS TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question No. 1. U.S. farmers are concerned that Mexican farmers are able to use certain chemicals which are banned in the U.S. At present, we rely on the United

States Customs Service to discover and stop food products from coming into the U.S. with dangerous levels of such substances.

Do you anticipate that negotiations with the Mexicans will cover the use of such chemicals in that such practices may provide an economic advantage?

Does the USTR have any type of list of chemicals which Mexicans may use which are banned—as opposed to not registered—in the U.S.?

Answer. As you know, the United States has a stringent set of regulations governing the use of certain chemicals and pesticides in the United States. We also have numerous regulations designed to protect the health and safety of U.S. consumers, including rules governing pesticide residues.

Imported agricultural products must meet the identical residue and tolerance levels set by U.S. regulatory agencies as those imposed on domestically-produced goods. I can assure you that within the context of the NAFTA negotiations, we will take no steps that result in a weakening of these protections.

Because of the longstanding relationship between Mexico and the Food and Drug Administration (FDA), the approved ~~usage~~ use of pesticides by the Mexican Government is essentially the same as ours. FDA technical experts believe that Mexico is making a substantial effort to bring their practices into compliance with U.S. regulatory requirements. FDA and Mexico have entered into a Memorandum of Understanding to address outstanding problems/loopholes.

Under the U.S.-Canada FTA, technical working groups were developed to address individual issues of importance (including such areas as pesticides and animal and plant health) and to work toward greater compatibility of our respective regulations and inspection procedures. This general framework could also be used with Mexico.

Where either our standards or practices differ, the United States and Mexico could work together within the context of the FTA negotiations to make compatible technical regulations affecting agricultural food and beverage products. As in the case of the U.S.-Canadian FTA, any changes in U.S. regulations under such a process would be subject to the full requirements of U.S. law, and we would not take any steps that endanger U.S. consumers or the farm community.

With respect to the list of pesticides registered in Mexico but which have been cancelled or suspended in the United States, the EPA has just received from the Government of Mexico the list of compounds that can be used in Mexico. EPA is comparing the list of compounds registered in the United States with those compounds registered in Mexico. In addition, as part of the pesticides work group under the U.S.-Canada FTA, the Pesticide Assessment Lab in the Department of Agriculture is preparing a comparison of pesticide tolerance levels in the United States, Canada and Mexico.

Question No. 2. Since Canada has agreed to become a partner in the negotiations with Mexico, would it be appropriate to revisit some provisions of the U.S.-Canada Free Trade Agreement? I am specifically referring to the Binational Panel process and allegations that the Binational Panel severely overstepped its jurisdictional boundaries when it made its recent ruling on Canadian fresh, frozen and chilled product. Can some improvements be made in the dispute resolution process? That is, have we learned any lessons which can be utilized in the negotiations to construct a North American Free Trade zone?

Answer. Both the United States and Canada have agreed that, in the context of negotiations toward a North American free trade agreement (NAFTA), there will be no retreating from the trade liberalizations or disciplines that were achieved in the U.S.-Canada FTA. However, both nations are open to making improvements in that agreement.

Within the NAFTA negotiations, one of the topics for negotiation is the establishment of a dispute settlement mechanism. These negotiations would include the possibility of improvements to the U.S.-Canadian dispute settlement process and the binational panels.

We are assessing our experience under the U.S.-Canada FTA. We also have requested advice from the private sector and would welcome your thoughts in this regard.

Finally, as you know, we are concerned that the binational panel might have exceeded its authority in the recent decision on Canadian pork. The United States has requested an extraordinary challenge of the binational panel decision. The extraordinary challenge committee is due to issue its decision by mid-May.

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH

Today's hearing addresses the most important legislative trade matter pending before the first session of the 102nd Congress. The decision that must be made couldn't be clearer—whether or not to preserve a process that is essential to securing international trade agreements which ultimately serve our national economic interests. I strongly believe this process must be preserved, and, therefore, support the President's request for the extension of fast track procedures. I hope my colleagues will do the same.

I am concerned about certain misperceptions that seem to exist with respect to what is at stake in this debate. Some seem to believe that eliminating fast track procedures will allow for full debate on trade agreements, but clearly the opposite would occur. This is because without a fast track process, no one will take our negotiating efforts seriously, thereby preventing any agreement from being concluded in the first place, and from reaching the Congress for debate and approval, in the second place.

The report the President submitted along with his request for extending fast track underscores the enormous potential benefits that will accrue to the U.S. through a successful Uruguay Round and a North American free trade agreement. This document should be read from top to cover for those who believe that taking away fast track is a good idea.

I must say that several months ago, I had hoped that we would be holding hearings on the final Uruguay Round package at this time. I now hope we can regain the momentum to the round and ultimately achieve the ambitious package we originally set out to accomplish. Should fast track procedures be extended, as I hope they will be, an additional two years for concluding the Uruguay Round raises expectation levels all the more higher.

I have many areas of specific interest and concern with respect to the Uruguay Round and a North American free trade agreement. I will not take the time to elaborate on them here except for highlighting a couple points on the so-called "non-trade" issues in the context of an FTA with Mexico.

While I believe the primary focus of our negotiations with Mexico and Canada should be on eliminating trade and investment barriers between our regions, there are certain constructive steps we can take in some of these non-trade areas. For example, there is no reason not to expect Mexico to fully enforce its existing strong environmental laws, as well as expect future development in Mexico to occur in an environmentally sound manner. At the same time, we should seek a formal commitment from Mexico that it will support greater multilateral efforts on the environment, particularly efforts to address the economic and possibly trade-distorting impact of differing environmental regimes by perhaps moving in the direction of establishing common minimum standards and rules, with effective enforcement mechanisms in place.

I also believe we must be sensitive to possible worker dislocation brought about by eliminating all trade and non-trade barriers with Mexico. In order to provide a funding mechanism for taking care of such a development, and in light of a possible additional two years for completing the Uruguay Round, I strongly urge the Administration renew its past effort to seek multilateral agreement on a small import fee, 0.15%, for the specific purpose of trade adjustment assistance programs. Such an agreement would help build critical support for both the Uruguay Round and a North American Free Trade Agreement.

I look forward to hearing Ambassador Hills testimony.

 PREPARED STATEMENT OF STEVE SYMMS

Thank you Mr. Chairman and welcome Ambassador Hills.

Madam Ambassador, there's a lot to be said for negotiating trade agreements that offer the prospect of significantly increasing trade between nations. I believe open borders benefit the countries involved and I have always been supportive of efforts to expand trade.

Let me quote from Winston Churchill:

We say that every (citizen) shall have the right to buy whatever he wants, wherever he chooses, at his own good pleasure, without restriction or discouragement from the State. That is our plan. . . . In pursuit of this simple plan there came last year into [our country], from every land and people under the sun, millions' worth of merchandise, so marvelously varied in its character that a whole volume could scarcely describe it. Why

did it come? Was it to crush us, or to conquer us, or to starve us, or was it to nourish and enrich our country? It is a sober fact that every single item, however inconsiderable, in all that vast catalogue of commodities came to our shores because some [citizen] desired it, paid for it, and meant to turn it to his comfort or profit.

What Winston Churchill said so well, I say simply: free trade in a free society provides the maximum benefit to our citizens.

The question is: how do we get there?

We all know the only way to negotiate these treaties to expand trade is to authorize "fast track." And this is why I am a cautious supporter of "fast track" extension. We won't get anywhere if our trading partners know that an agreement negotiated by our trade team will be bent and twisted by the Senate.

But problems do come up and we need to look at them squarely at the outset.

One of these problems is the recent attempt by the provincial government of British Columbia to withdraw from the Memorandum of Understanding for timber imports. This is not a small matter. This Memorandum was central to the support of many Senators for the U.S./Canada FTA. And I have joined with Senator Packwood to urge you to work towards the preservation of that Memorandum.

Another situation that comes to mind is the Safarco fertilizer project in Saskatchewan province where the provincial government is providing significant equity and is guaranteeing the owners' commercial debt. Fortunately, there are dispute-settlement procedures in place to remedy these problems. How this situation is resolved will be very important to how I view any future agreements.

Finally, there is the pork dispute. As I understand it, there is a Bi-National Commission to resolve the dispute. To put it mildly, the Bi-National Commission and the U.S. International Trade Commission don't see eye-to-eye on some things.

Madam Ambassador, there's a lot of pork in my State, very little of which is of the Federal variety. My pork producers are very upset about the recent verdict by the Binational Panel implying there's been no injury or threat of injury to domestic producers by subsidized Canadian fresh and chilled pork producers. From what I've seen, they make a pretty good case.

I was very leery of these Bi-National panels when they were debated in the Senate when the U.S.-Canada Agreement was up for a vote. And I understand you can't win every dispute. But it does seem to me that the system isn't working in this case.

Madam Ambassador, my pork producers don't want to be caught between agencies in a struggle for power which leaves them sitting in a pig-pen of indecision. It's unfair and I sincerely hope we don't face this in the future.

Are you and your staff currently looking into this situation? Has the Bi-National Panel run amok? Does this kind of dispute settlement mechanism need stricter guidance, or better working relations with domestic agencies? If the same dual dispute-settlement system is set up in future free trade agreements, what changes do we need to make in how they're set up?

I realize that's a lot of questions. I would be happy if you could just comment generally and perhaps get back to me sometime next week with a more detailed response.

COMMUNICATIONS

STATEMENT OF THE LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

This statement is submitted by the Luggage and Leather Goods Manufacturers of America, Inc. ("LLGMA"). The LLGMA is an association whose several hundred member companies represent the luggage and flat goods industry in the United States and its suppliers. These member companies account for the vast majority of all retail sales of luggage, business cases, and flat goods in the United States.

The position of the LLGMA on any extension of the fast-track authority in multi-lateral trade negotiations is heavily determined by the LLGMA's concern over the Multi-fiber Arrangement ("MFA") and the bilateral quotas now in effect on imports of our products from numerous countries. Equally important are concerns that tariffs on our products, in particular the leather business cases and flat goods made by our members, not be reduced.

As the LLGMA made clear in its testimony before this Committee on the textile quota bill last year, the MFA is of paramount importance to the stability and viability of the domestic industry. One of the key issues in the Uruguay Round has been the future of the MFA, and the treatment of the textile products that are covered by it, including luggage and flat goods.

One year ago, the LLGMA was shocked to learn that the U.S. negotiators were paying little heed to the import-sensitivity of our industry. Since that time, thanks to the assistance of members of this Committee and others, the need to maintain full coverage on our products under the MFA was impressed on our negotiators. It goes without saying that any negotiations on the MFA that may occur must continue to recognize this industry's importance and concern, and must include textile luggage and flat goods under the MFA as one of the most import-sensitive textile products. There is no reasonable basis on which these products could possibly be treated otherwise.

The U.S. Government has long acknowledged our industry as highly import-sensitive, and has in the past taken those reasonable measures in U.S. trade policy that were available to address the problem. Part of this acknowledgement was the recognition of the vital role that this, and similar industries, play in creating entry-level and semi-skilled jobs for newly-arrived Americans and others with fewer options for employment in our increasingly technological and specialized economy.

The following points are a brief synopsis of the grounds for full and continuous MFA coverage and bilateral restraints for luggage and flat goods:

First, textile luggage and flat goods are highly import-sensitive and have always been exempt from duty-free treatment under GSP and under the Caribbean Basin Initiative.

Second, tariffs on 80 of luggage and flat goods imports were not reduced at all in the Tokyo Round multilateral trade negotiations because these products were deemed to be import-sensitive.

Third, the ratio of imports to production for these products is far in excess of 100%. More than 10,000 employees have lost their jobs in this industry over the last decade.

Fourth, textile luggage and flat goods are a significant textile product. The industry consumes more than 20 million pounds of fiber and, in 1987, used more than \$160 million of fabrics in the making of its products.

Fifth, imports of textile luggage and flat goods increased from \$83 million in 1980 to \$612 million in 1989; between 1988 and 1989 alone, imports rose by more than \$100 million.

Sixth, textile luggage and flat goods have long been covered by international textile arrangements. They were included in the Long-Term Cotton Arrangement that was in effect starting in 1962, and which was the precursor to the MFA.

Seventh and finally, luggage and flat goods are currently subject to numerous restraint and consultation levels pursuant to the MFA bilaterals now in effect. The most important of such restraint levels are those on the People's Republic of China ("PRC"). Not only were these restraint levels filled 100% in 1990, imports from the PRC are actually entering the United States much faster so far in 1991 than last year. Equally disturbing, we are aware that Customs is investigating fraudulent transshipments of luggage from the PRC as part of the broad Customs investigation into this massive fraud.

Given past history, the LLGMA unfortunately has reason to view any continued MFA negotiations with misgivings. From our perspective, there must be assurances that our products will continue to be covered by the MFA for its duration for these misgivings to be eased.

STATEMENT OF MAYFIELD & PERRENOT, P.C., EL PASO, TX

On the basis of 35 years active involvement in Mexico-U.S. legal transactional matters, our Border based [El Paso (Texas)/Juarez (Chihuahua)] Law Firm feels constrained to comment before this Committee on the issue of extension of fast track legislative procedures in the context of proposed international trade agreements because the growing intensity of discussion has concentrated to an unsound degree on emotional, ideological rhetoric and broad, unqualified conclusions having little or no connection with empirical data and substantive content.

It does not even appear to be well understood who the participating nations are in the case of the proposed North American Free Trade Agreement (NAFTA). Common reference is made to the "proposed U.S.-Mexico free trade agreement," ignoring a formidable Canadian train on the trade track. The negotiation is not bilateral; it is trilateral.

Although, as far as the proposed NAFTA is concerned, no reasonably definite, authoritative set of general principles nor subject matter agenda nor definitive identification of sectoral negotiating areas has been agreed or published, highly partisan advocates, whose fervid comment is matched often only by the wide disparity of conclusions reached or ignorance or deliberate disregard of basic factual data, have asserted stridently and categorically that "such a treaty would catapult Texas into the global cosmos practically overnight" [El Paso Times, 3/26/91]; present a "disastrous potential" for both Mexican and U.S. workers; "remove most trade barriers between two nations;" create an environmental catastrophe of tremendous magnitude; solve the U.S. problem of unlawful immigration of Mexicans; flood the U.S. with low-wage workers and low-quality products; raise wage scales and the standard of living in Mexico; enable Mexico to become a potent international competitor and discharge its enormous external debt; open an uncontrolled conduit for dumping Cuban, Central and South American and other nations' goods, fraudulent and otherwise into our trade deficit producing national market; place the cost of improving Mexico's notoriously inadequate infrastructure squarely on the back of U.S. taxpayers (still another foreign bail-out); create an enormous market for U.S. exports because of Mexico's burgeoning population (the usual body-count rationale, some 100 million of them within the next ten years)—and so on.

All these confident, unqualified conclusions can't possibly be true.

Similarly, it has been emphasized that a rejection of the President's request for extension of fast track authority would mean "Congress will have told a world finally anxious to accept free-market and free-trade principles [note: such as the Dec. 6, 1990 GATT agricultural trade impasse created by Japan, Germany, and France?] that the U.S. no longer wants in the game" [Wesley Smith, The Heritage Foundation, Washington Times 3/25/91]; Congress will have recognized that poverty and economic development cannot be left to private capital but deserve public scrutiny arid formal Congressional debate [Lane Kirkland, Pres. AFL-CIO]; would be a negative response from the U.S. which would "irreparably damage" U.S.-Mexico relations [Abelardo Valdez, Pres. Carter's Chief of Protocol [AP 3/30/91]; would eliminate any possibility of a free trade agreement with Mexico because of burdensome, time consuming Congressional "intervention" in the negotiating process [the standard argument against "inefficient" democratic procedures]; would automatically kill GATT's Uruguay Round with resultant worldwide trade anarchy—and so on.

Obviously, all these sweeping conclusions cannot be true.

Our Firm does not agree with extreme, unqualified views from either end of the opinion spectrum. With no intention of advocating approval or disapproval of trade agreements (treaties) which do not exist, whether in the NAFTA or much broader multilateral GATT context, we respectfully invite the Committee's attention to cer-

tain observations and general principles believed to be valid and relevant to the single immediate issue at hand: what is the proper and legal role of Congress in today's international trade negotiations?

Covey T. Oliver, former U.S. Ambassador to Colombia and one of the world's most respected International Law professors, has observed that non-economic aspects of development—issues and challenges of institutional, social, and political development—have been subordinated to the point of obscurity by the narrow, restrictive focus of technically competent bureaucrats, trade experts, statisticians, and economists.

Professor Oliver, with decades of top level diplomatic and hands-on Latin American experience beginning with his Laredo, Texas upbringing, has openly and repeatedly expressed puzzlement, shared by our Law Firm, about why Mexico and other Latin American countries (including Brazil), which have been free of colonial control for about as long as the U.S., have not matched the phenomenal economic achievements of South Korea and other Asian countries, given the relative parity of human and natural resources.

Latin America's consistently demonstrated incapacity for social organization goes well beyond economic statistics and theories and has been accentuated consistently by nationalistic prejudices—ideological differences—undemocratic political systems, and, unfortunately on occasion, corruption.

Against this realistic background, we believe it would be unwise:

- to consider the Canada-U.S. FTA negotiations as an instructive analogue for the Committee's evaluation of NAFTA proceedings
- or to assume that broad, complicated societal problems can be dealt with logically and effectively with economic policies alone
- or to consider that Presidential outlines or assurances to the Committee by May 1st on how wage and environmental issues would be handled in negotiations can responsibly put to rest legitimate concerns of labor unions and environmental groups
- or to not similarly seek Executive commitments in the two vital areas of expropriation and dispute resolution (noting the historical precedent and the completely different Mexico and U.S. judicial systems)
- or to imagine that Mexican Government implementation of painful, radical economic reform while introducing, or without introducing, meaningful democracy in Salinas' sexenio or that of his successor is a feasible exercise (the Soviet Union comes to mind).

As we see it, there is a fundamental question before this Committee as to whether the legitimate interests of the United States would be best served, under today's circumstances, by relatively unrestrained bureaucratic technicians, no matter how competent and well-intentioned, negotiating international trade treaties for eventual legislative approval or disapproval (but not modification) or by a legislative process capable of subordinating highly specialized perspectives to the overriding, more complex noneconomic aspects monitored by appropriate Congressional mechanisms on an on-going basis.

With all due respect and with no intention of deprecating any nation, much less Mexico where many of our clients live and work, the unmistakable disparity of economic, social, political, judicial, administrative, and cultural circumstance between Canada and the U.S., on the one hand, and Latin America, on the other, is a major factor which simply must not be ignored and which certainly removes NAFTA negotiations from the normal framework of international trade agreements. Some of these same considerations would appear applicable to the U.S.-Chile FTA situation scheduled to commence in May 1991, and they will certainly be apposite if and when President Bush's Western Hemisphere trade zone negotiations become a reality.

It is noteworthy that there is a significant parity of such circumstance within every other regional trade bloc—the European Community; the Asian groupings which are either in a formative or evolutionary stage; the quite recent MERCOSUR (Southern Cone Common Market) comprised of Brazil, Argentina, Paraguay, and Uruguay which proposes to have a tariff free flow of services and goods among its 200 million consumer/residents by 1996; the agreement of Venezuela, Peru, Colombia, and Bolivia to abolish most regional tariffs by the end of 1991; the so-called free trade accords in Central America; and aspects of the Caribbean Initiative. Even with these substantial similarities of circumstance, market integration (without any consideration of elements of political integration) in these regional trade blocs will be difficult and complex for various reasons, including the absence of common economic policies and structures.

With this actual experience in plain view, would it be wise for Congress to restrict its plenary jurisdiction to the narrow, rigid mould of approval or disapproval of a NAFTA?

Turning to the issue of fast track authority as applied to the GATT Uruguay Round, we respectfully suggest that the failure to timely conclude the panoply of sectoral negotiations over a four year period illustrates clearly the present day linkage between international trade, investment, and services with broad scope, complex, interrelated political aspects affecting litany facets of our national interest and therefore matters of direct concern to the Congress.

Not the least important of these facets would seem to be the desirability of a Congressional reassessment of our overall relationships with several countries, including specifically Germany and France (who contributed to the breakdown of Uruguay Round negotiations with their inflexible political and protectionist attitudes toward agricultural policies and practices) and Japan (whose attitude was neither positive nor constructive).

Things change and as they do so do perceptions of national interest. If the present day reality is that our global interests, as the Congress perceives them, require our unilateral exercise of sanctions to achieve reciprocal fair market access, bilateral accords (Eastern European countries, for example), and the creation of our very own home-grown regional trade blocs to counter the protectionist, predatory practices of other regional trade blocs, then it may be that extended fast track authority could be considered an unwarranted delegation or virtual abandonment of legislative duty and that the public interest would not be best served by a self-imposed Congressional restriction of mere approval or disapproval with no right of requested modification.

Is today's international trade reality too complex to justify in the alleged interest of administrative convenience a restriction of Congress' legitimate legislative function to a blunt approval or disapproval of a package deal containing positive, negative, and controversial provisions affecting the national interest?

Finally, although inconsistent with prevailing legal views of the past several years, we respectfully suggest a reappraisal of whether legislative fast track authority in today's international trade, investment, and services syndrome is consistent with the overriding concept of Constitutionally mandated separation of powers. We have our serious doubts, and we respectfully urge the Committee to seriously consider the question.

STATEMENT OF POPHAM, HAIK, SCHNOBRICH & KAUFMAN, LTD.

I. INTRODUCTION

Events of the recent past have served to once again remind us of the importance of free trade and open markets. With the world becoming increasingly interdependent, the United States must take a lead role in guarantying free trade for our products in all international markets.

Because of the depth of our economy, we can no longer depend solely on our own resources for increased expansion. Without the concurrent expansion of foreign economies, the market for U.S. goods and services will stagnate. Our goals, therefore, must be twofold. First, we must strive to reduce trade barriers wherever they exist, and second, we must become actively involved in fostering growth in foreign economies.

A tremendous potential exists for the U.S. to achieve both of these goals simultaneously and reap tremendous benefits for the domestic economy as a whole. The North America Free Trade Agreement ("NAFTA"), negotiated between the United States, Canada, and Mexico, will create the world's largest free trade zone, encompassing over 360 million consumers and spanning the entire North American Continent. A large portion of the work on this Agreement has already been completed with the 1988 implementation of the U.S.-Canada Free Trade Agreement. Extending free trade to Mexico will only serve to increase the benefits.

Mexico is a developing country with tremendous potential. By the year 2000 there will be more than 100 million Mexican consumers, a substantial market for any exporter. Mexico's proximity to the U.S. makes it an ideal market for U.S. industrial expansion. Additionally, the Mexican government has recently begun an aggressive campaign to revitalize its economy. New foreign investment laws and a tough anti-inflation policy have been implemented in an effort to attract foreign capital, technology, and business know-how to Mexico. The Mexican people are ready and will-

ing to deal. They are actively seeking foreign investment with other markets such as Europe and Japan.

This is our opportunity to capitalize on new markets while still retaining some control over the direction of free trade in the hemisphere. If we refuse to negotiate now, we will only be left behind.

II. ADVANTAGES TO THE U.S. FROM FREE TRADE

As a service provider, Popham Haik is extremely optimistic about the opportunities for increased service trade with Mexico. Increased free trade with Mexico will allow the growing service industries in the United States to expand into new markets, thus further alleviating the trade deficit. The U.S. has traditionally been a net service exporter and a free trade agreement for North America will only serve to increase our competitive advantage in such areas as banking, finance, legal, and accounting services.

In addition, the U.S. is in a position to gain tremendous advantages in the energy industry as well. Mexico has substantial oil reserves, much of which have gone untapped because of the lack of technology to find and exploit these resources. Those U.S. businesses which have suffered as a result of the volatile oil market will find new opportunities for joint research and development with the Mexican-owned energy industry.

U.S. manufacturers also overwhelmingly support the implementation of a North America Free Trade Agreement. The benefits for manufacturers include not only greater consumer markets, but opportunities to expand through joint ventures into Mexico. Many critics of the NAFTA claim U.S. manufacturers will simply relocate to Mexico to avoid the environmental regulations in the U.S. While government regulations may be one reason to relocate, other factors such as infrastructure and location of suppliers also play a key role. Additionally, as Mexico continues on the road to economic recovery, we are seeing more and more emphasis placed on compliance with environmental regulations. The recent closing of the refinery in Mexico City is but one example of President Salinas' commitment to preserving the environment.

It is a fact that as the Mexican economy improves, so does their environment. It is only logical to assume that free trade will also have a positive effect on the environment.

The only major opposition to the NAFTA is from organized labor in the U.S. Their fears of U.S. businesses moving south are for the most part unfounded. While labor costs are certainly a factor in determining where a company will locate, it only represents about 20 percent of a manufacturer's direct product costs. Other factors of equal importance include labor productivity, location of suppliers, management and labor skills, and the quality of the local transportation and communications infrastructure. In these areas, the United States continues to remain competitive and, in some cases, far ahead of its Mexican counterparts.

Additionally, free trade has historically been the impetus for job creation. Free trade results in increased exports, which have been shown to directly translate into increased employment. Specifically with regard to Mexico, studies have shown that for every job created in Mexico as a result of the maquiladora manufacturing facilities, another job was created in the U.S.

By combining the complementary production factors of the U.S., Canada, and Mexico, we will be able to produce the most internationally competitive products available. In order to stay efficient, U.S. businesses must be able to tap into rich labor markets to produce labor intensive component parts. Those parts can then be shipped to U.S. capital intensive facilities for final production. As a result, businesses will be able to utilize the most productive factors in each country.

This concept of factor sharing is not new. It is currently being employed in Europe between the Community and Eastern Europe, and in Asia between Japan and newly industrialized countries in Southeast Asia. As foreign products become more competitive, U.S. businesses must find ways to compensate. Utilizing the labor rich resources located just south of the border is not just an option, it is a priority.

This type of factor sharing may cause temporary displacements of labor, but these lost jobs in inefficient industries will be more than consumed by the creation of new jobs to service the increased production and transport of our products domestically and internationally. Increasing the competitiveness of U.S. products will not only produce jobs, but will help stimulate the domestic economy, reduce the trade deficit, and increase consumer spending power both here and abroad.

III. THE IMPORTANCE OF FAST-TRACK AUTHORITY

The advantages of the NAFTA can readily be seen. None of those advantages will materialize, however, unless the U.S. Trade Representative is given the same authority to negotiate an agreement as her counterparts in Mexico and Canada. Without Fast-Track authority our negotiators will be perceived as not having the necessary support or authority to negotiate an agreement of this kind. Fast-Track authority will prevent the Senate from amending the agreement to protect special interests at home. Without the credibility of Fast-Track, the negotiators from Mexico and Canada will be unwilling to make the necessary compromises to come to an agreement. Thus, all of our efforts to date will be in vain.

Fast-Track authority has been used with great success; the U.S.-Canada Free Trade Agreement is but one example. Once we decide an agreement is in the best interest of the United States, we must allow our Trade Representative to do her job. We must trust her to protect our national interest and negotiate an agreement which will benefit all involved.

IV. CONCLUSION

The success of the U.S.-Canada Free Trade Agreement and the potential to create the world's largest free trade zone are but two of the many reasons why the U.S. should grant Fast-Track authority for negotiating the NAFTA.

All over the world governments are realizing the importance of open and free trade among countries. The internal market of the European Community is fast becoming one of the most powerful economic forces in the world. Additionally, the events in the Middle East have demonstrated, once again, how powerful we can be if we work in unison toward collective goals. The United States is powerful, but without international cooperation, both economic and political, we will fast become a minor player in the world arena. We need a North America Free Trade Agreement, not only to help us expand and grow, but to prevent us from losing the economic strength we have worked so hard to attain.

