

**USTR AND ITC BUDGET AUTHORIZATION
FOR FISCAL YEARS 1993 AND 1994**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
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USTR AND ITC BUDGET AUTHORIZATION FOR FISCAL YEARS 1993 AND 1994

MONDAY, APRIL 6, 1992

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:04 a.m., in Room SD-215, Dirksen Senate Office Building, Hon. Max Baucus, (chairman of the subcommittee) presiding.

Also present: Senators Riegle and Chafee.

[The press release announcing the hearing follows:]

[Press Release No. H-14, Marcy 30, 1992]

TRADE SUBCOMMITTEE TO HOLD HEARING ON USTR, ITC AUTHORIZATIONS AGENCIES ON FRONT LINE IN TRADE EFFORTS, BAUCUS SAYS

WASHINGTON, DC—Senator Max Baucus, Chairman of the Finance Subcommittee on International Trade, Monday announced a hearing on budget authorizations for the U.S. Trade Representative and the International Trade Commission. The hearing will be at 10 a.m., Monday, April 6, 1992 in Room SD-215 of the Dirksen Senate Office Building.

"The Office of the U.S. Trade Representative and the International Trade Commission are at the front line of our efforts to open foreign markets and strengthen American trade policy. Through the 1988 Trade Act and the broad range of ongoing trade negotiations, demands on these agencies are greater than ever before," Baucus (D., Mont.) said.

"We must see to it that they have the resources necessary to fulfill these critical responsibilities."

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

Senator BAUCUS. The hearing will come to order. We are here today for what some might consider a fairly dry matter: the consideration of the budget requests of two U.S. agencies. In this case, the Office of the U.S. Trade Representative and the International Trade Commission.

But I believe this hearing is a part of a much broader debate, a debate over the priorities of our Nation in a new era. This country, more than once in history, has fallen into the trap of fighting the last war.

Every American can take pride in the fact that the United States faced down Communism and won. But nations do not remain great nations if they rest on their laurels. Today there is a new field of competition.

In the Post-Cold War Era, national greatness will be defined, in large part, by economic prowess—a competition more subtle than military struggle.

The United States has been extremely effective in defeating military enemies. But in the modern era, America's stiffest competition comes from our allies, Japan and the European Community.

We must learn to be just as effective in building an economy as we have been in building a military. We must have the same sense of drive and national purpose. We should not cast Japan and the European Community as our new enemies, but nor can we be naive about the challenge that these countries pose.

The USTR and the ITC are on the new front lines. I firmly believe that for our Nation to compete in a tough international environment, your agencies must be models for effective government.

We are not always of one mind, but I am generally very pleased with the operation of USTR and the ITC. I have worked very closely with both Ambassador Hills and Mr. Newquist in defining what our Nation must do to compete.

Both USTR and the ITC have on their staff some of the highest caliber and most committed individuals in government. Congress must demonstrate an equal commitment to your agencies. In part, that means funding.

We are here today to examine the 1993-1994 budget request of the USTR and ITC. The combined 1993 budget requests of the USTR and the ITC total approximately \$67 million. A single B-2 bomber costs \$800 million. I can tell you which one I think does more for American national security.

I will be interested to hear how our witnesses view the role of their agencies in promoting a more competitive America. I know the USTR and the ITC are examining their operations with a view towards continual improvement. We cannot be bound by old assumptions and standard operating procedures.

I am encouraged by some of the initiative I see. I am encouraged, for example, that the USTR is creating a new position for an environmental advisor. In the past few years, we have become increasingly aware of the intersection of trade issues and environmental issues. With the NAFTA, for example, a successful agreement depends, in part, on our ability to address environmental concerns.

I am also convinced of the potential of the ITC. A new report by the Council on Competitiveness suggests a central role for the ITC in promoting American competitiveness. I introduced legislation last week that would utilize the ITC to evaluate the competitiveness of the U.S. auto industry.

I am not sure that we have always used the ITC effectively. A new report by the GAO points to some of the problems presented by the unique organizational arrangements in the ITC. But I have worked with Mr. Newquist and his staff and I believe he shares my belief that the ITC has an important role to play.

There is one element of USTR's budget that I want to discuss in some detail. Part of the budget covers U.S. expenses in connection with the binational panels established under the United States-Canada Free Trade Agreement.

I have become increasingly concerned about the process through which the U.S. selects its FTA panelists. Having spoken with many

participants in the panel process, I believe that Canada selects panelists who will tend toward the Canadian perspective in panel proceedings. The United States, on the other hand, appears to be selecting panelists with a bias against enforcement of U.S. trade laws.

In one example, in February of this year, a U.S. panelist involved in a recent pork decision reportedly had the following to say at an ABA Conference: "I come at my job as a binational panelist with a free trade orientation. I view the purpose of the U.S.-Canada FTA as eliminating trade barriers, including anti-dumping and countervailing duties."

This is an extremely disturbing statement. The FTA expressly allows both the United States and Canada to continue to apply their anti-dumping and countervailing duty laws. U.S. laws were designed by Congress to address unfair foreign practices.

The only function of the panels is to ensure that the law is applied fairly. They have no mandate to re-write U.S. laws or practices; they certainly have no mandate to eliminate anti-dumping and countervailing duties. I believe that, at the very least, USTR should be certain that panelists will not promote private agendas to undermine U.S. trade laws.

I also note with considerable concern the heavy tint of foreign influence on our current list of perspective panelists. The list is a virtual "Who's Who" of firms that are active in representing foreign clients in anti-dumping and countervailing duty matters.

A recent advisory decision by the Justice Department forbid currently registered foreign agents from sitting on U.S. trade advisory panels. At a bare minimum, this should be a requirement for U.S. panelists on bi-national panels.

How can we ever achieve objectivity and fairness in the bi-national panels if Canada selects judges biased toward the Canadian perspective, while we select judges who make a living arguing against the enforcement of U.S. trade laws?

Whether it is the Presidential campaign, the pundits' OP-EDs, or Congressional floor statements, the rhetoric of change and challenge has become almost trite. For our Nation to remain a great power, we have to do a lot more than just talk. It is time to get down to business.

The USTR and the ITC have a critical role to play in leading America into a new era of global economic competition. For America to be great, your agencies must operate with vision and with purpose. In turn, we in Congress must ensure that you are adequately equipped for the task. I look forward today to hearing your plans to accomplish that result.

I now turn to Senator Chafee from Rhode Island.

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

Senator CHAFEE. Thank you very much, Mr. Chairman. I do not have a statement. I would just point out, as you did, that USTR is requesting authority to fund anew a position in the agency for an individual with expertise in environmental affairs. As a member of both the Environment & Finance Committees, I am very inter-

ested in this request and am supportive of it. I think it is the right thing to do.

I also would like to emphasize, again, that we get a lot for our money with these two organizations. The USTR is requesting \$21.7 million for 1993. That is a figure so small—in relative terms—that we do not even take it up in most of the other committees.

Looking at the ITC, their total budget request for fiscal year 1993 is about double that of the USTR: \$45.2 million. Compared to other agencies' and departments' budgets, these numbers are remarkably small—particularly given the heavy responsibilities of each agency. So, I think this is money well-invested, and commend those involved.

I am also pleased to see that in the USTR request there is a reduction which we do not see very often around here. It is not a reduction in the overall agency request—we could not realistically expect that—but a reduction in one item: The account for printing and reproduction, and for equipment rentals and purchases. So, that is nice to see. Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator. I will now go to our witnesses. Mr. Gary Edson, General Counsel of the USTR. And the Honorable Don Newquist. Will you begin, Mr. Edson.

STATEMENT OF GARY R. EDSON, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. EDSON. Thank you, Mr. Chairman. I appreciate the invitation to appear before you today to present the budget authorization request for the Office of the U.S. Trade Representative.

In the past years, you and this committee have strongly supported our efforts and our mission. Your continued support remains vital to the continued prosperity of the United States. We believe that trade drives growth, and open markets create jobs.

We are trying to accomplish that, first, by successfully concluding the Uruguay Round of global trade talks; second, through a series of market-opening initiatives with key trading partners and groups of trading partners; and third, by using the trade policy tools that you have given us.

Senator BAUCUS. If I might interrupt, Mr. Edson, and apologize for not pointing this out earlier. I will give ten minutes to each of you. Thank you.

Mr. EDSON. The Uruguay Round and the NAFTA negotiations are each at a critical juncture. They each hold substantial potential to create jobs and expand trade.

Our talks with Japan are proceeding in a number of areas. Over the weekend we concluded an agreement to open up the \$27 billion Japanese paper market to U.S. paper and paperboard manufacturers.

And, at the same time, we have market-opening negotiations ongoing in Latin America, Eastern Europe, and Southeast Asia.

To carry out these tasks, I urge the committee to approve our request for a two-year authorization covering fiscal years 1993 and 1994. The request level for 1993 is \$21,697,000. The request level for 1994 is \$22,435,000.

As I said at the outset, our mission is to open markets and expand trade. The Office of the United States Trade Representative

is about as entrepreneurial as government gets. We have learned to do more with less. We intend to continue doing so.

Specifically, the fiscal year 1993 request is a modest one, as you noted; approximately \$21.7 million in budget authority. We are adding the two new positions that you mentioned: one, on environment, and the other on investment, another area of critical importance in which we would like to build in-house expertise.

The \$21.7 million number represents \$1.3 million more than the level appropriated last year in fiscal year 1992. Our estimated obligation level is \$21.4 million, including reimbursements and carry-overs.

That contrasts with our projected obligations for 1993 of \$22 million. So, in effect, this represents an increase of only three percent. In short then, our fiscal year 1993 request, as well as 1994, represents a current services budget.

Mr. Chairman, our philosophy is to continue to keep USTR as lean and as responsive as we possibly can. We believe that this budget request will accomplish that.

But, above and beyond the resources that we get in terms of funding, we also rely heavily on other agencies within the trade community.

In particular, I would like to mention that the International Trade Commission, and the State Department, also, have been quite generous in making available to us the resources that we need to carry out our mission. We appreciate that.

We also appreciate your continued support. And, on behalf of Ambassador Hills, let me thank you for that; you and the members of the committee.

Senator BAUCUS. Thank you very much, Mr. Edson.

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

Senator CHAFEE. May I interrupt? I have to leave at half-past. How long do you think you would be, Mr. Newquist? Will I have a chance to ask a couple of questions before I must leave?

Senator BAUCUS. Four or five minutes, Senator Chafee.

Senator CHAFEE. All right.

Senator BAUCUS. Go ahead.

STATEMENT OF HON. DON E. NEWQUIST, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Mr. NEWQUIST. Thank you, Mr. Chairman. Thank you, Senator Chafee, Senator Riegle. We appreciate the opportunity to come before the subcommittee, and appreciate the help and support that we have received from this subcommittee and the entire Finance Committee.

Mr. Chairman, we also would like to acknowledge, certainly, the help of the Finance Committee staff and your staff. It has been a genuine pleasure to work with them on our budget matters.

To not take too much time, I have submitted a formal statement, that I would hope you would adopt in the record. I would like to just hit a couple of high points that I think would be of interest to the committee.

Following up on the representative from USTR, we do have on detail six of our staff members to USTR and are glad to work with Ambassador Hills in supporting their efforts. That support is on a

continuing basis. A great deal of our travel, particularly in our General Counsel's Office, is in assisting in an advisory role in the GATT negotiations, as well as in the NAFTA. In many cases, a lot of our expenses are entailed in working very closely with USTR.

Let me turn to just some quick numbers that I think the committee would be interested in. Even though we are a small agency, as many of the members have mentioned this morning, we had an element of funds that were returned in fiscal year 1991. We returned about \$1.5 million. The principal reason for this was due to vacant commissioners positions. For the entire year we operated with only four commissioners. So, we had two less commissioners and their supporting personnel that virtually accounted for all of those dollars.

How did the Commission absorb the reduction in fiscal year 1992 funds? The Senate Appropriations Committee cut our appropriations by \$1 million. The House adopted what we had asked for.

They settled, in conference, on a \$500,000 reduction. Most of that reduction was taken in salaries and benefits, as commissioner and their personal staff vacancies filled slower than anticipated during the budget formulation.

How do we anticipate our needs for 1993? Our request is 6.4 percent higher than the 1992 appropriation, and is essentially to fund operations at current levels. It does not include any program increases. For 1994, the Commission request represents a 10 percent increase over our 1993 request.

I would say, to you Mr. Chairman, and the members of the committee, it is almost an impossible job to really forecast our work load. We do go through an enormous amount of looking at past case loads.

But it is a little bit like if you asked the funeral director in Missoula, Montana to tell me how much business he is going to have next year, that is really the most accurate that we could do.

Because it really depends upon your Committee, the Finance Committee, the Ways and Means Committee, the USTR, the private petitioners that come to the Commission with cases.

So, I would not want to represent to the Committee that forecasting our workload even closely represents a science or an art, because we cannot control it.

Two points that you made, Mr. Chairman, that I would like to expand upon, and then I will conclude so Senator Chafee will have time for his questions.

We are looking very closely at environmental matters also. In our appropriations hearing in the House, Congresswoman Pelosi raised concern in that area.

In fact, we were already looking at it internally because we see the environment as continuing to play a major role, not just from the Environmental Protection side, but in being able to assess the competitiveness element of the environment. It is one that I know we do not now have the scientific or engineering skills for, but hopefully in the very near future we are going to be able to define what I think we need. A lot will depend upon what the Committee perceives as our role in doing some of these things.

I know you have suggested in future GATT rounds maybe looking at the environment from a countervailing standpoint. That is

going to be something that we are going to be looking at very closely.

This idea of competitiveness is also something that we are studying internally. The Council on Competitiveness has made a series of recommendations. The House Appropriations subcommittee was very interested in this area, and I committed to the Chairman of the subcommittee that we would get back to them in short order on what we perceived our role to be. I am not here today to presume precisely what that role is, but I think once we do conclude our internal review, and, in counsel with my colleagues, that we share a common interest and I think we can play an important role.

Mr. Chairman, I would like to just stop right there and say again that we appreciate the help of this committee and the support of the members very much.

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

Senator BAUCUS. Thank you very much, Mr. Newquist. I understand you have to leave by 10:30, John?

Senator CHAFFE. If I could. Yes, Mr. Chairman.

Senator BAUCUS. All right. With five minutes per, I will give you five minutes. I am interested, Mr. Edson, in the number of personnel you have at the USTR and your ability to do the job; that is, negotiate with other countries.

It is difficult to compare one country with another. But you operate with a staff of what, about 162 full time employees. Is that right?

Mr. EDSON. That is correct.

Senator BAUCUS. And you are involved in heavy negotiations around the world. The GATT, NAFTA, SII, intellectual property, China, for example; there are many negotiations going on.

How does the number of USTR negotiators compare with the number of trade negotiators in other countries? It is difficult to make comparisons.

But, if you could, just give me the most honest comparison you can of where we stack up in terms of numbers, at least, compared with others.

Mr. EDSON. Well, the short answer to the question is, I think, that USTR, from the U.S. standpoint, is just the tip of the iceberg. We coordinate and we lead so that, for example, in the negotiations that occurred over the weekend with Japan on paper, they had a very large team. They must have had some 10-15 people.

We, at USTR, had three or four people working on that, combined with a team of folks from other agencies. We had Commerce involved; we had the State Department involved; we had advisors from other areas within this government.

So, the net result is that we are able to field a team that is equal certainly in numbers if that is a determining factor. However, I have yet to see a negotiation in which the number of people was the determining factor in the outcome.

But certainly in terms of our ability to muster resources adequate to any negotiating task, we have never been unable to do that. We field inter-agency teams, as we have, for example, through the Uruguay Round and the NAFTA negotiations.

So, in terms of sheer numbers, we are able to sit across the table and feel comfortable that we have the resources that we need to get any single negotiation done.

Senator BAUCUS. How well do the various agencies cooperate with each other?

Mr. EDSON. Well, I think that—

Senator BAUCUS. Because we hear lots of comments that there are major problems. USTR may have a certain point of view, and Commerce, State, Treasury, other points of view. It is very difficult.

Mr. EDSON. There are always differences between agencies; certainly policy differences. The ideal is to resolve those in advance of a negotiation so that before we launch into a negotiation we understand what our objectives are and are united in those objectives.

Certainly in terms of some of the larger negotiations we have ongoing, such as the Uruguay Round and the NAFTA negotiations, we have large inter-agency teams.

And, in my own view and in my own experience, the Uruguay Round has been a model of cooperation and coordination. It has worked quite well.

And, in fact, in some instances, whereas the USTR person is the leader in most of the negotiations, we often let one of our fellow agencies with greater expertise sit in the chair. They help shoulder and share the burden, but the coordination remains straight with USTR.

Senator BAUCUS. I understand that MITI has 1,000 people in its foreign negotiations branch.

Mr. EDSON. I would not know the exact number. What I can tell you is that, in any single negotiation, we have never felt that the lack of people was a detriment to the United States.

Senator BAUCUS. By lack of people, I am not really getting at the number of people at the table. I am getting at the resources that are brought to bear on the problem.

Mr. EDSON. Well, again, the resources that are brought to bear, for example, on the Uruguay Round, or on an issue with Japan, are the resources of this entire government.

We tap the ITC for expertise in terms of studies; we turn to the Commerce Department and the industry expertise that they have there for industry-input; we obtain economic data from the Council of Economic Advisors.

Senator BAUCUS. Let me raise another question. What about turn over? I mean, since the beginning of the Bush Administration, Ambassador Hills is still with us. But Ambassador Williams is gone. Josh Bolton is gone. Are you replacing him?

Mr. EDSON. I am replacing him. But Ambassador Yerxa is not leaving.

Senator BAUCUS. Now, it is one thing to have the numbers, but what happens when there is this constant turn over in the numbers? Do other countries have the same turn over in their top people?

Mr. EDSON. Let me put it this way. We are now negotiating with our fifth Japanese Trade Minister since taking office. We are now negotiating with our fourth Vice Minister; our fourth Director General.

We have had much less turn over and much greater continuity. For example, in the Japan office, the same Assistant USTR has been there—

Senator BAUCUS. Well, the Minister is a member of Parliament, so he does not really do the negotiating. So, it is the bureaucracy that does the negotiating.

Mr. EDSON. And the Japanese bureaucracy turns over rather frequently; more frequently, in my experience, than ours has.

Senator BAUCUS. Could you, for the record, please supply that information? I would like to see at USTR, over the last ten years, the number of, say, the top 50 people and the degree to which they have turned over, compared to your best estimate of the comparable organization in Japan and its turn over in the same period of time.

Mr. EDSON. We can try and supply that.

Senator BAUCUS. Thank you.

[The information follows.]

Question. How much turnover has occurred at USTR over the past 10 years in its senior positions?

Response. The table below details the number of occupants by position for the past 10 years. We have requested information through our Embassy in Japan for a comparable organization in Japan for the same period.

OFFICE OF THE U.S. TRADE REPRESENTATIVE SENIOR POSITIONS

Title	Period	Number of Incumbents
USTR	1982-1992	3
Deputy USTR (Washington)	1982-1992	4
Deputy USTR (Washington)	1982-1992	4
Deputy USTR (Geneva)	1982-1992	4
Chief of Staff	1982-1992	3
General Counsel	1982-1992	6
Principal Deputy General Counsel	1987-1992	3
AUSTR for Dispute Resolution	1992	1
Senior Advisor & Special Counsel for Natural Resources	1991-1992	1
Chief Textile Negotiator	1982-1992	5
AUSTR for Administration	1982-1992	5
AUSTR Agriculture	1982-1992	2
AUSTR Asia & Pacific	1982-1992	4
AUSTR North American Affairs	1988-1992	2
Chief Economist	1989-1992	1
Director, Computer Operations	1989-1992	2
AUSTR Public, Private, & Intergovernmental Affairs	1982-1992	4
Director, Private Sector	1982-1992	4
AUSTR Congressional Affairs	1982-1992	3
AUSTR Europe & the Mediterranean	1983-1992	2
AUSTR GATT Affairs	1982-1992	1
AUSTR Industry	1982-1992	4
AUSTR Japan & China	1988-1992	1
AUSTR Latin America, the Caribbean & Africa	1982-1992	3
US Coordinator for Multilateral Trade Negotiation	1988-1992	2
AUSTR Services, Investment, Intellectual Property & Science & Technology ...	1988-1991	2
AUSTR Services, Investment, & Science & Technology	1992	1
AUSTR Intellectual Property	1992	1
AUSTR for Uruguay Round	1988-1992	2
Deputy Chief of Mission	1982-1992	3

Senator BAUCUS. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. Mr. Edson, just for the record, I think Josh Bolten was at USTR for quite a while—was it 10 years?

Mr. EDSON. It may have seemed that way to some. [Laughter]

Senator CHAFFEE. Well, he may have thought it seemed like that.

Mr. EDSON. But he was on the staff of this committee for awhile, and 3 years at USTR as General Counsel.

Senator CHAFFEE. 3 years. All right. I admitt that that is a slight exaggeration on my part then.

Senator BAUCUS. It just seems like it, because he has done such a good job here on your side.

Senator CHAFFEE. Well, I just want to say that, we all had a lot of respect for Josh. But we are equally delighted to see you in this position now. You have had considerable trade experience as Chief of Staff to Ms. Hills just previously.

I am enthusiastic about the USTR request for an additional individual in environmental affairs. One question, however: in this little fact sheet that I was given, it indicates that the two requested additional positions will require \$459,000. That seems excessive. This figure likely also includes general personnel cost increases; this sheet may not be fully accurate.

Mr. EDSON. I was not aware that the two positions totalled that much. We can check that number for you.

[The information follows:]

The \$459,000 increase is a net change to USTR's total compensation costs. The two positions are estimated at \$185,000. I should note that these are relatively senior positions. The environmental position will be established as a Deputy Assistant USTR. The investment position will be the Director of the Investment Office. The remaining \$274,000 covers costs associated with the January 1993 pay raise, annualization of the January 1992 increase, scheduled periodic grade increases, as well as benefit costs. These increases are offset by projected salary lapse, one less day of pay and decreases in non-permanent compensation costs. We are submitting for the record a table which details these compensation changes.

Table 1.—OFFICE OF THE U.S. TRADE REPRESENTATIVE FY 1993 ADJUSTMENTS TO COMPENSATION BASE

(In thousands of dollars)

Category	Amount
FY 1992 Compensation Base	12,949
Projected Increases:	
Two positions	185
January 1993 pay increase	309
January 1992 pay increase (annualized)	74
Periodic increases	50
Benefits	84
Subtotal	702
Projected Decreases:	
FTP Lapse	157
One less day of pay	46
Other Personnel	40
Subtotal	323
Net change	459
FY 1993 Compensation Level	13,408

Mr. EDSON. I am told that if you include into that future pay raises, that that is an accurate estimate. I should note that these are relatively senior positions. The environmental position will be established as a Deputy Assistant USTR. And the investment position heads our entire Investment Office.

In addition, just for the record, let me note that we did not merely create a new position for a Deputy Assistant USTR for the environment.

We actually split what was formerly an Office of Services, Investment and Intellectual Property into two new offices, in recognition of the volume of work involved.

One office involves services, investment, and science and technology, and the other office focuses on intellectual property and the environment.

Senator CHAFEE. I suppose too, that you folks must have a lot of travel expenses, do you not? It would seem so, just by virtue of the very nature of your job.

Mr. EDSON. The great majority of our budget goes to travel, personnel, and overhead—those are the three main categories.

Senator CHAFEE. Also, regarding the Chairman's earlier question, Ambassador Hills was up here the other day and she pointed out that you borrow folks from the Department of Agriculture, you get folks from Commerce, you get folks from State. And I believe, Mr. Newquist, did you not say you, too, loaned USTR some people?

Mr. NEWQUIST. Six people.

Senator CHAFEE. Now, when you detail those people over to USTR, they stay on the I.T.C. payroll, correct?

Mr. NEWQUIST. Yes, sir.

Senator CHAFEE. So, you are pretty good at getting additional people on loan, Mr. Edson?

Mr. NEWQUIST. Yes, sir.

Mr. EDSON. We hope we are good at it. We have 41 detailees from around this government currently on board at USTR. The great majority of those, fortunately, are on a non-reimbursable basis.

And we think it is obviously to the benefit of all the agencies involved. They spend time at USTR. In most cases, at least one year; on occasion, more. They go back to their home agency with greater expertise in trade negotiations and trade policy.

Senator CHAFEE. I suspect—and I will be interested in those statistics you intend to compile for the Chairman—that USTR attracts people who stay with you for quite awhile. It is a very, very interesting job. Obviously, some do move on, as some of your top-notchers did not too long ago. But I think there is a lot of appeal to your type of work. There is action; people understand what they are doing; they can see results. And, therefore, you probably have got some continuity in your staff.

Frankly, realistically I would not expect you to have total continuity. I would expect you to go out and get bright, young people and bring them in. Then they would stay with you for as long as they can, but then they might go out into the big, wide world where they might earn a lot more than they earn for the U.S. Government.

Mr. Newquist, what happens if your load is less than anticipated? That, to use your previous example, not as many people die in Missoula as your charts show?

Senator BAUCUS. Could you not have picked another example?
[Laughter]

Senator BAUCUS. Picked something more optimistic?

Mr. NEWQUIST. I am sorry for my analogy.

Senator CHAFEE. I am asking out of curiosity. I am not sure where the flexibility is built into your situation.

Mr. NEWQUIST. It really is not, Senator Chafee. And I think the Chairman is probably right, a funeral director in Missoula is not a good analogy. But we are, in a sense, like that fellow. Our overhead is pretty much fixed. There is no way you can accurately predict your work load. Even if it goes up enormously, we are going to get the job done fundamentally with the staffing level that we have.

Because if you were constantly trying to adjust the staffing level, by the time you got into some type of cycle that you have no control over, you would be out of that cycle.

So, ultimately, for the International Trade Commission to do its job, it is pretty much a fixed overhead.

Yes, if we get new missions or new objectives, then some adjustment is needed. I think, as I look back over the last 10 years, virtually we have had little or no staff growth. So, it is pretty much a fixed overhead.

Senator BAUCUS. Thank you, Senator. Senator Riegle.

Senator RIEGLE. Thank you, Senator Baucus. First of all, Mr. Newquist, let me welcome you to your assignment. You are in a key position.

I really hope to see a much more aggressive effort by the ITC in getting at the persistent pattern of trade cheating against U.S. businesses that I have observed in many sectors of our economy.

You would have to be blind, deaf, and dumb not to see what is happening, and our trade statistics show that. However, I will get to that in a minute. I am encouraged by the fact that you have taken this job, and I really look to you for aggressive leadership.

Mr. NEWQUIST. Thank you, Senator Riegle.

Senator RIEGLE. I think whatever you need in the way of resources, you ought to have. If you need more people, you need new people, you need fresh thinking, whatever it takes. Such resources will help us deal with our trade problems.

The multiples of dollar value back to the U.S. economy and our economic well-being and jobs will pay back thousands of times over whatever modest amount of budget authority you need.

So, if you need more budget muscle, you ought to ask for it. And I will do everything that I can to see that you get it.

I want to say with respect to the Office of the U.S. Trade Representative, I think that there are too many people that don't have the correct frame of reference to be dealing with our trade policies, and implementing our trade laws. And we need a broom to sweep that place out. I say this because I do not see much in the way of concrete results accumulating their efforts.

At the same time, I see massive unemployment in our country. It is just under 10 percent now in my home State of Michigan. And the trade cheating, which has partially contributed to our economic problems is pervasive and persistent. And the Bush administration, through the Office of Trade Representative, does not seem to be able to find its voice on important trade issues.

I would like to refer to this report, Foreign Trade Barriers—and I would say to you, Mr. Chairman, that I realize we have made a

little bit of progress on paper products here the last few days. That will have a few benefits for your State; a few benefits for my State of Michigan.

However, these products are not at the far end of the range in high value-added products. Instead, it would be nice if the U.S.T.R. could make some progress with high value-added manufacturing goods, auto parts, and financial services. I realize that progress is very tough to achieve, particularly with respect to Japan, as you know.

But, as I look at this report on foreign trade barriers and, its thickness, I come to the section on Japan. It is about 18 pages.

It starts by pointing out that they had a trade surplus with us in 1991 which was \$43 billion in their favor. \$43 billion over a 12-month period of time is problematic, especially with all of the wrenching problems that we have in this society.

Finally, I take this report to be one of failure of the Trade Representatives Office and of ones government, in that they continue to allow these kinds of conditions and unfair practices to go on. Despite all the talk about toughness, and all the talk about muscle, and so forth there are few measurable results to speak of in the trade area. The Japanese are laughing at us.

This is the weakest trade negotiating team we have ever put on the field. And the evidence is that the trade numbers are not getting any better or being put on a plan for reduction. There was a story in the paper just this morning which recounted some comments from Red Poling, the head of Ford Motor Company. I am going to insert this article, entitled "Trade Policies Anger Poling," out of The Detroit News of April 6th in the record.

The article goes on to say that, "In a display of anger and frustration over U.S.-Japanese relations, the Chairman of Ford Motor Company says Japan's trade policies remain virtually unchanged 3 months after President Bush's controversial mission to Tokyo."

He says, "The Japanese have mounted a sophisticated public relations campaign to blunt American criticism of their trade practices." The article continues on in this vein.

[The information appears in the appendix.]

Senator RIEGLE. We are being cheated so directly and in so many different ways by our trading partners. And I do not know why the USTR cannot see these practices and their adverse impact on our industries, and do something about it.

Mr. EDSON. Senator, I think that the folks at USTR are trying their very best and are among the best that America has to offer.

Senator RIEGLE. Well, let me just stop you. When I finish my statement, I will be happy to hear from you. I am not really interested in your words. I am interested in results.

Now, the trade deficit last year with Japan was \$43 billion. How much will it come down this year? Will it come down, say, 20 percent? Is this the goal of the Bush Administration and the USTR?

Mr. EDSON. Senator, could I respond to—

Senator RIEGLE. I want to know what the goal is in terms of reducing the trade deficit with Japan this year. What is the goal?

Mr. EDSON. Our goal is to reduce it absolutely as much as possible.

Senator RIEGLE. Well, how much is that?

Mr. EDSON. It has come down 11 percent in the last three years already.

Senator RIEGLE. What is the goal for this year?

Mr. EDSON. We do not have targets in terms of the reduction in—

Senator RIEGLE. That is what I thought you would say. You do not have a target for 1992.

Mr. EDSON. In terms of reduction in a bilateral deficit, we have no target. Our target is to bring that deficit ultimately to zero, if at all possible.

Senator RIEGLE. I understand that. But the U.S.-Japan trade deficit is not getting to zero. Our deficit with Japan was \$43 billion in 1991. Why have you not set a target this year? What is wrong with that?

Mr. EDSON. Senator, what we are trying to do is lower barriers to trade. That National Trade Estimates Report also notes a number of successes, and in some sectors that are particularly high value-added. For example, satellites, computers—

Senator RIEGLE. Would you list the Airbus agreement as a success? Is that a success?

Mr. EDSON. I would.

Senator RIEGLE. I think that is a failure.

Mr. EDSON. I am happy to respond to the Airbus point in one moment. What I would like to do is respond—

Senator RIEGLE. I am going to let you do that for the record.
[The information requested follows:]

RESPONSE TO SENATOR RIEGLE ON AIRBUS AGREEMENT

The March 31 tentative agreement between the U.S. and the EC on government supports for large civil aircraft manufacturing is indeed a success. I have listed for you below several points illustrating the merits of the Airbus agreement.

- The major accomplishments of the agreement include:

(1) significant reductions in the level of government support to Airbus, including a prohibition on production support and a limitation on development support of 33 percent (from historic levels of 75 perct to 100 percent);

(2) establishment of strict repayment requirements on development funds advanced by governments; and

(3) transparency provisions on all government support to commercial aircraft manufacturers for verification of compliance with the agreement.

- The bottom line of the agreement lies in the fact that it levels the playing field for U.S. civil aircraft manufacturers.

—Similar to Boeing and McDonnell Douglas, Airbus will now have to get the bulk of its money from the private sector. Its future marketing and development decisions will be based on economic factors rather than on government generosity.

- Allow me to make one point clear: the Airbus agreement does *not* legitimize subsidies. The 33-percent limitation on government advances for development support does not represent a subsidy value. The accord delineates strict terms and conditions for the repayment of these government funds such that any resulting subsidy should be minimal.

- The Airbus agreement, therefore, represents a solid achievement and an important step forward in strengthening international disciplines over domestic subsidies.

- Moreover, the accord marks the beginning of a process in which the Bush Administration will seek progressive reduction of government supports to the civil aircraft industry—not only for the U.S. and EC but other countries as well. Once the accord is finalized, we will begin working with other aircraft-producing countries to do so in a multilateral forum.

- Finally, and perhaps most important, Boeing and McDonnell Douglas support it. The negotiating team worked closely with the companies to determine the parameters of the current deal, which will allow them to compete in a much

fairer environment. This, in turn, should have a positive effect on employment levels at these firms and others affected by their work.

Senator RIEGLE. Let me just say to you that the Airbus Agreement is not a success in that area. In my view, that this Agreement is a failure. And it is just one of many that has occurred under the watch of the Bush administration.

The problem here is, do you know how many people are out of work in the United States right now, either unemployed or working part-time that want to work full-time? Do you know what the number is?

Mr. EDSON. Not offhand.

Senator RIEGLE. Well, it is 16 million. You do not happen to be in that group. Maybe you should be, and maybe you would understand a little better. Maybe Carla Hills should be in that group. Maybe she would understand a little better that we have a desperate need for jobs in America.

And, unless we confront this trade cheating far more directly than we are, we are not going to have enough jobs for our people. If you cannot get and preserve jobs for the people who need them in this country, you do not deserve your job, nor does Ambassador Hills.

Mr. EDSON. Senator, every billion dollars' worth of exports generates 20,000 jobs in this country. We have increased our exports to Japan in the last 3 years from \$38 billion to \$50 billion. Our manufactured exports to Japan are growing 30 percent faster than our exports to the rest of the world.

Senator RIEGLE. How are we doing in auto parts? How are we doing in autos?

Mr. EDSON. In auto parts, the Japanese Government has affirmed that (A) Japanese dealers may sell United States autos through existing dealerships, without prior authorization from Japanese automakers (B) to more than doubling their purchases of auto parts over the next several years from \$9 billion in FY 90 to \$19 billion in FY 94, and, (C) when the President was there, we addressed 14 standards-related issues that had been identified by the U.S. auto industry as serious impediments to trade.

Senator RIEGLE. Listen. Let me tell you something. Do not come in here with that kind of nonsense. I understand this problem because the businesses and the people in my State face trade-related problems every day.

You have got ten table crumbs from the Japanese and they have already backed away from those agreements and you know it. Now, tell me how much the trade deficit with Japan has gone down during the first 3 months of this year.

Mr. EDSON. Senator—

Senator RIEGLE. How much has it gone down the first 3 months of this year?

Mr. EDSON. Senator, we appreciate what you are saying. We do. And we recognize that there is much, much more to be done. There is no question about that.

Senator RIEGLE. Well, then go and do it. Then go and do it.

Mr. EDSON. And we are trying very hard to do it. We are happy to, and interested in, working with you to identify the problems

and see if we can negotiate the kinds of solutions that will open those markets and create jobs in this country.

Senator RIEGLE. Mr. Chairman, I have some questions for both witnesses that I request be put in the record. Thank you.

[The questions appear in the appendix.]

Senator BAUCUS. Thank you, Senator. Mr. Edson, could you also explain a little more in detail the environmental position that you alluded to earlier?

Mr. EDSON. It will be a Deputy Assistant USTR position, which is just below the Assistant USTR level. So, it is the effective equivalent of a Deputy Assistant Secretary position in the rest of this government.

It will be the individual charged with coordinating our environmental activities at USTR; helping develop trade and environment policy; working with the Environmental Protection Agency, the Commerce Department, the Interior Department, as well as with our advisory committees where we have, as you know, appointed environmentalists to all of our major policy advisory committees.

Senator BAUCUS. So, you have, what, three Deputy USTRs. How many Deputy USTRs is that?

Mr. EDSON. I am sorry. Deputy Assistant USTR.

Senator BAUCUS. Oh. Deputy Assistant.

Mr. EDSON. Right.

Senator BAUCUS. All right. I would like your reactions to the comment of the bi-national panelist of February of this year that I referred to.

Mr. EDSON. My reaction is very simple, and that is that these panelists are supposed to enforce U.S. law. And if that is not their intention or if that is not what they are doing, then they should not be on our bi-national panels.

With respect to the way in which we select these individuals, let me just note that there is a careful selection process.

The FTA itself established the criteria for the selection of the roster of panelists. We put out a Federal Register notice inviting application.

In doing so, we request greatly detailed information from the applicants about their involvement or representation in matters before either government, United States or Canada, as well as all of their past and present involvement in any anti-dumping or countervailing duty activities.

Senator BAUCUS. How long has that one person who made that comment been a panelist?

Mr. EDSON. Pardon me?

Senator BAUCUS. For what period of time is somebody selected to be a panelist, is there a time limit?

Mr. EDSON. The roster of panelists is renewed each year. Some are re-appointed and others are rotated off, often at their own request.

But let me just say that we do request—

Senator BAUCUS. Should registered foreign agents be on that panel?

Mr. EDSON. Whether or not they are a registered foreign agent will not solve a part of the major problem that you have pointed

out, since there is a lawyer's exception to the Foreign Agent Registration Act.

Lawyers, since they represent their clients in an open hearing, are not required, for purposes of that representation, to register as foreign agents.

And, therefore, merely to require all registered foreign agents not to be on the roster will not get at the problem that you are talking about. What we look at—

Senator BAUCUS. I do not have the exact reference here, but it is my understanding that recently the Justice Department issued a ruling that agents should not be on advisory panels.

Mr. EDSON. On our advisory committees.

Senator BAUCUS. We are not talking about lawyers, we are talking about agents.

Mr. EDSON. The great majority of the panelists are lawyers. Secondly, what you are interested in and what we are interested in is ensuring, as you put it, that they cannot promote a private agenda or that they are biased in any way.

Senator BAUCUS. All right. You can have lawyers on the panel, but why do you have agents on the bi-national roster? I understand the lawyers' exception.

Mr. EDSON. And the point we are trying to ensure, if a panelist is a registered foreign agent for the Canadian Government, they are obviously disqualified.

If they are a registered foreign agent for some other government at interest or at issue in the matter at hand in any way—and we do ask for disclosure with respect to all involvement regarding the particular issue that a panelist would be considered for—then that, too, would disqualify them.

Senator BAUCUS. Do you have any problem whatsoever with this revolving door phenomenon that is often referred to by many people in this country? Namely, that top white people work for U.S. agencies, let us say, the USTR, then go out and work for foreign interests?

Mr. EDSON. I have a problem where there is an ethical conflict. And I think that I certainly wholeheartedly back and enforce all of our conflicts laws to ensure that conflicts do not arise.

Senator BAUCUS. Why should there not be a 10-year limit? Anyone who works for USTR, for example, cannot go represent any client before the USTR for 10 years subsequent upon leaving the agency. What is wrong with that?

Mr. EDSON. I think that at a certain point—

Senator BAUCUS. For example, how many top MITI people leave and go out and represent the United States' interest in Japan?

Mr. EDSON. I have no information on that.

Senator BAUCUS. What is your best guess? What is your best guess?

Mr. EDSON. I would think very few.

Senator BAUCUS. That is right. How many top German trade officials leave to work for American interests?

Mr. EDSON. Again, I would have no idea.

Senator BAUCUS. Do you think it would be interesting for us to try to find out the answer to that question? Would it be instructive?

Mr. EDSON. It may be instructive. I think the important point is that, in terms of our ability to carry out our mission, we have ethics laws that we adhere to very closely.

Senator BAUCUS. I am not asking you to defend the administration's point of view. I am just asking you to just stand off in a little more perspective here.

I mean, is it or is it not a problem, in your personal view, if it is true that a lot of American agency people, top people, very quickly go out and leave?

And then after 1 year go out and represent foreign interests before U.S. agencies. They have been involved in the negotiations. They know what is going on up until a year ago.

I mean, they are very intimately involved with the intricacies and the personalities and so forth. Whereas, on the other hand, other countries do not do that. Is that a problem, or is that not a problem?

And we are all public officials. We work for the American people. They are our employers. We try to help our employers get a higher living standard in this country in the future.

Mr. EDSON. Senator, I honestly do not know that it makes that much of a difference on where we draw the line; is it 1 year, is it 2 years, is it 5 years, is it 10 years? That is a tough call.

Senator BAUCUS. No, that is not the question I asked. The question I asked was, is it a problem if top American people, after government, go out and work for foreign interests. And if top people in foreign agencies do not do the same in representing American interests before their agencies? If that is a general fact, is that a problem?

Mr. EDSON. Well, again, I am not sure that that is a problem, particularly so long as we can assure ourselves that those former U.S. Government officials are not abusing their position in some sense. That is the reason why we have the various kinds of cooling off provisions and restrictions that you alluded to.

Senator BAUCUS. Now, just take you, personally. Your background, what have you been doing in the last several years?

Mr. EDSON. I have been in business. And prior to that, government.

Senator BAUCUS. And where are you likely to be ten years from now, 5 years from now?

Mr. EDSON. Five years from now I hope that I will still be in the Bush administration. [Laughter.]

Senator BAUCUS. Let us say 6 years, 6 years from now.

Mr. EDSON. Six years from now I will be looking for a long vacation. Senator, I really have not a clue. I have a background in law, and business, and government.

Senator BAUCUS. Do you plan to stay in government the rest of your working years?

Mr. EDSON. I plan to be able to find a way to contribute to the best of my ability, whether that is in government or in the private sector.

Senator BAUCUS. Let us assume you have 50 years left. What number of those years are you going to be in the public sector, do you think, probably, honestly?

Mr. EDSON. Half. Half.

Senator BAUCUS. Twenty-five years. You are going back and forth.

Mr. EDSON. I may stay.

Senator BAUCUS. Well, you may do anything. I am just asking what you probably will do.

Mr. EDSON. Perhaps back and forth.

Senator BAUCUS. Probably back and forth. Well I think my point is clear. We have a real problem in this country with the revolving door. It is something that must be addressed if the U.S. is to compete internationally.

I would also like to now turn to an Article 2009 of the Free Trade Agreement with Canada, which states, and I will quote the relevant section here: "The parties agree that this agreement does not impair or prejudice the exercise of any rights or enforcement measure arising out of the Memorandum of Understanding on Softwood Lumber of December 30, 1986."

It is my opinion that Article 2009 completely grandfathers the Softwood Lumber MOU and any measures the U.S. may take to enforce the MOU now that it has been unilaterally abrogated by Canada.

Therefore, any action the U.S. may take to enforce the MOU, including the current countervailing duty investigation, is not within the jurisdiction of the Bi-national Dispute Settlement Panel as established under either Chapter 19 or Chapter 18 of the Free Trade Agreement.

It is very much my hope—I feel very strongly about this—that this is also the Administration's view. And I hear that Canadians take a contrary view.

I strongly disagree with the Canadian point of view, and I very much urge the U.S. Government to enforce the provisions in Article 2009 of the Canadian FTA.

Mr. Newquist, we are not neglecting you.

Mr. NEWQUIST. Mr. Chairman, could I do one thing, though, with your permission, that I failed to do to try to get out of the way for Senator Chafee?

Senator BAUCUS. Sure.

Mr. NEWQUIST. I would like to introduce the other members of the Commission that are here.

Senator BAUCUS. Sure. You bet.

Mr. NEWQUIST. Vice Chairman Anne Brunsdale is sitting right there. Commissioner Janet Nuzum, to her left.

Senator BAUCUS. Right.

Mr. NEWQUIST. Peter Watson. And Carol Crawford. Commissioner Crawford, Commissioner Nuzum, and Commissioner Watson all came on board in November and December. So, we have been delighted to have them.

We have several of our key staff people, also: Lyn Schlitt, our General Counsel, and Philip Katz is my conscience on accounting and finance matters.

Senator BAUCUS. Well, thank you very much.

Mr. NEWQUIST. Could I expand on something?

Senator BAUCUS. Sure.

Mr. NEWQUIST. You always get into trouble when you answer a question that you are not asked. But Commissioner Rohr and I

were the two commissioners that lived with the pork case, all the way up to the extraordinary appeal. And this certainly just represents my viewpoint and not the Commission's, and I think it is important that that be made very clear.

But, having watched the process and seeing particularly the political reactions that you get in Canada to some of these disputes, I think if the bi-national panels, and all, are that important, they certainly would merit retired Federal judges.

And I look at this as a businessman, not as a lawyer. But, to me, all of these trade lawyers involved in these panels is inherently a conflict of interest.

And I think if we re-visit this thing as part of the NAFTA and the dispute settlement mechanism, if it is worth going to a bi-national panel on, then I just believe common sense would tell you—on the extraordinary appeal that we ended up in that case on Bork, you do go to retired Federal judges I would strongly urge the committee to maybe take a look at that. That is just my perception.

Senator BAUCUS. Well, that is an interesting observation. Because I think it is true that the bi-national panelists should be basically interpreting the law as they see it, not bringing prejudices and certain points of view.

Mr. NEWQUIST. If it is worth doing, I suggest that level of individual.

Senator BAUCUS. It is a very interesting observation. You mentioned that your case load this year is up compared to last year.

Mr. NEWQUIST. No. It is really down, somewhat.

Senator BAUCUS. Still going down.

Mr. NEWQUIST. That was as of last Friday. I am told this morning, informally, that we are now looking at a considerable amount of cases that have just come to our notice. Obviously the steel thing is still hanging out there.

Senator BAUCUS. Right.

Mr. NEWQUIST. We do not know precisely what is going to happen out there. But, as I said to Senator Chafee, that is a very inexact art.

Senator BAUCUS. What happens in the steel case? Do you expect a lot of actions filed? Is that what you expect?

Mr. NEWQUIST. You have to anticipate that we could have multiple cases and multiple countries. But, once again, you are not going to staff up for that peak. We are a little bit like—maybe an electric utility is better than the funeral director. You have got to have some spinning reserve, but a lot of that is fixed overhead. But I am confident that we have the manpower to handle it. It is going to involve just hard work.

Senator BAUCUS. Could you expand a little bit on what role the ITC could play, following on the recommendation of the Council on Competitiveness? What areas might the ITC follow-up on? That is, what contributions might the ITC make?

Mr. NEWQUIST. Well, I am convinced, Mr. Chairman, that there is a genuine contribution that can be made. I think many of the skills and talents that are embodied in the existing staff that we have probably can do the job that Fred's Commission envisioned.

What we are looking at internally right now is, how do you bring the skills and talents that we have to bear on the problem? My per-

sonal prejudices tell me that I think it may involve reorganization, perhaps, of our organization.

To my knowledge, we have been operating under an existing organization for over 10 years. I have asked Commissioner Janet Nuzum and Commissioner Peter Watson, to chair a committee, to really look at the overall organization of the Commission. I think any organization needs to be re-visited periodically.

• Senator BAUCUS. And this is in reaction to the GAO report. Is that right?

Mr. NEWQUIST. No. It was really just when I took over as Chairman, I thought, whether you are in a business or government, if you have been operating under a static organization for an extended time period, it is good to take a look back and see what your objectives are, and does the organization fit that.

But, since that time, I think all of these things are going to go toward the question of how can we best serve our clients. Obviously, what our clients want is going to be the driving force. That would be the Finance Committee, the Ways and Means Committee, and the USTR.

I am convinced we have the talent and the skills. But the Commission may need to be reorganized to be able to address it. I think we are going to continue to be very good at identifying the problems. I think the solution, obviously, is going to always lie here in the Congress.

Senator BAUCUS. Are you then suggesting more Section 332 reports, requests of the ITC, and items like that?

Mr. NEWQUIST. I think it conceivably could be. But I think what we are going to have to do, is with our staff working with the staffs of this committee the Ways and Means Committee, and with USTR, we are going to have to decide what it is that our clients want us to do.

I think we have the capability of virtually doing anything that our clients want. But I think it is going to be very important that we all should be, for want of a better word, singing out of the same hymn book.

Senator BAUCUS. So, again, the mission of this committee is more precisely what?

Mr. NEWQUIST. The mission of the committee that Commissioner Nuzum and Commissioner Watson are serving on, is to look at our internal organization. Your internal organization obviously should change as your objectives change.

And I think what I see on the horizon is a service that we can provide, assuming it can be worked out with our clients as to how we can play a role in this innocuous competitiveness game, which I think is a real, meaningful service.

But, once again, it is going to have to be something that all of the parties come to some type of consensus on.

Senator BAUCUS. When do you think you might finish up that report?

Mr. NEWQUIST. I would like to do it very, very promptly. I made a commitment to the Chairman of our Appropriations Subcommittee committee in the House. Because that Committee, in fact, wanted to know what we were going to do about the competitiveness issue. And I committed to go back, take a look at it inter-

nally. And, if there is something that needs to be done, we will look at a self-initiated 332 to try to define what our role is.

Failing that, I will get back to that committee. Then they can request Ways and Means or Finance to ask us to do it. But I am hopeful that we can get some sense of direction here in the next 30 days where we can be back with the committees and hopefully have some type of a road map to move forward on it. I think it is very important.

Senator BAUCUS. I very much appreciate that. You are right. I would not use the word innocuous competitiveness, actually. It is very potent. It is a big problem.

Mr. NEWQUIST. It is.

Senator BAUCUS. It is a little big vague, though.

Mr. NEWQUIST. It is vague.

Senator BAUCUS. It is confused. It is hard to get a handle on. But each of us in our various capacities has no choice but to try to take a stab at it. Because after awhile I think the picture will be more clear.

It is like going down a road: you do not know what is around the corner until you get there. So, we have to take one step at a time. Then we will be able to more clearly see the solution or the final objective here.

What about that GAO report? As I understand it, the report outlines certain organizational problems at the ITC.

Mr. NEWQUIST. I think the report was finalized sometime ago, the last time I remember looking at it is when Commissioner Lodwick, a Republican who is now gone, and Commissioner Rohr and I wrote a commentary that went with the report.

I guess my comment, Mr. Chairman, in lay terms, is I don't think it's broke, so it doesn't need fixing. Which will probably put me in somewhat of a disagreement with the report.

I think we have a very unique institution, in many ways. You must recognize the uniqueness and the independence, and a sense that we have, thanks to a fellow by the name of Russell Long, who ensured our independence in a couple of different and very meaningful ways.

You have got a Commission that is evenly divided; three Republicans, three Democrats. You have a Chairman who changes every 2 years, by law, hopefully, under the statute.

I guess if you take the GAO report, what it basically says is you need an administrative czar. I do not believe that. I believe all six commissioners are just as equal as the other.

I do not think you can separate administration from substance. We are a small group. We have got an enormous amount of skilled, talented people.

Each commissioner has the opportunity to really get to know the work force and participate in the process. And to me, you have literally got to work together as a group. And I include in that group the staff, as well as the Commissioners.

So, to really try to set one person out to literally have to be able to dictate things, I do not think, is the way to run the railroad. I think it is a unique organization, and we need to work together. I think that is entirely possible under the law as it exists right now.

Senator BAUCUS. You are probably happy that your budget does not go through OMB.

Mr. NEWQUIST. It does not bother me any.

Senator BAUCUS. On the other hand, what assurance does the public have, since your budget does not go through OMB review, that it is sufficiently streamlined and a lot of the fat and waste is cut out?

Mr. NEWQUIST. Well, first of all, I think I speak for my colleagues on this—every member of the Commission studied this budget. There are no automatic increases. It goes through an enormous internal review.

And I think, just because we do not have the OMB scrutiny, we would not want to personally embarrass either one of our authorizing committees. The fact is that I think you can have pretty good confidence, as well as the American people, that we are trying to get the absolute best bang for the buck. I do not think that OMB scrutiny would make that much of a difference.

But I think Senator Long had a very good idea when our budget does not go to OMB, in the same way that the Justice Department does not represent us, if our case goes up on appeal. It gives us an opportunity to retain that independence.

I hate to use the words "trust us"—and I think I could have my budget manager go through the internal process—but I think you can have confidence that when we ask for something there is going to be a real good justification that it is needed.

Senator BAUCUS. I think Senator Long did have a good idea. In fact, when I was earlier asking questions about turn over and number of staff, Senator Long came to my mind.

I can remember, I was sitting over there many years ago and Senator Long was asking questions and making a statement. He was just very concerned that there is just a lot more expertise among other countries' trade negotiations than there is among ours.

I think that observation is somewhat dated. I think we now have very high professional standards and a very competent team. I still, however, am concerned about turn over.

And I am somewhat concerned that, even though it has progressed very significantly, that the intensity in trade matters of other countries—I remember the Canadians, negotiating the FTA, the intensity of the other side was fierce.

That is not to say ours was not strong, but I do tend to think that the intensity and commitment of trade negotiators on the team of other countries may be even a little more intense than ours.

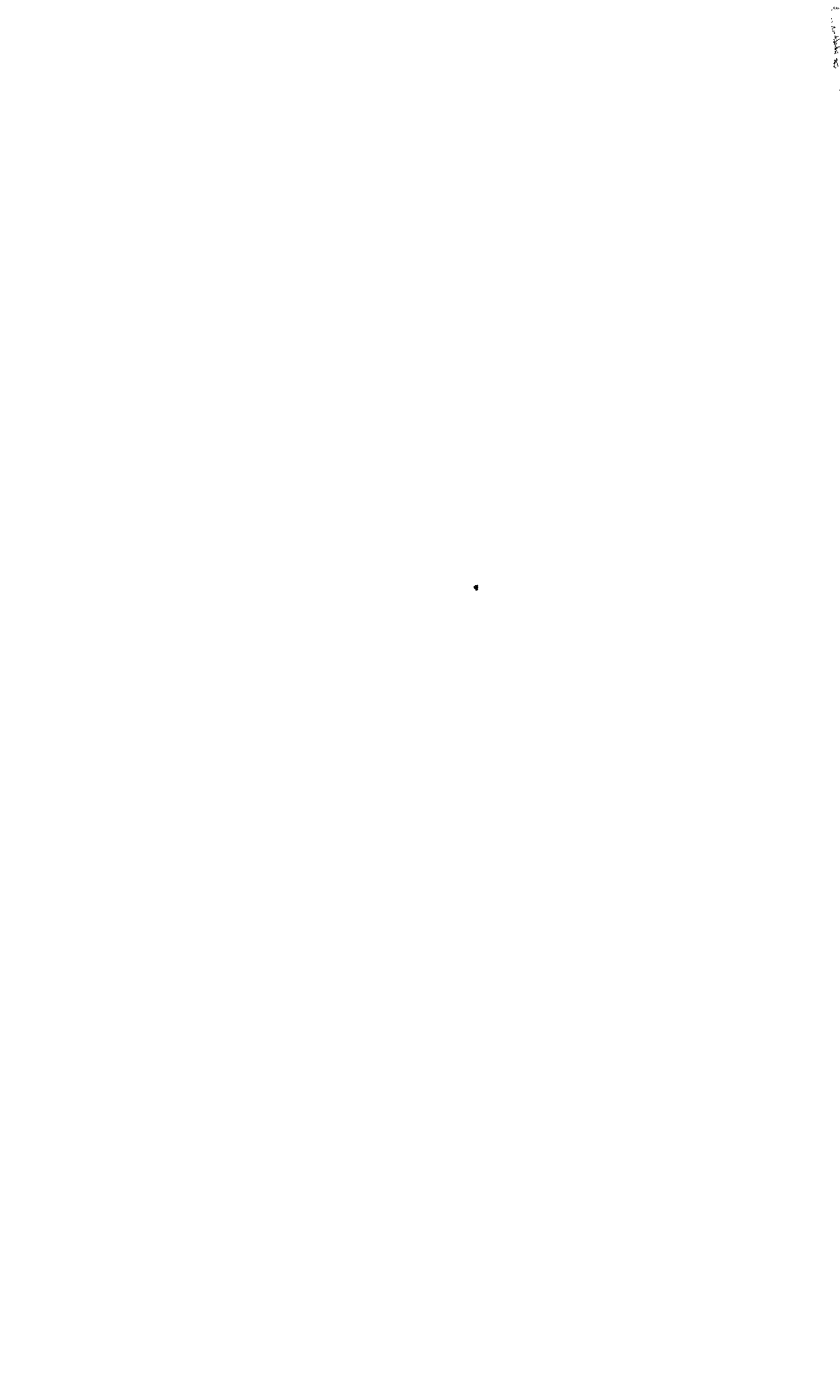
And I just want to make sure that we do better, and that is why I asked those questions.

Thank you very much. I have no more questions. I thank you for taking the time.

Mr. NEWQUIST. Thank you, Mr. Chairman.

Senator BAUCUS. The committee is adjourned.

[Whereupon, the hearing was concluded at 11:02 a.m.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED

[SUBMITTED BY SENATOR LLOYD BENTSEN]

BUDGET AUTHORIZATIONS FOR THE OFFICE OF THE U.S. TRADE REPRESENTATIVE AND THE U.S. INTERNATIONAL TRADE COMMISSION

(Prepared by the Staff of the Senate Committee on Finance)

Thursday, June 11, 1992

This paper provides background information on the FY 1993-1994 budget requests of the Office of the U.S. Trade Representative (USTR) and the U.S. International Trade Commission (ITC). Both agencies sent detailed supporting documents to each Member's office prior to the April 6 International Trade Subcommittee hearing on their authorizations. Those documents are also available in the Finance Committee.

A. USTR

USTR requests \$21,697,000 for FY 1993, \$1,297,000 (6.4 percent) more than the FY 1992 appropriation of \$20,400,000. (The USTR budget authorization for FY 1992 was \$21,077,000.)

The main increases in the FY 1993 funding request are \$459,000 for personnel costs, including for two additional positions (increasing the number of full-time positions from 160 to 162): the first a new director of investment to coordinate all investment issues within USTR, and the other USTR's first official dedicated exclusively to the relationship between trade and environmental issues. (To fill this post, Sanford Gaines was named Deputy Assistant USTR for Environment on April 10; the Director of Investment position is expected to be filled in the near future.)

Other FY 1993 cost increases include data processing and other services costs (up \$387,000) and increased rental payments in both Washington and Geneva. (The cost of the Washington office space will rise \$108,000 (8.4 percent) and that of Geneva will increase \$20,000 (2.9 percent).) In addition, USTR seeks an additional \$100,000 (from \$500,000 to \$600,000) for U.S. dispute settlement panelist expenses under Chapter 19 of the U.S.-Canada free trade agreement. These increases are partially offset by reduced expenses for equipment purchases, rental of computer equipment, and printing and reproduction (totaling \$362,000).

The FY 1994 budget request is for \$22,435,000, an increase of \$738,000 over the FY 1993 request. (This 3.4 percent increase is what the Office of Management and Budget (OMB) allows based on the expected inflation rate.) It includes increases over the FY 1993 request of \$476,000 for personnel compensation and \$68,000 for space rental in Washington.

B. ITC

The ITC's budget submission for FY 1993 requests \$45,152,000, an increase of \$2,718,000 (6.4 percent) over the FY 1992 appropriation of \$42,434,000. The submission further requests \$49,673,000 for FY 1994, an increase of 10 percent beyond the FY 1993 request level. (The FY 1992 budget authorization for the ITC was \$44,052,000, and the FY 1991 authorization was \$41,170,000.) The ITC's request would enable it to fund 472 of the 502 permanent positions authorized by Congress.

The main increases in funding in FY 1993 are \$1,876,000 in higher compensation and benefits (covering salary increases and increased retirement costs), \$372,000 more for the rental of space, and \$300,000 more for equipment replacement expenses. The ITC request forecasts an additional \$3,653,000 in compensation and benefits expenses for FY 1994, of which \$1,522,000 is attributed to a "locality pay adjustment" designed to increase the salaries of Federal Government employees based on a formula comparing their pay to that of the private sector in the same city. The FY 1994 request also cites a further \$483,000 rise in space rental costs.

The ITC's budget is not subject to review or control by the Executive Branch. In an effort to preserve the ITC's independence, by law OMB must submit the budget directly to the Congress without any changes.

**CHAIRMAN'S PROPOSAL ON OFFICE OF THE U.S. TRADE
REPRESENTATIVE (USTR) FY 1993 AND FY 1994 BUDGET AUTHORIZATIONS**

Thursday, June 11, 1992

FY 1992 Appropriation:	\$20,400,000
FY 1993 Request:	\$21,697,000
FY 1993 Chairman's Proposal:	\$21,697,000
FY 1994 Request:	\$22,435,000
FY 1994 Chairman's Proposal:	\$22,435,000

Explanation.--The Chairman's Proposal provides the full funding level requested by USTR for both FY 1993 and FY 1994. The major increases in the FY 1993 request are \$459,000 for personnel costs, \$387,000 for data processing and other services costs, \$128,000 for space rental costs in Washington and Geneva, and \$100,000 for U.S. dispute settlement panelist expenses under the U.S.-Canada free trade agreement. The major increases in the FY 1994 request are \$476,000 for personnel compensation and \$68,000 for space rental in Washington.

**CHAIRMAN'S PROPOSAL ON U.S. INTERNATIONAL TRADE
COMMISSION (ITC) FY 1993 AND FY 1994 BUDGET AUTHORIZATIONS**

Thursday, June 11, 1992

FY 1992 Appropriation:	\$42,434,000
FY 1993 Request:	\$45,152,000
FY 1993 Chairman's Proposal:	\$45,152,000
FY 1994 Request:	\$49,673,000
FY 1994 Chairman's Proposal:	\$48,042,000

Explanation.--The Chairman's Proposal provides the full funding level requested by the ITC for FY 1993, an increase of \$2,718,000 (6.4 percent) over the FY 1992 appropriation. The major increases in the FY 1993 request are \$1,876,000 for personnel compensation and benefits, \$372,000 for space rental, and \$300,000 for equipment replacement.

The Chairman's Proposal reduces the ITC's budget request for FY 1994 by \$1,631,000. The major increase in the FY 1994 request is \$3,653,000 for personnel compensation and benefits, including \$1,522,000 for a "locality pay adjustment" intended to increase Federal Government employees' salaries based on a formula comparing their pay to that of the private sector in the same city. Application of this adjustment to Washington, D.C., where all ITC employees are based, is still uncertain.

The Chairman's Proposal does not include the \$1,522,000 requested to cover the locality pay adjustment. The Chairman's proposal also reduces the ITC's FY 1994 request by an additional \$109,000. This limits the increase for FY 1994 to the same 6.4 percent increase authorized for FY 1993.

LLOYD BENTSEN TEXAS CHAIRMAN

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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

VANDA B. McMURTRY STAFF DIRECTOR AND CHIEF COUNSEL
EDMUND J. MARALSKI MINORITY CHIEF OF STAFF

The Honorable
Don E. Newquist
Chairman
U.S. International Trade Commission
500 "E" Street, S.W.
Washington, D.C. 20436

Dear Mr. Chairman:

Global competitiveness of key U.S. industries continues to be of concern and interest to the U.S. Congress. Therefore, the Senate Committee on Finance requests the U.S. International Trade Commission to undertake three additional studies assessing the global competitiveness of advanced technology industries as follow-on studies to the three competitive assessments provided to the Committee during September-October 1991. As noted in the Committee's initial request, providing to the Senate on an ongoing basis impartial and detailed information on the competitiveness of advanced technology industries is a logical extension of the Commission's investigatory role in trade matters.

We approve the Commission's recommendation that the next three studies focus on the U.S. cellular communication, aircraft, and computer industries, and that they be carried out pursuant to sections 332(b), 332(d), and 332(g) of the Tariff Act of 1930. The reports on these three industries should include factors found by the Commission to be relevant to the global competitiveness of these industries as they are considered singly. Such factors may include, but are not limited to, government policies, regulatory and trade impediments, and research and development financing and expenditures. In the aircraft study, the Committee expects the Commission to address the issues of competition in civil aircraft from the Airbus consortium and the proposed acquisition of U.S. aerospace technologies and manufacturers by foreign interests.

The Commission is requested to complete the first of these three studies within 12 months, and to conclude the remaining two at three-month intervals thereafter.

Sincerely,

Lloyd Bentsen
Chairman

Congress of the United States
Washington, DC 20515

The Honorable
 Don E. Newquist
 Chairman
 U.S. International Trade Commission
 500 "E" Street, S.W.
 Washington, D.C. 20436

Dear Mr. Chairman:

The House Committee on Ways and Means and the Senate Committee on Finance are concerned about certain developments in 1991 under the Canadian National Tripartite Stabilization Program (NTSP) that are alleged to have had a significant impact on the U.S. cattle and beef sectors and may affect these sectors in the future. We have reviewed the Commission's report on Investigation No. 332-241, entitled "The Competitive Position of Canadian Live Cattle and Beef in U.S. Markets," completed in 1987, which was instituted pursuant to a request by the Committee on Finance. An updated version of that report generally covering 1987-1991, and 1992 as available, is needed in view of the changes made in, and payments made under, the NTSP in 1991.

Accordingly, we request that the U.S. International Trade Commission conduct an investigation under section 332(g) of the Tariff Act of 1930 [19 U.S.C. 1332(g)], for the purposes of providing, to the extent possible, the following:

- (1) An updated profile of the U.S. and Canadian live cattle and beef sectors in terms of factors such as production levels and trends, markets, and production cycles.
- (2) A discussion of trade in live cattle and beef between the United States and Canada and the regional distribution of U.S.-Canadian trade.
- (3) A discussion of trade in live cattle and beef between the United States and other countries.
- (4) A discussion of Federal, State, and Provincial Government assistance programs that are available to the cattle and beef sectors, including the NTSP and payments thereunder.
- (5) A discussion of other factors having a significant bearing on competitive conditions and trade.

The Commission should report the results of the investigation within seven months of receipt of this letter.

Thank you for your attention to this request.

Sincerely,

Dan Rostenkowski
 Chairman
 Committee on Ways and Means
 U.S. House of Representatives

Lloyd Bentsen
 Chairman
 Committee on Finance
 U.S. Senate

PREPARED STATEMENT OF GARY EDSON

Mr. Chairman: I appreciate your invitation to appear before you to present the budget authorization request for the Office of the United States Trade Representative.

In past years you have strongly supported USTR's mission to open markets and expand trade throughout the world. Your continued support remains critical to America's continued economic prosperity.

TWO-YEAR AUTHORIZATION REQUEST

This request seeks a 2-year authorization. The requested level for fiscal year 1993 is \$21,697,000. The requested level for fiscal year 1994 is \$22,435,000. For each of the fiscal years 1993 and 1994, the representation allowance level remains at the current amount of \$98,000. For each fiscal year we propose to maintain the no-year spending authority of \$2,500,000.

FISCAL YEAR 1993 REQUEST LEVEL

The Office of the United States Trade Representative has a big mission. It is a mission which we tackle with real enthusiasm and esprit de corps. We take on our responsibilities with, by Federal government standards, a small staff—162 fulltime equivalent positions and a budget of about \$20 million. We also draw on the support of other agencies, departments, as well as students and interns. Our budget contains almost no discretionary funds. In short, we really try to accomplish a great deal with very little.

For fiscal year 1993, our request is a modest one and we have endeavored to keep the request straightforward. We are requesting \$21.7 million in budget authority. This represents \$1.3 million more than the level appropriated last year (\$20.4 million)

In fiscal year 1992, our estimated obligation level is \$21.4 million including reimbursements and funds carried forward from fiscal year 1991. Our projected obligations for fiscal year 1993 are estimated at \$22.0 million. This represents an increase of \$ 0.6 million (3%). The change from fiscal year 1992 to fiscal year 1993 involves several increased costs offset by reductions in a few areas.

We face increases in several areas:

- the annualization of the January 1992 pay increase, the projected January 1993 general pay increase and the funding for 2 additional FTEs. Personnel costs are expected to increase by \$459,000.
- Travel and transportation costs are expected to increase by \$34,000.
- space costs will increase by \$128,000.
- costs associated with support services, telecommunications, rentals, maintenance, and office supplies will increase by \$381,000.
- CFTA expenses will rise by \$100,000.

These increases are offset by decreases in the following categories:

- Equipment purchases are projected to decrease by \$282,000.
- Rental of ADP equipment is expected to decrease by \$145,000.
- Printing expenses will decrease by \$29,000.

TRADE EXPANSION

As you know, trade has been the engine of growth driving the U.S. economy for the past 40 years. The U.S. economy nearly quadrupled between 1950 and 1990, but our exports exploded an extraordinary 700 percent. Jobs related to trade grew three times faster than overall job growth during those four decades.

Today, trade continues to be the lifeblood of the U.S. economy. From 1986 to 1990, U.S. merchandise exports increased in real terms by about 58 percent. This export expansion accounted for nearly one third of U.S. GDP growth over the period, and last year merchandise exports contributed more than half of the growth of our GNP.

Opening foreign markets and expanding exports creates jobs. The Department of Commerce estimates that every \$1 billion in exports generates about 20,000 jobs. Since 1986, 3.5 million new jobs related to merchandise exports have been created. The growth of U.S. merchandise exports means that today 8 million American jobs are related to exports. Millions of other Americans owe their jobs to exports of U.S. services, the value of which now exceeds one-third of our merchandise exports.

That's why the President has made trade one of the key planks in his program for long-term economic growth for the United States.

U.S. TRADE POLICY

Thus, the Administration's trade policy remains to seize every opportunity to open markets and to expand our trade opportunities. To implement this policy, we are:

- Working to achieve a successful conclusion to the Uruguay Round of global trade talks;
- Negotiating with individual nations and groups of countries to knock down individual or regional barriers to trade; and
- Employing our trade laws to create leverage to open foreign markets and discourage unfair trading practices.

Let me take a few minutes to bring you up to date on some of our current initiatives.

URUGUAY ROUND

Overarching our bilateral and regional initiatives are the on-going negotiations in the Uruguay Round of the GATT. The GATT has served us well since 1947 to lower tariffs and other barriers to trade among its 106 members. But there are areas that GATT now does not cover: GATT rules on services, intellectual property, agriculture, and investment are either inadequate or nonexistent.

A modernized world trading system, applied to all of the GATT members, will expand trade that will fuel greater economic growth and will assure maximum export opportunities for U.S. goods, services, and investments.

One agreed goal is to reduce global trade barriers by a third. By our economic calculations, a one-third reduction in tariff and non-tariff barriers (quotas) alone would increase world output by \$5 trillion over the next decade. The U.S. share of that growth is \$1.2 trillion. That would be like writing a \$17,000 check to every American family of four payable over a decade.

But the potential benefits of these talks go much further.

For the first time, the trading nations of the world could:

- Provide rules to protect the intellectual property of U.S. entrepreneurs, reducing the \$60 billion lost each year through theft and counterfeiting;
- Open new markets for U.S. service firms which today export \$115 billion and create 9-out-of-10 new jobs;
- Expand market opportunities for international investment, a sector that helped generate \$240 billion of U.S. exports last year; and
- Establish fairer competition and larger markets for U.S. farmers who lead the world with more than \$40 billion in annual exports.

As you are aware, the Uruguay Round has been struggling to reach a conclusion for 15 months. The dispute over how agricultural trade is to be reformed has kept the parties from bringing the talks to a successful end.

However, recently there have been some encouraging signs:

Last fall, GATT Director General Arthur Dunkel announced a bold plan to galvanize the negotiations. He ordered the chairmen of the key negotiating groups to convene immediately. Mr. Dunkel said that if they could not reach agreement, he would propose solutions for the outstanding issues in a paper he would issue by year's end.

On December 20 last year, he did just that. Dunkel's draft is a highly complicated document of more than 450 pages, covering all the issues in the Round.

Mr. Dunkel drew on a consensus of the negotiating groups, and where he could not find a consensus, he filled in the blanks. The Dunkel Draft strikes a delicate balance between the problems we see and the problems the 107 other nations perceive. It represents his attempt to resolve many contentious issues, and is an important milestone in the negotiations.

We must evaluate the text not against our aspirations, but against the world trading system as it exists today. The question we must ask ourselves is: Are we better off with the new rules we can achieve, or with the old system which excluded a third of world trade?

We cannot make that determination until we complete the negotiations. At the present time we are following through on the Dunkel workplan, which contemplates that we will complete the labor-intensive negotiations on market access for goods and access for service providers during March, enabling the parties to initial the agreement in April.

The delay in resolving differences on agriculture makes the April deadline increasingly precarious. But, the United States is doing everything possible to push these negotiations to a successful conclusion. We are absolutely convinced that the

Uruguay Round is the very best means to modernize and strengthen the global trading system and to put us on the path to greater global prosperity.

BILATERAL AND REGIONAL INITIATIVES

As we work to achieve a successful outcome of the Uruguay Round, we continue to press for open markets in every forum available to us.

A major opportunity close to home is our effort to negotiate a North American Free Trade Agreement (NAFTA). Linking the complementary economies of Canada, our first largest trading partner, and Mexico, our third largest trading partner, with our own would create one of the largest and richest markets in the world with 360 million producers and consumers, and \$6 trillion in annual output.

Already we have seen the benefits of liberalizing trade with Mexico. In 1986, when Mexico joined the GATT and reduced its tariffs from 100 percent to a high of 20 percent, U.S. exports to Mexico more than doubled from \$12 to \$28 billion. That doubling of U.S. exports created 320,000 U.S. jobs.

Today our exports to Mexico are growing twice as fast as compared with our exports to the rest of the world. Mexico currently buys fully 35 percent more per person from us than does the far more affluent European Community.

A North American Free Trade Agreement would not only lock in these gains, it would create new market openings for U.S. business. Mexican tariffs are still 250 percent higher than ours. If we can bring them down, dismantle its import licensing, export performance regulations, we will improve access to a market projected to have 100 million consumers by the year 2000.

Mexico needs what we make well: Machinery and equipment of all kinds; and it is a net importer of food.

The availability of Mexico as a factory site can also have a positive effect on U.S. employment. For example, General Electric says that the price competitiveness of its Mexican-made components saves or creates 4 jobs here for every job it puts in Mexico. And, its U.S. jobs are higher-skilled, higher-wage positions (in manufacturing systems, engineering, marketing, and sales.)

ENTERPRISE FOR THE AMERICAS INITIATIVE

Without question, the NAFTA has enormous potential for the growth of our economy and the North American region. We see it as a first step in implementing the Enterprise for the Americas Initiative which President Bush announced last year. His long-term vision is to create an hemispheric free trade area from Alaska to Argentina.

To that end, in the last 18 months, we have put in place framework agreements covering 30 Latin American countries. These agreements simply set forth a set of sound trading principles, provide for regular consultations, and set forth the first agenda for consultations. (I might note that we entered a framework agreement with Mexico in 1987 and look how far they and we have come since then.)

Our efforts to open markets are not limited to this hemisphere:

Japan

In Japan, we continue to remove, block by block, the barriers that exist in specific sectors. Since President Bush took office in 1989, we have reached agreements on satellites, supercomputers, wood products, third party radio, cellular telephones, telecommunications terminal equipment, amorphous metals, glass, and most recently, computers. These agreements have opened up market opportunities of well over \$100 billion and have resulted in hundreds of millions of dollars in new sales.

Through the Structural Impediments Initiative we have persuaded Japan to change policies, amend laws, and spend money to remove barriers to foreign imports.

Other Trade Initiatives

We are negotiating with countries throughout East Asia to open markets and to protect our intellectual property.

In India, we are beginning to see progress in reducing restrictions on investment and increasing the protection of intellectual property.

CONTINUED SUPPORT FOR MULTILATERALISM

Some have expressed concern that the energy of our regional and bilateral initiatives signal a retreat from our support of the multilateral trading system that has served us so well for four decades.

Nothing could be further from the truth. Our goal is to reduce trade barriers wherever and whenever we can and we have no intention of supporting an inward looking trading bloc in this hemisphere or elsewhere.

Efforts to reduce regional or country trade barriers tear at the fabric of the world trading system only if they result in increased barriers to the rest of the world.

In contrast, our efforts in Mexico, Latin America, Asia, seek to augment our goal: To open global markets and to expand world trade.

CONCLUSION

Our task remains formidable. Uruguay Round and NAFTA negotiations are in critically intensive stages; talks with Japan will continue in a number of key areas; we have sectoral negotiations underway in steel, civil aircraft, and shipbuilding; and we will be negotiating with our hemispheric friends on market opening agreements. These activities represent a portion of the major elements of our mission; as I have indicated, we are pursuing dozens of other negotiations as well.

To effectively carry out these tasks, I urge the Committee to approve our request for a 2-year authorization covering fiscal years 1993 and 1994.

On behalf of Ambassador Hills, I again thank you and the members of the Subcommittee for the support and advice you have provided to us in the past. We look forward to a continued close working relationship in the future.

RESPONSES OF GARY EDSON TO QUESTIONS SUBMITTED BY SENATOR DONALD W. RIEGLE, JR.

Question No. 1. Is creation of an environmental affairs staff position an acknowledgment that there will be environmental fall-out from trade agreements, like the North American Free Trade Agreement (NAFTA), which results from the disparity between U.S. and Mexican environmental standards and enforcement?

Answer. As Ambassador Hills said in announcing the new position, Deputy Assistant U. S. Trade Representative for the Environment (DAUSTR), the Administration is committed to ensuring that U.S. trade policy takes into account legitimate environmental concerns. The DAUSTR position was created to cover the many areas where trade and environment issues converge. The number of these areas has been increasing, and the fora in which the intersection of trade and environment policy is being discussed have increased significantly in the last 6 months. These fora include the United Nations Conference on Environment and Development (UNCED), the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the Organization of American States (OAS), the United Nations Conference on Trade and Development (UNCTAD), and the World Bank. In addition to these formal discussions, the relationship between trade and the environment has become a matter of increasing concern in our bilateral and plurilateral meetings. The DAUSTR for the environment also will work with the NAFTA office on environmental issues in those negotiations and parallel activities.

Question No. 2. When and how will the new USTR staff position for environmental affairs begin to more aggressively address the environmental concerns connected to the NAFTA? How will this position interact with EPA on continued environmental efforts and discussions between the U.S. and Mexico?

Answer. USTR has already been aggressively addressing the environmental concerns related to the NAFTA. For example, USTR coordinated the interagency Review of U.S.—Mexico Environmental Issues, released in February, 1992. This review, which focuses on the anticipated environmental consequences of the NAFTA, is the most comprehensive review ever of environmental issues surrounding a trade agreement. The new DAUSTR for the environment, who began work at USTR on April 27, 1992, will use the review as a reference point for assessing potential environmental concerns in the NAFTA negotiations and will work with the NAFTA negotiating team on the sections of the NAFTA text itself that affect the environment. Finally, he will be the chief liaison with the Environmental Protection Agency (EPA) on their ongoing efforts with Mexico with respect to the border plan and enhancement of environmental enforcement capability.

Question No. 3. The continued violation of U.S. intellectual property rights (IPR) has resulted in proposals by U.S. industry to enhance USTR's current efforts and resources in IPR enforcement. Is USTR addressing this request and, if so, how will its resources be apportioned to do so?

Answer. Substantial USTR resources have been and continue to be devoted to advancing the interests of U.S. industries in the area of intellectual property. As many as thirty people on our staff devote significant portions of their time to these issues, and three members of our staff are assigned almost exclusively to IP. We continue

to obtain good results through both bilateral and multilateral negotiations, though in some instances our progress has not been as rapid as we would like. In these instances, the impediment has never been a shortage of staff resources, but rather the many other factors that influence negotiations. We regularly review our staff assignments, and if we find that the resources devoted to IPR are insufficient to attain the results we desire, we will take prompt action to address the problem.

Attachment.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

OPERATIONS AND ADMINISTRATION
RESOURCE ESTIMATES, FISCAL YEAR 1993

CONGRESSIONAL PRESENTATION

FEBRUARY 19, 1992

CONTACT: John Hopkins
395-5797

GENERAL STATEMENT

This request provides funds to support the mission of the Office of the United States Trade Representative (USTR) in FY 1993. That mission is the development, coordination, negotiation and overall management of U.S. trade policy on behalf of the President. In FY 1993, USTR will require \$21,697,000 in budget authority and 162 full-time equivalent (FTE) positions. This request is \$1,297,000 and two FTE higher than the amount provided in the FY 1992 appropriation. USTR projects its FY 1993 obligation level at \$22,020,000, which represents an increase of \$646,000 above the FY 1992 level.

United States trade policy aims to ensure that foreign markets that are open stay open, and markets that are closed are opened to competitive U.S. exporters and investors. By opening markets and allowing trade to expand according to free choice, not government intervention, we can guarantee economic success, long-term growth, and more and better jobs for the citizens of the United States.

U.S. exports had another banner year in 1991, growing almost \$30 billion to nearly \$400 billion. These gains are not confined to a single sector. Exports of U.S. capital goods -- medical equipment, oil field equipment, telecommunications, computers -- have grown 40% in the last three years; consumer goods exports are up 56%, and exports of industrial supplies are up 27%. The trade deficit (exports minus imports) has been cut in half since 1988, and that is without taking account of gains for U.S. service providers (banks, insurers, engineers), a sector in which we run a hefty trade surplus.

The bottom line: increasing our sales abroad increases our prosperity at home. U.S. manufacturers and service providers are competitive in the international marketplace, provided they are given the opportunity to sell.

While we are proud of our expanding exports, our work is not done. U.S. goods and services still face many barriers around the world, from prohibitions on providing financial services to collusive corporate business practices to inadequate protection of

our copyrighted films and patented pharmaceuticals. And as more U.S. firms discover the international market, more barriers to trade seem to be uncovered too. Access to foreign markets must be maintained and expanded lest exports -- this vital engine of growth -- sputter or stall.

To accomplish this, the Administration has for the past three years deployed a three-pronged trade strategy to open markets by:

- o Working to achieve a successful conclusion of the Uruguay Round of global trade talks, held under the auspices of the General Agreement on Tariffs and Trade (GATT).
- o Launching broad-based market-opening negotiations with our key trading partners; and
- o Using the strength of our domestic market to open specific sectors in foreign markets;

Implementation of these strategies has led to numerous successes:

- o In North America, we have made tremendous progress toward achieving a free trade agreement with our neighbors, Mexico and Canada, since negotiations began last June. We now have a consolidated text covering all of the major areas, and will press ahead aggressively in 1992. The benefits of this agreement could be tremendous -- Canada and Mexico are our first and third largest trading partners, respectively, accounting for over \$100 billion in U.S. exports.
- o In Japan, we will continue to remove, block by block, the barriers that exist in specific sectors. Since President Bush took office in 1989, we have reached agreements on satellites, supercomputers, wood products, third party radio, cellular telephones, telecommunications terminal equipment, amorphous metals, glass, and most recently, computers. These agreements have opened up billions of dollars of new opportunities, resulting in hundreds of millions of dollars in new sales. We also intend to build on the Structural Impediments Initiative and to work with the Government of Japan to break the exclusive procurement practices of Japan's corporations and keiretsu.
- o In China, we want to complement our recent agreement on intellectual property rights (IPR) with an agreement removing other barriers to trade and investment. More

broadly, the Administration will continue to search for ways to improve access to the markets of the Pacific Rim -- a region of great opportunity and growth potential.

- o In South and Central America, we intend to build on the Caribbean Basin Initiative, the Andean Trade Preference Act, and most importantly, the President's Enterprise for the Americas Initiative, which has as its ultimate goal a free trade zone from Alaska to Argentina.
- o In Eastern Europe, we have signed trade, investment, and intellectual property agreements to support both political stability and economic opportunity. With the European Community, we will continue to press to reduce unfair government subsidies to farmers and industry, in addition to seeking other means of expanding our \$200 billion trade relationship.

Overarching these bilateral and regional initiatives are the on-going negotiations in the Uruguay Round of the GATT. The GATT has served well since 1947 to lower tariffs and other barriers to trade among its 108 members. But it needs an overhaul. At present, GATT's rules on services, intellectual property, agriculture, and investment are either inadequate or nonexistent.

A modernized world trading system, applied to all of the GATT Members, will spread the benefits of expanded trade. It will assure maximum export opportunities for U.S. goods, services, and investments, and will help to ensure that regional trading blocs do not undercut or stifle global trade.

The Uruguay Round is already one year past deadline. There is now a draft Final Act on the table, but it is missing key components, such as the final schedule of commitments from countries to lower tariff and non-tariff barriers and to increase access in banking, insurance, professional services and other service areas. We will be working hard during early 1992 to complete the outstanding market access negotiations, and to review other important parts of the draft Final Act text.

Trade creates growth, jobs, and mutual prosperity. Open markets will help emerging democracies in Eastern Europe and Africa make the difficult transition from centrally-planned regimes to market-driven economies. Expanding trade will give nations the resources to deal with this generation's problems: environmental degradation, narcotics production, inadequate housing, and insufficient employment.

Expanding the opportunities for U.S. firms and individuals to provide goods and services overseas remains the cornerstone of the Administration trade policy. It is also a key part of our long-term growth policy, since open markets and increasing exports pay off in economic growth and jobs here at home. In fact, since 1988, exports have grown almost \$90 billion, generating an estimated 1.8 million new export-related jobs.

Finally, we will see the undertaking of new work for USTR and other agencies on the environment and on health and safety standards. As the world becomes more interdependent, we need to find mechanisms that allow nations to adopt standards to safeguard the public and the common good but with due regard for other nations' rights.

FY 1993 BUDGET JUSTIFICATION

APPROPRIATION LANGUAGE

For necessary expenses of the Office of the United States Trade Representative, including the hire of passenger motor vehicles and the employment of experts and consultants as authorized by 5 U.S.C. 3109, [\$20,400,000] \$21,697,000 of which \$2,500,000 shall remain available until expended: Provided, That not to exceed[\$98,000]\$98,000 shall be available for official reception and representation expenses. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriation Act, 1992.)

Summary of FY 1993 Budget Request

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>92-93 Change</u>
Appropriation Request	\$20,000	\$20,400	\$21,697	+\$1,297
Obligation Authority	20,521	21,374	22,020	+646
FTE	160	160	162	+2
FTE Overtime	<u>4</u>	<u>4</u>	<u>4</u>	<u>-</u>
	164	164	166	+2

PROGRAM AND FINANCING
(in thousands of dollars)

Program by Activities:

	<u>1991</u> <u>Actual</u>	<u>1992</u> <u>Estimate</u>	<u>1993</u> <u>Estimate</u>
Trade coordination and negotiation	17,096	17,870	18,539
Geneva trade negotiations	2,528	2,583	2,558
CFTA panelist expenses	350	500	600
Total direct program	<u>19,974</u>	<u>20,953</u>	<u>21,697</u>
Reimbursable Programs	547	421	323
Total Obligations	<u>20,521</u>	<u>21,374</u>	<u>22,020</u>

Financing:

Unobligated Balance Available, start of year	-539	-553	0
Unobligated Balance Available, end of year	553	0	0
Unobligated Balance expiring	12	0	0
Budget Authority (gross)	<u>20,547</u>	<u>20,821</u>	<u>20,020</u>

PROGRAM AND FINANCE(continued)

	<u>1991</u> <u>Actual</u>	<u>1992</u> <u>Estimate</u>	<u>1993</u> <u>Estimate</u>
Budget Authority:			
Current- Appropriation	20,000	20,400	21,697
Permanent- Spending authority from offsetting collections (new)	547	421	323

Relation of obligations to outlays:			
Total obligations	20,521	21,374	22,020
Obligated balance, SOY	1,617	1,293	1,724
Obligated balance, EOY	-1,293	-1,724	-1,739

Outlays (gross)	20,845	20,943	22,005
Adjustments to Budget Authority and Outlays:			
Deduction: offsetting Federal Funds	-547	-421	-323

Budget Authority (net)	20,000	20,400	21,697
Outlays (net)	20,298	20,522	21,682

SUMMARY OF OBLIGATIONS BY OBJECT CLASSIFICATIONS

(in thousands of dollars)

	<u>1991</u> <u>Actual</u>	<u>1992</u> <u>Estimate</u>	<u>1993</u> <u>Estimate</u>	<u>92-93</u> <u>Change</u>
<u>Personnel Compensation</u>				
Full-Time Permanent (FTP)	9,098	9,926	10,311	385
Other than FTP	163	206	200	-6
Other Personnel Compensation	399	420	386	-34
Special Personal Service Payments	<u>212</u>	<u>220</u>	<u>220</u>	<u>0</u>
Total Personnel Comp.	9,872	10,772	11,117	345
Personnel Benefits: Civilian	2,043	2,177	2,291	114
Travel and Transportation of Persons	1,713	1,748	1,770	22
Transportation of Things	105	80	92	12
Rent - GSA	1,214	1,288	1,396	108
Rent - Other	763	678	698	20
Communications, Utilities, and Miscellaneous	1,352	1,376	1,325	-51
Printing and Reproduction	183	205	176	-29
Other Services	2,141	2,154	2,503	349
Supplies and Materials	285	246	284	38
Equipment	<u>850</u>	<u>650</u>	<u>368</u>	<u>-282</u>
Total Obligations	20,521	21,374	22,020	646

FY 1993 BUDGET REQUEST
SUMMARY OF FINANCIAL CHANGES

FY 1992 Estimated Obligations	21,374,000
FY 1993 Estimated Obligations	<u>22,020,000</u>
	+646,000

<u>Increase or Decrease from 1992-1993</u>	<u>Amount of Change</u>
--	-------------------------

To provide funding for two additional FTE, the annualization of January 1992 pay raise, the January 1993 pay raise, periodic/merit pay increases; offset by one less day of pay. To provide funding for benefit costs associated with increased compensation costs.	..... 459,000
To provide increased travel and transportation funds related to ongoing bilateral negotiations, rising costs and reassignments partially offset by reduced activity involving the Uruguay Round and NAFTA.	..... 34,000
To provide necessary funds to cover increased space rental payments to GSA for Washington and for Geneva rental payments.	..... 128,000
To cover increased telephone and rental costs offset by decreased computer equipment rental costs.	..... -51,000

For decreased costs associated with printing and reproduction activities.	.....	-29,000
To cover other services cost increases in the areas of ADP and general maintenance, CFTA and FAAS.	.....	349,000
To cover increased costs associated with office and ADP supplies and subscriptions.	.....	38,000
For reduced equipment purchases.	.....	<u>-282,000</u>
Total change in FY 1993 versus FY 1992 Budget		+646,000

OBJECT CLASS SUMMARY

<u>Personnel Costs</u>	1991	1992	1993
Compensation	\$ 9,872,000	\$10,772,000	\$11,117,000
Benefits	<u>2,043,000</u>	<u>2,177,000</u>	<u>2,291,000</u>
	\$11,915,000	\$12,949,000	\$13,408,000

Personnel costs are projected to rise by \$459,000 from FY 1992 to FY 1993. The major categories impacting costs are: the annualization of the January 1992 pay raise; the January 1993 general pay raise; other increases associated with WGI/GM, and overtime; two additional FTE; plus rising benefits costs associated with the above items, offset by one less day of pay.

USTR is requesting two additional FTEs in order to fill on a permanent basis the following positions: Director of Investment and a position to staff environmental issues.

The Director of Investment position will have as its principal duties to chair the Trade Policy Staff Committee Investment Subcommittee's meetings, to support the U.S. negotiator for the Trade-related Investment Measures (TRIMS) negotiations in the General Agreement on Tariffs and Trade (GATT), to serve as USTR liaison to the Overseas Private Investment Corporation, to prepare investment policy papers for the Trade Policy Review Group, and to manage the Bilateral Investment (BIT) program, as well as chair U.S. negotiating teams.

The environmental affairs staff position has been filled annually on a non-reimbursable basis. Increasingly, environmental issues have become more critical elements during negotiations. We have determined that there is a need to provide a more stable level of expertise in this crucial area at USTR.

Travel

Travel costs are expected to rise by \$22,000. This is a net increase resulting from rising travel costs, partially offset by fewer trips in FY 1993. The FY 1993 higher request assumes that the Uruguay Round and NAFTA activities will be completed. Also there will be a reduction in the number of home leave trips from FY 1992 to FY 1993.

Transportation

Transportation costs are projected to increase by \$12,000. This budget increase is based on increased reassignment transportation costs offset by a reduction in the shipment of goods.

Rent, Communications, and Utilities (RCU)

RCU costs are expected to increase by a net of \$77,000. USTR faces a substantial 8.4 percent increase in the cost of its Washington office space (+\$108,000). This is based on information provided by GSA. Geneva also projects that its space costs will increase in FY 1993 (+\$20,000). In addition, the estimated impact of inflation on telecommunications, postage, rentals and security services costs is projected to increase in FY 1993 (+\$94,000). These increases are offset by reduced rental payments to Design Data, a computer support contractor, for the Data General equipment. At the end of the first quarter of FY 1993, USTR will complete its lease-to-ownership agreement. Design Data costs are expected to decrease in FY 1993 (-\$145,000).

Printing

Costs are estimated at \$176,000, a decrease of \$29,000 from FY 1992. Increased costs are projected due to inflation and Federal Register printing (+\$20,000). These increases will be offset by decreased programmatic printing requirements (-\$49,000).

Other Services

USTR projects its Other Services requirements at \$2,503,000, an increase of \$349,000.

A portion of the USTR request, \$600,000, will pay for the costs of the dispute settlement procedures under Chapter 19 of CFTA. This program is administered through a binational secretariat, the U.S. section of which is located within the Department of Commerce. The Commerce Department develops the budget estimates and disburses the funds necessary to cover dispute settlement costs. Under Chapter 19 provisions, all dispute cases must be heard and evaluated. The FY 1992 projection is that \$500,000 will be necessary for the adjudication of these disputes. The estimated FY 1993 increase is \$100,000. Expenses in FY 1991 were \$350,000. The other major increases are projected for FAAS (\$30,000), Data Base conversions (\$60,000), ADP maintenance (\$67,000), as well as inflation-driven increases for maintenance and general services (\$92,000).

Supplies

Supply and material (general and ADP) costs are projected at \$284,000. This represents an increase of \$38,000. Costs of all categories of supplies, and especially subscriptions, are expected to rise as a result of inflation and increased need for additional ADP supplies.

Equipment

USTR expects to reduce equipment expenses from \$650,000 in FY 1992 to \$368,000 in FY 1993. This decrease of \$282,000 results primarily from the completion of the Local Area Network (LAN). FY 1992 LAN installation costs are estimated at \$535,000. In FY 1993 we will need \$200,000 for computer related purchases. This represents a decrease of \$335,000 in computer expenses. Additionally, USTR projects its non-computer equipment and general office equipment needs at \$168,000. These funds will be used to replace cable processing equipment, aging printers, safes, and miscellaneous office equipment.

OFFICE OF THE U.S. TRADE REPRESENTATIVE
 FULL-TIME PERMANENT POSITIONS BY GRADE LEVEL
 FY 1991-1993

	<u>1991</u>	<u>1992</u>	<u>1993</u>
Executive Level I.....	1	1	1
Executive Level III.....	3	3	3
Subtotal.....	4	4	4
ES-6.....	14	14	14
ES-5.....	3	4	4
ES-4.....	2	2	2
ES-3.....	3	3	3
ES-2.....	2	2	2
ES-1.....	4	3	4
Subtotal.....	28	28	29
GS-15.....	43	44	45
GS-14.....	17	17	17
GS-13.....	11	11	11
GS-12.....	6	6	6
GS-11.....	5	6	6
GS-10.....	5	4	4
GS-9.....	21	21	21
GS-8.....	9	9	9
GS-7.....	4	4	4
GS-6.....	2	1	1
GS-5.....	2	2	2
Subtotal.....	125	125	126
UNGRADED.....	3	3	3
Total, allocated permanent positions.....	160	160	162

ORGANIZATIONAL SUMMARY

The Office of the U.S. Trade Representative is responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy, and leading or directing negotiations with other countries on such matters. The U.S. Trade Representative is a Cabinet member who acts as the principal trade advisor, negotiator, and spokesperson for the President on trade and related investment matters. Through an interagency structure, the USTR coordinates trade policy, resolves agency disagreements, and frames issues for Presidential decision. The USTR, her deputies in Washington and Geneva, the Chief Textile Negotiator, and the Uruguay Round Coordinator, hold the rank of Ambassador. "USTR" refers both to the agency and to the agency head, the U.S. Trade Representative. There are two offices, one in Washington, D.C. and one in Geneva, Switzerland.

The agency provides trade policy leadership and negotiating expertise in its major areas of responsibility. Among these are the following: all matters within the General Agreement of Tariffs and Trade (GATT) including implementation of the 1979 Multilateral Trade Negotiations (MTN) Agreements; trade, commodity, and direct investment matters dealt with by international institutions such as the Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade Development (UNCTAD); export expansion policy; East-West trade; industrial and services trade policy; international commodity agreements and policy; bilateral and multilateral trade and investment issues; trade-related intellectual property protection issues; and import policy. The agency is organized to accommodate sectoral, regional, and functional policy perspectives which are integrated into the decision-making process, and coordinated externally with government agencies, the private sector, and foreign entities.

Interagency coordination is accomplished by the agency through the Trade Policy Review Group (TPRG) and the Trade Policy Staff Committee (TPSC). The TPSC is the first line operating group with representation by senior officials. It is supported by 42 subcommittees and various task forces which are responsible for specialized areas and several task forces that deal with particular issues. If Cabinet-level review is needed, TPRG options are presented by the USTR to the Economic Policy Council, which is chaired by the President.

The trade reorganization of 1979 also provided for a Trade Negotiating Committee (TNC) within the Trade Policy Committee structure. This Committee is chaired by the USTR and

membership includes the Secretaries of State, Treasury, Agriculture, Commerce, and Labor.

The USTR also serves as Vice Chairman of the Overseas Private Investment Corporation (OPIC), is a non-voting member of the Export-Import Bank, and a member of the National Advisory Committee on International Monetary and Financial Policies. There are several significant trade and related policy areas not handled by the USTR but which are followed closely by the staff: specifically, export financing, export controls, multilateral development bank lending, international fisheries, aviation and maritime policies.

The agency also has administrative responsibility for the Generalized System of Preferences (GSP) and Section 301 complaints against foreign unfair trade practices, as well as Section 337 and import relief cases under Section 201. The Omnibus Trade and Competitiveness Act of 1988 (Trade Act of 1988) transferred authority to the USTR to take action under Section 301, subject to the direction of the President.

The private sector plays a continuing role in trade negotiations through the mechanism of advisory committees. This advisory process was extremely successful during the MTN. Congress provided for continuation of the process in the Trade Agreements Act of 1979. The committees' role has been expanded to include advice on the operation of the MTN Agreements, on the development and implementation of overall U.S. trade policy, and on priorities for actions to implement such policy.

Primary objectives of the private sector advisory system are: to consult with the U.S. government on negotiation of trade agreements, to assist in monitoring compliance with the agreements and to provide input and advice on the development of U.S. trade policy. The advisory system is composed of a series of Committees with differing responsibilities. The Advisory Committee on Trade Policy and Negotiations (ACTPN), a Presidentially appointed committee, has 45 members from representative elements of the U.S. economy with international trade interests. Its mandate is to provide overall policy guidance on trade issues.

At the next level are the policy advisory committees in the specific areas of industry, agriculture, labor, defense, services, investment, and intergovernmental affairs. There are also technical, sectoral and functional advisor committees, which are composed of experts from their respective fields. The Agricultural Technical Advisory Committees (ATACs), the Industry Sector Advisory Committees (ISACs), and the Labor Sector Advisory Subcommittees (LSACs), provide specific and technical information on problems within the

private sector in a range of areas affected by trade policy, such as automobiles, steel, wheat, aircraft or poultry. In addition, functional committees have been established to monitor certain codes of conduct negotiated during the Tokyo Round. The Industry Sector Advisory Committees have two such functional committees: customs valuation and standards. The Labor Advisory Committee has three such functional committees: government procurement, standards, and unfair trade practices. Lastly, a third committee has recently been added for intellectual property.

In the Trade Act of 1974, Congress broadened and codified the Trade Representative's trade policy making and negotiating functions and established close Congressional consultative, advisory, and oversight relationships with the agency. In the Trade Agreements Act of 1988, Congress further clarified USTR's leadership role in developing and coordinating trade policy and serving as the President's principal advisor on trade. Throughout the life of the agency, there has been close consultation between the USTR and the Congress. Five Members from each House are formally appointed under statute as official Congressional advisors on trade policy, and additional Members may be appointed as advisors on particular issues or negotiations. Liaison activities between the agency and Congress are extensive. The staff concerned with congressional relations is headed by an Assistant U.S. Representative.

In Washington, the agency is organized into four types of activities. General support (General Counsel, Congressional Affairs, Public Affairs and Private Sector Liaison, Policy Coordination, and Administration), Bilateral Negotiations (Canada and Mexico; Japan and China; Europe and the Mediterranean; Latin America, Caribbean and Africa; Asia and the Pacific); Multilateral Negotiations (Uruguay Round, GATT Affairs); and Sectoral Functions (Industry; Services, Investment, and Science and Technology; Intellectual Property and Environment; Textiles; and Agriculture).

The Geneva Office is organized to cover general GATT Affairs, Non-Tariff Agreements and Agricultural Policy and Commodity Policy and the Harmonized Code System. Special attention is given to textiles with one member of the staff serving as U.S. Representative to the Textiles Surveillance Body. The Geneva Deputy USTR is the U.S. Ambassador to the GATT and to the UNCTAD on commodity matters. The Geneva staff represents the United States' interests in negotiations, and in other contacts on trade and trade policy in both forums.

The Omnibus Trade Act of 1988, enacted August 24, 1988, had a significant resource impact

on the agency. The Act provides negotiating and implementation authority for the Uruguay Round, and mandated extensive consultation and coordination by USTR in shaping U.S. negotiating objectives and strategy for the Round. The Act tasked USTR with significantly expanded responsibilities in administering unfair trade cases under Section 301, and changes in the Act brought a substantial increase in the volume, contentiousness and complexity of Section 301 cases. The Act created new negotiating programs in the areas of intellectual property and telecommunications, as well as a new reciprocity program for government procurement, coordinated by the USTR. The Act also expanded responsibilities for consultation and coordination by the USTR, substantially expanded the scope of the annual National Trade Estimates report on trade barriers, and mandated many one-time and recurring reporting responsibilities.

The USTR also has primary responsibility for administering and implementing many new obligations undertaken by the United States by virtue of the U.S.-Canada Free-Trade Agreement, which became effective on January 1, 1989. That Agreement is unique in its scope, impact and complexity. The U.S. implementing legislation for the Agreement, and commitments required by the Congress in the Administration's "Statement of Administrative Action" accompanying the Legislation, place a wide range of negotiating, monitoring, reporting, consultative, and administrative burdens on USTR. The USTR has assumed overall responsibility for overseeing and ensuring Federal Government implementation of the Agreement's numerous, and often complex, new requirements, and for assisting and coordinating state government implementation.

Fiscal Year 1991 Accomplishments

The Administration concluded a number of new trade agreements last year, providing increased access for U.S. goods and services to foreign markets from Russia to Argentina, and increasing protection abroad for U.S. intellectual property and investments.

There is more work to be done. Barriers to trade remain and we continue to have concerns about the levels of protection for our goods and service providers overseas. Nonetheless, the Administration successfully accomplished the majority of trade-liberalizing tasks we set for 1991, which helped to spur a 7.8% growth in exports and the creation of an estimated 600,000 new export-related jobs last year.

As noted, 1991 was a good year for U.S. exports and for the U.S. trade balance. Exports soared nearly \$30 billion, while imports were flat, resulting in a 36% drop in our trade deficit (from \$101 billion to \$64.7 billion).

Our bilateral trade picture improved with every major trading country except Japan, where the trade deficit expanded slightly. In terms of products, we continued to run trade surpluses in capital goods, agricultural products, and industrial supplies. Deficits remained in autos and consumer goods, although U.S. exports in these sectors grew faster than imports. The United States retained a \$48 billion trade deficit in petroleum products.

Uruguay Round and the GATT

- o The most important development in 1991 with respect to the Uruguay Round was the release of the draft Final Act in late December, a culmination of six years of negotiations.
- o The GATT initiated a Working Group on Environmental Measures and International Trade, despite resistance from some developing nations, and it held its first meeting in November. Work continued in a group examining trade in hazardous waste and domestically prohibited goods. This group was initiated in 1989 at the request of

several African members.

- o The United States pressed for the formation of a Working Party on Taiwan Accession as well as the establishment of a working group to address trade and internationally recognized labor standards. Neither initiative succeeded last year, but the Administration is committed to pursuing each in 1992.

Bilateral:

Asia and the Pacific

- o Concluded agreements with Korea providing for significant additional market access for telecommunications services including international value-added network services (IVANs).
- o Obtained Korean government commitments to eliminate anti-import rhetoric and actions in line with government proposal to "internationalize" Korean economy and bureaucracy.
- o Signed the U.S.-Singapore Trade and Investment Framework Agreement.
- o Signed Memorandum of Understanding (MOU) on Trade and Investment with six ASEAN countries.
- o Held the first annual meeting between the U.S. Trade Representative and the ASEAN Economic Ministers.
- o Negotiated new patent law regulations with Indonesia. The first-ever Indonesian patent law became effective in August.
- o Obtained agreement on revised copyright law with Taiwan.
- o Successfully concluded a section 301 case under which Thailand will provide foreign cigarette manufacturers open and nondiscriminatory access to the Thai market.

Canada

- o Continued smooth implementation of the U.S.-Canada Free Trade Agreement (CFTA), the world's largest and most comprehensive bilateral free trade area (combined value of bilateral trade in goods and services of over \$200 billion).
- o Under the CFTA, continued the accelerated elimination of tariffs, accomplished at the initiative of the private sector and with the concurrence of the Congress. The second round of negotiations produced accelerated elimination of the tariffs on over 250 products with a bilateral trade coverage of \$2 billion. A third round of this trade liberalizing exercise was initiated late in the year.
- o Implemented Article 705.4 of the CFTA resulting in the removal of Canadian licensing requirements for U.S. wheat and wheat products.
- o As a result of USTR intervention, the Government of Ontario decided to abandon plans for a provincially-run monopoly for auto insurance which would have negatively impacted U.S. insurance interests.
- o Initiated a GATT dispute settlement case against Canadian provincial restrictions against U.S. beer exports. The GATT panel ruled in our favor and we are now working with the Canadian Government on the implementation of the panel's findings.
- o Negotiated an interim settlement involving a dispute over Canadian quotas on broiler hatching eggs and chicks.

China

- o Successfully concluded a Special 301 investigation concerning China's intellectual property rights (IPR) acts, policies, and practices. Extensive negotiations resulted in the signing of an MOU that commits China to provide significantly improved protection for copyrighted works and for patents, especially pharmaceutical and agrichemicals.

- o Established a subcommittee of the Trade Policy Staff Committee to examine China's foreign trade system and lay the groundwork for further negotiations with China on market access and other issues.
- o Coordinated trade-related aspects of the Congressional debate over renewal of Most Favored Nation (MFN) trade status for China.
- o Played a key role in bilateral consultations with the Chinese and in preparations for the GATT Working Party on China's accession to the GATT.

Eastern Europe and the Soviet Union

- o Concluded bilateral investment treaties (BIT) with Czechoslovakia and Bulgaria and ratified BIT with Poland.
- o Concluded bilateral trade agreement with Bulgaria which, among other things, provided for MFN trade status.
- o Obtained ratification and implementation of a bilateral economic and business treaty with Czechoslovakia.
- o Extended MFN and GSP (Generalized System of Preferences) treatment to Czechoslovakia.
- o Extended MFN trade status to Estonia, Lithuania, and Latvia.
- o Developed and initiated implementation of the Trade Enhancement Initiative (TEI) for Eastern and Central European Countries.

Japan

- o Concluded an agreement to improve access to Japanese IVANS market.
- o Concluded a new Semiconductor Arrangement to accelerate access for foreign firms to Japan's market and deter injurious dumping.
- o Concluded an agreement that will provide expanded market opportunities for U.S. exporters of computers.

- o Made substantive progress in ongoing negotiations to eliminate trade barriers in the glass and paper goods sectors of the Japanese market.
- o In collaboration with the Department of Commerce, successfully completed a new and improved Major Projects Arrangement, improving access to the Japanese market for construction goods and services.
- o Completed the first annual report on the Structural Impediments Initiative (SII). Reviewed Japanese actions to reduce anti-competitive and exclusionary business practices that act as barriers to imports in Japan.
- o Successfully completed consultations with Japan concerning the harvesting of sea turtles.

Latin America, the Caribbean and Africa

- o Developed and implemented the trade elements of the President's Enterprise for the America's Initiative (EAI) and the Andean Trade Initiative.
- o Successfully secured passage in Congress of the Andean Trade Preference Act (ATPA), which the President signed in December. This Act will give those nations combatting narcotics certain trade privileges in the U.S. market.
- o Negotiated and signed EAI "Framework Agreements on Trade and Investment" with individual countries (Dominican Republic, El Salvador, Guatemala, Nicaragua, Panama, Peru and Venezuela) and groups of countries (Argentina, Brazil, Uruguay and Paraguay) and CARICOM (Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Trinidad and Tobago). We now have Framework Agreements (individual or groups) with 31 countries; Cuba, Haiti and Surinam are the only exceptions.
- o Successfully engaged in negotiations through which Chile significantly improved its intellectual property rights regime by the passage and implementation of a new patent, trademark, industrial design and utility model law.
- o Signed a BIT with Argentina which will serve as a model for the rest of Latin America. Argentina committed to removing its final remaining performance requirements.

- o A section 301 investigation of Argentina's lack of protection for pharmaceutical products was successfully resolved by the Argentine Government's introduction of legislation on patent protection for pharmaceutical products.
- o Signed a bilateral agreement committing Argentina to discipline its export subsidies in accordance with the GATT Subsidies Code.
- o After six years of bilateral discussions, Brazil passed a law reducing barriers to trade and investment that long protected its computer and digital electronics sector (i.e., "informatics").
- o Developed and implemented a series of measures for the administrative enhancement of the Caribbean Basin Initiative (CBI) program.
- o As a result of GSP reviews of worker rights law and practices of Chile, Paraguay, and the Central African Republic, the GSP beneficiary status of these countries was reinstated.
- o After a review of eligibility criteria, GSP beneficiary status was granted to Namibia.

Mexico

- o Secured extension of Congressional "fast track" procedures allowing initiation of North American Free Trade Agreement (NAFTA) negotiations.
- o Launched formal NAFTA negotiations.
- o Obtained from Mexico passage of new intellectual property rights laws providing for substantially improved protection of intellectual property rights.
- o Obtained reversal of Mexican regulations limiting sport-fishing in Mexican waters and requiring the posting of bonds by automobile drivers taking private cars into Mexico.

Western Europe

- o Initiated GATT dispute settlement procedures against the EC for its Airbus subsidies. Received a favorable ruling regarding German Government exchange rate support for

Deutsche Airbus, the German partner in the four nation European aircraft consortium Airbus Industrie.

- o Obtained one-year extension of the compensation agreement for loss of the Spanish grain market due to the 1986 EC enlargement, thereby preventing disruption to \$420 million in U.S. exports.
- o Obtained a commitment from Greece, after bilateral consultations, to implement the GATT Government Procurement Code; barriers to the Greek government market have been cited as the single largest deterrent to doing business in Greece.
- o Negotiated an end to Sweden's apple import embargo.
- o Reopened the EC market for \$600 million worth of U.S. shipments of corn gluten feed.
- o Persuaded the EC to establish a high standard for protection of copyrights for computer software.
- o Obtained the temporary continuation of the EC's derogation for certain U.S. wine making practices that otherwise would not have been permitted in the EC.
- o Achieved major changes in Israeli tax and import licensing systems which had operated to discriminate against U.S. exports.
- o Negotiated agreement which eliminated circumvention by Israeli firms of our machine-tool VRA with Taiwan.
- o Successfully completed the first U.S. dispute settlement case against Norway under the Government Procurement Code.

Sectoral:

Intellectual Property and Environment

- o Completed annual review under Special 301. As a result of negotiations, Malaysia joined the Berne Convention; Bulgaria, Czechoslovakia and Rumania amended their patent

law extending the term of protection to 20 years and modernized their copyright laws; Saudi Arabia implemented a new copyright law; Portugal increased penalties for audio piracy; Italy introduced legislation to prevent computer software piracy. Further negotiations remain with Thailand, Indonesia, the European Community, the Philippines, Turkey, and Greece.

- o Negotiated bilateral intellectual property agreements with Rumania and Sri Lanka.
- o Negotiated Mexican, Brazilian, Venezuelan, Colombian, Argentine and Chilean industrial property laws.
- o Negotiated improvements in, and implementation of, Japanese protection for sound recordings.
- o Initiated a GATT Working Group on Environmental Measures and International Trade.

Agriculture

- o Brought U.S. sugar industry import policy into conformity with the GATT. Allocated U.S. sugar quotas in a GATT-consistent manner and obtained foreign governments' certification that sugar exported to the United States was not of Cuban origin as required by law.
- o Assisted in implementation of Article 705.4 of the U.S.-Canada FTA that resulted in removal of Canadian licensing requirements for U.S. wheat and wheat products.

Services and Investment

- o Negotiated draft multilateral framework agreement on services.
- o Participated in drafting of Presidential statement on foreign investment.
- o Co-chaired OECD Committee on International Investment and Multinational Enterprise (CIME) on strengthened National Treatment Instrument (NTI).
- o Received OECD ministers approval for a State/USTR initiative for an OECD study of a broader international investment agreement based upon OECD codes and bilateral

investment treaty principles.

- o Participated in negotiations of bilateral maritime agreements with Brazil, PRC, and Venezuela as well as inter-agency efforts resulting in removal of Japan's harbor maintenance fee imposed on U.S. ocean carriers.

Multilateral Trade Negotiations

- o Coordinated and directed U.S. policy and strategy for the Uruguay Round multilateral trade negotiations.
- o Coordinated and conducted over 50 consultations (many with U.S. interagency teams) with foreign officials.
- o Held more than 150 meetings in Washington with official and private sector representatives of foreign countries to lobby U.S. positions on the Uruguay Round.

Industry

- o Directed interagency review of telecommunications agreement with Japan and Canada as required by section 1377 of the 1988 Omnibus Trade Bill.
- o Participated as USTR's representative in interagency process to review trade implications of a National Energy Strategy (NES).
- o Directed interagency review of trade issues concerning commercial space industry.

PREPARED STATEMENT OF DON E. NEWQUIST

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to meet with you today to discuss the International Trade Commission's budget authorization requests for fiscal year 1993 and fiscal year 1994. The Commission appreciates the Committee's continued strong interest in, and support of, the Commission's work.

I am accompanied today by Vice Chairman Anne Brunsdale, and Commissioners David Rohr, Carol Crawford, Janet Nuzum, and Peter Watson, as well as Philip Katz, the Commission's Director of Finance and Budget. Other staff members are also present.

BUDGET REQUESTS

For fiscal year 1993, the budget request approved by the Commission totals \$45,152,000, and represents an increase of \$2,718,000 (or 6.4 percent) over our fiscal year 1992 appropriation. Over 94 percent of the increase for fiscal year 1993 is for nondiscretionary salary costs (\$1,876,000), higher space rental costs (\$372,000), and replacement of our aging automated information systems equipment (\$300,000). The balance of the request for fiscal year 1993, \$170,000, is to provide for cost increases to maintain the current level of necessary support services.

For fiscal year 1994, the budget authorization request approved by the Commission totals \$49,673,000, and represents an increase of \$4,521,000 (or 10 percent) over our fiscal year 1993 request. Over 91 percent of the increase for fiscal year 1994 is for nondiscretionary salary costs (\$3,653,000) and higher space rental costs (\$483,000). Included in the \$3,653,000 requested increase in salary costs is \$1,522,000 to fund a "locality pay adjustment" which, as part of the Federal Employees Pay Comparability Act of 1990, is scheduled to take effect in 1994. The balance of the request, \$385,000, is to provide for cost increases to maintain the current level of necessary support services for fiscal year 1994.

The Commission's requests for both fiscal year 1993 and fiscal year 1994 do not include any program increases, and are essentially a request to fund operations at current levels. These requests fund only 472 of the Commission's 502 authorized permanent positions, the same level of permanent positions funded for fiscal year 1992. In developing the budget request the Commission examined its needs with special care and is making a deliberate effort to improve utilization of resources and limit the growth in our budget as much as possible. While recognizing the need to ensure adequate resources to allow the Commission to accomplish its mission, the Commission has strongly emphasized the need for fiscal restraint in this budget request.

However, let me stress that the Commission is essentially a reactive agency and that much of our workload cannot be predicted. Unlike some agencies, we cannot budget with certainty the unanticipated requests for investigations or petitions for trade relief. The Commission's fiscal year 1993 and fiscal year 1994 requests are based on a projection that our workload will remain at current levels. We have not requested funds for a number of possible workload expansions that could occur. For example: current draft Uruguay Round Trade Agreements would require the Commission to conduct an injury review of each outstanding antidumping and countervailing duty order. There are over 300 antidumping and countervailing duty orders, findings and suspension agreements currently in effect.

In addition, amendments to the section 337 statute could affect the scope and number of cases filed. Also, trade agreement implementing legislation likely will include requests for several ITC studies on various sectoral issues as well as a possible probable economic effects study in parts or all of any final agreement.

The Commission may also be faced with a large increase in workload with the expiration of the steel Voluntary Restraint Agreements (VRAs) as well as additional responsibilities resulting from new trade legislation now being discussed.

In addition to our investigative workload, the Commission is heavily involved in providing technical support to the Administration on the Uruguay Round and the North American Free Trade Agreement (NAFTA).

IMPORT RELIEF INVESTIGATIONS

The Commission's primary responsibilities are to conduct investigations under the import relief statutes and to undertake studies under section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). Our total investigative case load, which stood at 92 new investigations in fiscal year 1988, has recently fluctuated from 119 new investigations in fiscal year 1989, to 79 in fiscal year 1990 and to 146 in fiscal year 1991.

The major portion of our case load consists of investigations under the antidumping and countervailing duty statutes (section 303 and title VII of the Tariff Act of 1930, 19 U.S.C. §1303, 1671 et seq.). The title VII case load increased from 44 in fiscal year 1990 to 110 in fiscal year 1991. We project 90 new title VII investigations each year in fiscal year 1992, fiscal year 1993 and fiscal year 1994. This projection does not take into account the possible changes resulting from any agreements made in current trade negotiations or the expiration of the steel VRAs.

It should be noted here that the number of investigations instituted is not a completely accurate measure of work load; the complexity of the investigation and the level of staff participation are other important considerations in assessing resource demands. Petitions filed with the Commission often involve diverse industries and often have far-reaching significance involving large volumes of imports. Recent investigations covered such products as flat-panel displays, personal word processors, coated groundwood paper, kiwifruit, cement, mini-vans, steel pipes and tubes, Atlantic salmon, silicon metal laser light-scattering instruments, and gene amplification thermal cyclers.

Among the Commission's more publicized investigations are the so-called fair trade or escape-clause cases filed under section 201—or, for non-market countries, section 406—of the Trade Act of 1974 (19 U.S.C. §§2251 and 2436). They require the Commission to determine whether domestic industries are eligible for import relief and to recommend appropriate action to the President. During fiscal year 1991, the Commission did not institute any escape clause investigations. We project two escape clause investigations each year for fiscal year 1992, fiscal year 1993 and fiscal year 1994.

The Commission expects that significant resources will continue to be devoted to investigations under section 337 of the Tariff Act of 1930 (19 U.S.C. §1337). These investigations are based on complaints alleging unfair methods of competition and unfair acts in the importation or sale of articles into the United States. Typically, they involve alleged infringement of an intellectual property right, such as a patent, trademark, or copyright. While the spectrum of products and intellectual property rights addressed by section 337 investigations is quite broad, many investigations involve sophisticated technologies. In the intellectual property area, the Commission recently completed section 337 investigations involving a wide range of imported products, including semiconductors, industrial machinery, pharmaceuticals and other medical products as well as assorted consumer goods. The Commission is investigating medical equipment to relieve venous insufficiency, computer memory modules, microcomputer memory controllers, condensers for automotive air conditioners and acid-washed denim products.

We are projecting 18 new section 337 investigations in fiscal year 1992, 18 in fiscal year 1993 and 18 in fiscal year 1994. Again, the number of investigations instituted does not, of itself, accurately reflect work load. The complexity of the technology at issue in a 337 case, the number of alleged unfair acts, and the level of staff participation required in each investigation must be taken into account. Moreover, temporary relief proceedings require significant additional effort because the Commission must decide, on an expedited basis, whether preliminary relief should be granted in advance of the Commission's decision on violation. Three recent complaints have included requests for temporary relief. Finally, we note that amendments to the section 337 statute could occur in conjunction with Uruguay Round implementing legislation which could affect the scope and number of cases filed. However, it is not yet possible to predict the impact of these changes.

STUDIES AND REPORTS

Another important responsibility of the Commission is to prepare fact-finding reports and analyses for use by the Congress and the President in the development of trade policy. This is one of the Commission's most important and demanding tasks, because trade policy-makers need access to expert independent analysis of international trade matters. Many factors make careful, deliberate analysis a high priority. These include vigorous competition in the world market; disagreements among nations on appropriate government intervention in the market place; the fact that the spread of technology is accelerating the rate at which comparative advantages shift among industries and countries; and the broadened scope of multilateral trade negotiations as countries seek agreements on services, intellectual property, and other non-traditional trade areas.

The Commission receives frequent requests from the Congress or the President to conduct investigations on trade and tariff issues under section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). With the emphasis placed on trade negotiations, we expect that demand for such Commission studies will continue. The Commission in-

stituted 19 section 332 studies in fiscal year 1991, and projects requests to institute 24 new section 332 studies in fiscal year 1992, 24 in fiscal year 1993 and 24 in fiscal year 1994.

I also would like to bring to your attention that during our budget hearing before our House appropriations subcommittee on March 18, 1992, there was discussion on whether the Commission could conduct studies regarding the impact of environmental costs on U.S. trade competitiveness. There was also discussion about the Commission's expertise for addressing such issues. There was also discussion on addressing the recommendation of the Competitiveness Policy Council for an expanded role for the Commission. I have directed Commission staff to review these areas and provide recommendations on how best to proceed. I will consult with our oversight committees before taking further action.

Currently, the Commission has ten analytical section 332 studies underway, with four requested by the President and six by the Congress. Studies currently being conducted at the request of the President include:

- Assessment of Various Models Being Used to Estimate Effects of Mexican FTA;
- Potential Effects of a North American Free-Trade Agreement on Apparel Investment in CBERA Countries;
- Certain Pharmaceutical and Intermediate Chemicals: Identification of Applicable 6-Digit HS Subheadings for Products Covered by the Proposed Uruguay Round Pharmaceutical Agreement; and
- U.S.—Canada FTA: Miscellaneous Rules of Origin Changes.

Studies currently being conducted at the request of the Congress include:

- The Effects of Greater Economic Integration Within the European Community on the United States: Fourth Follow-up Report;
- Tuna: Current Issues Affecting the U.S. Industry;
- Uranium and Uranium Enrichment Services: The Impact on the Domestic Industry of Imports Into the United States from Nonmarket Economy Countries;
- Shipbuilding Trade Reform Act of 1991: Likely Economic Effects of Enactment;
- U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Barriers; and,
- Macadamia Nuts: Economic and Competitive Factors Affecting the U.S. Industry.

Congressionally requested studies completed during fiscal year 1991 and so far in fiscal year 1992 include:

- Economic Effects of Significant U.S. Import Restraints, Phase III (Services);
- US. Imports of Lamb Meat;
- The Effects of Greater Economic Integration Within the European Community on the United States, Third Follow-up;
- Report on Trade and Investment Liberalization Measures by Mexico and Prospects for the Future, Phase II;
- Report on Japan's Distribution System and Options for Improving U.S. Access, Phase II;
- International Agreements to Protect the Environment and Wildlife;
- Competitive Conditions of the U.S. and European Canned Tuna Industries in Domestic and Foreign Markets;
- Identification of U.S. Advanced-Technology Manufacturing Industries for Monitoring and Possible Comprehensive Study;
- Report on Likely Impact of a Free Trade Agreement with Mexico on the United States;
- Assessment of Rules of Origin Under the Caribbean Basin Economic Recovery Act;
- Ranitidine Hydrochloride: The Potential Impact on Domestic Competition in the Antiulcer Drug Market of a Temporary Duty Suspension on Imports;
- Global Competitiveness of U.S. Advanced-Technology Manufacturing Industries: Communications Technology and Equipment;
- Global Competitiveness of U.S. Advanced-Technology Manufacturing Industries: Pharmaceuticals;
- Global Competitiveness of U.S. Advanced-Technology Manufacturing Industries: Semiconductor Manufacturing and Testing Equipment;
- Apples: Certain Conditions of Competition Between the U.S. and Canadian Industries; and,
- FTA Rules of Origin/Auto Imports from Canada.

Studies completed for the President during fiscal year 1991 and fiscal year 1992 to date have included:

- Steel Industry: Annual Report on Competitive Conditions in the Industry and Industry Efforts to Adjust and Modernize;
- Services: Compilation and Identification of U.S. Measures That May Not Conform with Principles the United States Is Seeking in the Uruguay Round;
- President's List of Articles Which May be Designated or Modified as Eligible Articles for Purposes of the U.S. Generalized System of Preferences (3 separate studies completed);
- United States-Canada Free-Trade Agreement: Probable Economic Effect on U.S. Industries and Consumers of Immediate Elimination of U.S. Tariffs on Certain Ice Hockey Pants and Certain Monofilament Polyurethane Yarns from Canada;
- Probable Economic Effect of Immediate Tariff Elimination Under the United States-Canada Free-Trade Agreement, Second Annual Report;
- Central and Eastern Europe: Export Competitiveness of Major Manufacturing and Services Sectors;
- Probable Economic Effect on U.S. Industries and Consumers of a Free-Trade Agreement Between the United States and Mexico;
- Alfalfa Products: Conditions of Competition Between the U.S. and Canadian Industries;
- Services: U.S. and Mexico Sector Profiles and Mexican Impediments to Trade, Phase I & II; and,
- Annual Surveys on Ammonium Paratungstate, Tungstic Acid, and Tungsten Oxide.

OTHER COMMISSION WORK LOAD

The Commission provided considerable technical support to the United States Trade Representative (USTR) in fiscal year 1991 and continues to do so in fiscal year 1992. During fiscal year 1991 two Commission staff members were detailed to assist the USTR in the Uruguay Round negotiations in Geneva while others provided support in the USTR's Washington office. Currently six staff members are detailed to provide support for negotiation in the USTR's Washington office. We are also assisting the USTR in a wide variety of activities related to the proposed North American Free Trade Agreement.

A continuing activity is our responsibility associated with the Harmonized System. The Omnibus Trade and Competitiveness Act of 1988 designated the Commission as one of three Federal agencies responsible for formulating official U.S. positions on technical and procedural issues addressed by the Harmonized System Committee. Section 1205 of the 1988 Act also provided that the Commission advise the President on modifying the HTS to implement internationally agreed-to HTS changes, to promote uniformity, to ensure modernization, to alleviate administrative burdens, and to make technical corrections. During fiscal year 1991, the Commission prepared two reports under section 1205 and submitted them to the President. In fiscal year 1993, extensive Harmonized System modifications are expected to be adopted by the Customs Cooperation Council; at that time, the Commission will likely initiate a third section 1205 investigation. The Act further clarified the Commission's continuing role in the U.S. delegation to the Customs Cooperation Council in Brussels. Finally, in addition to maintaining and publishing the Harmonized Tariff Schedule of the United States the Commission chairs the interagency Committee for Statistical Annotation of the Tariff Schedules (the 484(e) Committee) that considers requests regarding statistical annotations, many of which are intended to improve comparability between U.S. import and export data.

The Commission provides numerous background reports on proposed legislation to its oversight committees, as well as considerable informal assistance. During fiscal year 1991 the Commission provided assistance on almost 300 pieces of legislation. This creates a continuing need to maintain expertise in new areas in order to keep up with developments in international trade.

Finally, to round out the Commission's activities requires mentioning our continuing role in the preparation of periodic reports. Reports on specific commodities included autos, steel, footwear, rum, tungsten, lamb meat, and ethyl alcohol. Others included: an annual report to the Congress on the operation of the trade agreements program of the United States (OTAP); a quarterly report on Trade Between the United States and China, the Former Soviet Union, Central and Eastern Europe, the Baltic Nations, and other Selected Countries; and, an annual report on the Caribbean Basin Initiative.

TRADE REMEDY ASSISTANCE OFFICE

During fiscal year 1991, the Commission's Trade Remedy Assistance Office (TRAO) responded to 271 inquiries and certified 12 small businesses as eligible to receive technical legal advice and assistance. This is almost double the number of small businesses certified in 1990. The TRAO provided these businesses with technical and informal legal advice to assist them in determining which statutes may offer relief, by helping them in preparing draft petitions or complaints, and by continued assistance throughout the pendency of the case at the Commission.

In addition, in response to concerns raised during our budget hearing with our House Appropriations Subcommittee, I have directed our Office of Public Affairs and the Director of the Trade Remedy Assistance Office to develop, for Commission consideration, a plan for outreach to the small business community to acquaint small businesses with the support and services available through the Commission.

OFFICE OF INSPECTOR GENERAL

Pursuant to the Inspector General Act Amendments of 1988, the Commission established an independent Office of Inspector General. The Inspector General is responsible for directing and carrying out audits, inspections and investigations relating to Commission programs, and for commenting on proposed regulations and procedures regarding their economy, efficiency, and effectiveness. During fiscal year 1991, the Office of Inspector General conducted numerous audits, investigations and inspections of Commission operations, and will continue to ensure that Commission administrative and program activities are in compliance with Federal regulations and practices.

The Commission has provided three full-time permanent positions for this function, including a full-time auditor. In fiscal year 1992 an additional part-time attorney to provide independent legal counsel was approved. In addition, the Commission has \$75,000 in its budget request to be used by the Inspector General for contractual audit and review services.

LITIGATION CASE LOAD

The Commission has statutory authority to appear in court on its own behalf rather than refer cases to the Department of Justice. Although the number of pending cases has increased only slightly, from 44 in January 1991 to 45 in January 1992, the litigation activity has increased in the past year, as the case load number represents cases that consolidate separate appeals brought by numerous plaintiffs.

Conclusion

International trade concerns will likely remain in the forefront of public debate during the coming years. Each new round of trade negotiations and new trade legislation will create new requests for technical assistance and analysis and for fact-finding studies. The Commission has a reputation for providing independent, timely and effective data in response to requests from the President and the Congress. It is important that the Commission maintain its ability to meet these demands, and the confidence of those it serves.

I would like to stress again that judging the actual workload of the Commission is beyond our control due to statutory requirements. Therefore, we have estimated our needs prudently and believe that this budget request represents the minimum necessary to meet our responsibilities in a period that could result in significant new demands on the Commission. It is possible, however, that if all the workload expansion possibilities come about, this budget could fall below our resource requirements.

Mr. Chairman, I would like to again thank you for the opportunity to discuss the Commission's budget request with you today. I will try to answer any questions you may have.

Attachment

RESPONSES OF DON E. NEWQUIST TO QUESTIONS SUBMITTED BY SENATOR DONALD W. RIEGLE, JR.

Question No. 1. Given that the majority of funds requested by the ITC will be used for salary, benefits, and rental payments increases, rather than funding additional staff, is it reasonable to expect that the ITC will not be able to continue its laudable trend in increasing investigations in the future?

Answer. The Commission's budget and authorization requests for fiscal year 1993 and fiscal year 1994 fund 472 of the Commission's 502 authorized permanent positions. The Commission believes that it can handle the currently projected workload

with that level of permanent staff. If our workload were to increase as a result of changes resulting from the Uruguay Round or NAFTA trade negotiations, the absence of a multilateral steel agreement, or various legislative proposals, we could postpone deferrable work and realign Commission resources to handle a short-term increase. However, if all the workload expansion possibilities come about, these budgets could fall below our requirements and at that time we would have to assess our fiscal situation.

Question No. 2. I am aware of several of the studies which the ITC has done in connection with the NAFTA—*The Likely Impact on the United States of a Free Trade Agreement with Mexico and Rules of Origin Issues Related to NAFTA and the North American Automotive Industry*. Could you address the experiences of the ITC in putting together these reports, and whether you believe they were helpful to Congress, our negotiators and the American public?

Answer. Within the last 2 years the Commission has completed six studies related to Mexico and the NAFTA at the request of either the Congress or the USTR. During the course of these studies the Commission held public hearings; conducted domestic and foreign fieldwork; interviewed numerous U.S. firms, trading interests, and academics; and thoroughly reviewed existing research and literature. By collecting, analyzing, and presenting information on the economy of Mexico and the likely effects of the proposed NAFTA, it is believed that U.S. policymakers, both in Congress and the Executive, are better informed on the issue and hence able to judge the ramifications of proposed changes in U.S. trade policy. Further, the majority of the reports by the Commission on the NAFTA have been made available to the public, providing them an objective review of the issues and likely implications. For example, with regard to the report, *Rules of Origin Issues Related to NAFTA and the North American Automotive Industry*, automotive industry sources have indicated to Commission staff that this report was helpful in clarifying concerns and bringing forth important information on these matters. We hope that this study has served a similar purpose for the Congress and U.S. negotiators.

Question No. 3. What has been the role of the ITC in providing additional information on the impact of and issues related to the NAFTA to date? In your opinion Mr. Newquist, is it possible for the ITC to contribute further and more accurately to the information base of our NAFTA negotiators? If so, what Congressional assistance or guidance would be useful in this area?

Answer. In response to Congressional or USTR requests, the Commission has completed five formal investigations related to the NAFTA, and one is in progress:

- *Report on Trade and Investment Liberalization Measures by Mexico and Prospects for the Future (332-282)*; requested by Ways and Means; completed in October 1990.
- *The Likely Impact on the United States of a Free Trade Agreement with Mexico (332-297)*; requested by Ways and Means and Senate Finance; completed in February 1991.
- *Probable Economic Effect on U.S. Industries and Consumers of a Free-Trade Agreement Between the United States and Mexico (332-309)*; requested by the USTR; completed in July 1991.
- *Services: U.S. and Mexico Sector Profiles and Mexican Impediments to Trade (332-311)*; requested by the USTR; completed in October 1991.
- *Rules of Origin Issues Related to NAFTA and the North American Automotive Industry (332-314)*; requested by Ways and Means; completed November 1991.
- *Economy-Wide Modeling of the Economic Implication of an FTA with Mexico and a NAFTA with Canada and Mexico (332-317)*; requested by the USTR; to be completed in May 1992.

In addition to these formal reports, in keeping with the long-standing role of the Commission, we have provided direct technical assistance to the Office of the U.S. Trade Representative in several areas of the negotiations. In the tariff area, for example, the Commission assembled a large data base on U.S./Mexico/Canada trade and tariffs, which together with the "Probable Economic Effects" report listed above, has been the underlying data base for the U.S. delegation in the NAFTA market access negotiations, and a member of our staff has assisted directly in the negotiations as they have proceeded. Our General Counsel's Office is providing extensive assistance to the U.S. NAFTA negotiators in the areas of safeguards, trade remedies, intellectual property rights, and dispute settlement.

Our staff is also providing technical assistance in other areas such as rules of origin and the automotive sector. In the coming months as the negotiations presumably move to a conclusion, we will continue to provide such assistance on an informal basis in any area in which USTR needs our expertise. The Commission will also

be heavily involved in preparing some of the formal documents of the agreement when it is concluded, such as the schedule for U.S. tariff removal.

In addition, as the negotiations move to a conclusion, we stand ready to respond to any new formal requests which either the Congress or the U.S. Trade Representative may make to us to investigate and report on matters related to the NAFTA negotiations.

In the course of conducting studies and our continuing work associated with trade negotiations, the Commission has had wide contact with U.S. industry, the academic community, and the trading public, and has built a considerable knowledge base in this area. We would be happy to assist the Congress or the Executive further with any areas which they feel require additional examination. For example, during our budget hearing before our House appropriations subcommittee on March 18, 1992, concerns were raised over possible environmental impact of the NAFTA, and whether the Commission could do a study in that area. In addition, there was discussion on whether the Commission could address the impact of environmental costs on U.S. trade competitiveness and the recommendation of the Competitiveness Policy Council for an expanded role for the Commission. I have directed Commission staff to review these areas and provide recommendations on what the Commission can contribute in these important areas, and how best to proceed. I will consult with our oversight committees before taking further action.

Question No. 4. Given the ITC's work on the NAFTA, what is your assessment of where we need to be going on the issue of automotive trade under the FTA?

Answer. In my personal view, the automotive sector is probably the single most important product sector of a NAFTA agreement. A successful agreement should enable the integration of the North American automotive industry and market in such a manner as to provide a solid basis for the future development, growth, and economic well-being of the U.S. domestic industry. This will not be easy to achieve, as it will require devising a process, mutually satisfactory to the United States, Mexico and Canada, for moving the highly controlled automotive sector in Mexico to an open arrangement in the entire North American market.

Numerous elements, of course, will be very important in this process, not the least of which will be devising a rule of origin which can operate both to benefit and to facilitate the process. I note in this regard the importance of ensuring that eligibility rules for motor vehicles are clear and that intended benefits actually accrue to the contracting parties and do not invite only minimal processing or investment in order to qualify for preferential treatment.

Another significant issue for U.S. negotiators concerns the nontariff measures (NTMs) that the Mexican Government has established to protect Mexico's motor vehicle industry from foreign competition. These NTMs include extensive restrictions on imports, a ban on imports of vehicles with engines of 1.8 liters or less, trade surplus requirements, local content requirements, and a limit on foreign ownership of motor vehicle components plants. These trade restrictions force automakers that want to serve the Mexican market to do so largely from Mexican plants and significantly constrain U.S. exports to Mexico. In 1990-91, U.S. exports of autos and light trucks averaged less than 5 percent of the rapidly expanding Mexican market for automobiles and light trucks.

[Submitted by Senator Donald W. Riegle, Jr.]

Trade policies anger Poling

By James Risen
LOS ANGELES TIMES

WASHINGTON — In a display of anger and frustration over U.S. Japanese relations, the chairman of Ford Motor Co. says Japan's trade policies remain virtually unchanged three months after President Bush's controversial mission to Tokyo.

Harold "Red" Poling also complained in a recent interview that the Japanese have mounted a sophisticated public relations campaign to blunt American criticism of their trade practices.

"They have a very good plan of disinformation that they feed to various people, that gets reported generously," Poling said.

The head of America's second-largest automaker also contended that the Bush administration remains weak in the face of Japanese intransigence on trade issues.

Poling said the White House, blinded by the ideal of global free trade — an ideal that does not exist in the real world, he said — has appointed trade negotiators who have failed to protect American in-

dustries and jobs.

You have a lot of free traders in the administration" who do not agree that Japan's chronic trade imbalance with the United States "is a serious issue to this country and jeopardizes the global trading system," he said.

He added that there have been "specific instances where actions have been taken that are inconsistent on the part of this government to the detriment of the auto industry."

He charged that Secretary of State James Baker has exerted pressure on behalf of the Japanese auto industry to persuade the French to classify Honda station wagons produced in Ohio as American-made products — and thus exempt from France's tough import restrictions on Japanese cars.

In fact, many Japanese automakers are seeking to use their American manufacturing plants to skirt European restrictions on Japanese imports, some critics contend.

Poling said that Baker's involvement "upset me sufficiently that I wrote a letter to the president on it. I haven't heard back."